

An Evaluation of International Finance Corporation Investments in K–12 Private Schools



IEG
INDEPENDENT
EVALUATION GROUP

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Abbreviations

CSE	Sector Economics and Development Impact Department (IFC)
DFI	development finance institution
FY	fiscal year
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
K–12	kindergarten through grade 12
RSF	Risk-Sharing Facility
SDA	secondary data analysis
SDG	Sustainable Development Goal
SLR	structured literature review
SME	small and medium enterprise

All dollar amounts are US dollars unless otherwise indicated.

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Overview

Total enrollment in kindergarten through grade 12 (K–12) private schools in low- and middle-income countries has been rising for more than a decade. That demand is driven by a combination of factors: income growth and urbanization, a changing labor market, and a desire for greater choice and accountability in education. Development finance institutions, including the International Finance Corporation (IFC), have contended that governments alone cannot meet this growing demand and that the private sector can help do so. IFC, for its part, started investing in K–12 private schools in the 1990s and continued to do so until ceasing investment in the subsector in 2017.

This evaluation was designed to help the Board of Executive Directors and management of IFC consider the circumstances that favor financing investments in K–12 private schools. It assesses IFC’s investments in K–12 private or nonstate schools during the period from fiscal year (FY)01 to FY20. It focuses on IFC investment instruments and considers IFC advisory services only as part of the Risk-Sharing Facility (RSF), which integrates advisory services with an investment component. Other investments related to K–12 education more broadly, such as technology-related or public-private partnership projects, were outside of the evaluation mandate, as were IFC advisory services.

The findings of the evaluation support a single major conclusion: resumption of IFC investments in K–12 private schools is not advisable without making substantial changes to IFC’s approach. The Independent Evaluation Group (IEG) finds that IFC’s limited development outcome focus, the challenges of financing K–12 private schools, and the lack of a financially viable market make it difficult for IFC’s interventions in K–12 to achieve development objectives, cover its costs of doing business in this subsector, and make sufficient returns on investments. IFC’s business model is poorly suited to supporting small schools. IFC was able to achieve success only with investments in larger networks of schools that catered to the middle class. Although IFC’s focus on financial viability was practical and potentially useful in improving the creditworthiness of schools and their eligibility for

financing, it overlooked important measures of access (including equitable access) and education quality. Hence, IFC would have to change its business model if it were to pursue equitable access, aim to reach lower-income and impoverished students, improve the quality of education, and make a sufficient return on investment.

The evaluation used a mixed methods approach to collect data and triangulate findings among multiple sources of evidence to answer three evaluation questions:

1. How did IFC investments in K–12 private schools align with identified country education needs?
2. To what extent did IFC investments reflect the characteristics of quality K–12 private education?
3. What has been learned that could help IFC improve its engagement in K–12 private education in the future?

The approach applied international good practice, knowledge, and evidence to IFC’s portfolio and to specific cases. It sought to overcome deficiencies in the evidentiary base and existing literature through the design of the evaluation and collection of data from multiple sources.

The evidence and support for the main conclusion of this evaluation are summarized below. The conclusion offers a forward-looking assessment of changes IFC would need to make if it were to consider resumption of investment in K–12 private schools.

IFC Portfolio in K–12 Private Schools

IFC’s portfolio in K–12 private schools over the FY01–20 period was small and used a variety of instruments. The portfolio of 25 direct investments—mostly loans, with \$156 million in commitments—accounted for a very small portion of IFC’s overall education portfolio. Over the same period, IFC also provided \$20.5 million (net asset value of IFC’s investments) in indirect support to the subsector through equity participation in 27 Funds (private equity funds and venture capital funds) with investments in K–12 private

schools. The operational details of the K–12 investee companies in these cases are not documented, nor are their development outcomes monitored by IFC. Hence, the K–12 investments of the 27 Funds were not evaluable, and the 25 direct investments are the focus of the evaluation.

IFC’s direct investments in K–12 private schools evolved over the evaluation period. From FY01 to FY08, IFC provided loans to small private schools in International Development Association (IDA) countries and diverse types of K–12 private schools (a nonprofit religious school, international schools, and a secondary vocational school) in middle-income countries (Indonesia, Lebanon, Mexico, and Turkey). In 2007, IFC introduced a new instrument, the RSF, to encourage local banks to provide financing to K–12 private schools in IDA countries and mitigate currency risks that could affect debt servicing to local banks. The RSF projects in Ghana, Kenya, and Rwanda ranged from \$2.1 million to \$12 million, with IFC commitments that ranged from \$854,000 to \$4.7 million. Advisory services associated with the RSFs supported business development in borrowers and capacity development in lenders. By the FY09–17 period, the limitations of the RSF instrument were evident, and client cancellation of the facility agreements (although not the advisory services component) led IFC to abandon its use of the RSF. During this period, IFC shifted its focus to experienced owners of K–12 private schools embarking on within-country, cross-border, regional, or even international expansion. The size of the investment projects during this period ranged from \$3 million to \$45 million, with IFC commitments ranging from \$2 million to \$22 million. Then, in 2017, IFC stopped all new investments in K–12 private schools for lack of viable investment opportunities.

The 25 direct investments in K–12 private schools were distributed across all regions, with projects in middle-income countries accounting for 75 percent of IFC’s commitments. By number of projects, the investments were almost evenly distributed among IDA countries (mostly in Sub-Saharan Africa) and non-IDA countries. By commitment amounts, 75 percent of IFC investments in K–12 private schools were to schools in non-IDA (or middle-income countries) in the Middle East and North Africa Region, followed by East Asia and Pacific.

The history of IFC investments in K–12 private schools suggests an exploratory approach, with IFC seeking an appropriate investment niche in a complex and risky subsector. Although IFC initially sought to engage small schools in low-income countries, it eventually found that its most viable opportunities lay in larger schools, schools that cater to middle-income and upper-middle-income students, clients that have diversified sources of revenues other than tuition fees, and networks of schools in middle-income countries. IFC was also exploring its options transaction by transaction, without an introspective assessment of the impact of its investments or lessons learned. The need to identify financially sustainable investment and the transactional approach meant that IFC did not consider local education systems when making its investment decisions.

Outcomes

The evaluation assessed the 25 direct investments based on their contributions to education access and equity, education quality, and financial sustainability and investment outcomes.

Despite investing \$156 million over 16 years in 25 projects, IFC did not collect relevant data on most of its K–12 private school projects' stated development objectives after commitment. The absence of evidence for post-project approval makes it impossible to determine if the stated development impacts of IFC investments (such as reduced crowding in public schools, increased efficiency in the public schools through increased competition from private schools, or spillover effects in training for public teachers and schools) occurred.

Access and Equity

IFC investments in K–12 private schools mainly financed the construction or expansion of school buildings and other capital expenditure needs. Of the 25 IFC direct investments, 19 supported financing clients' needs for the establishment of new school buildings. Another five projects (all in Sub-Saharan Africa) financed a combination of building a new school—either through acquisition or new construction—and improvements or modernization of existing facilities.

Objectives in such cases mentioned increasing access to quality private education to meet demand for quality education from middle-class parents.

IFC's focus on "increased access to quality education" was mostly in K–12 private schools that enrolled children from middle-income families. This approach was in line with IFC's strategic aims at the time. IFC also invested in a school that enrolled K–12 students from upper-income households and another that enrolled students from both middle- and upper-income households. Project documents typically mentioned scholarships or bursaries as a means of attracting students from lower-income households, but data were not consistently collected and tracked. There is no indication in project documents that IFC investments were intended to address access beyond the students enrolled in the supported schools to include underserved groups, such as children out of school, from low-income households, or with disabilities.

Although IFC also invested in some low-fee K–12 private schools, socioeconomic data on students who attended those schools are not available. The four RSFs in Sub-Saharan Africa were designed to support the expansion of schools that charged relatively low fees. Although these schools may have catered to students from low-income families, monitoring documents offer no information on whether the schools maintained the low-fee structure or on who attended the schools, nor did they track the number of low-income students or out-of-school children who received scholarships or bursaries because of IFC's investment.

IFC's assessment of affordability was broadly based on benchmarking the fee structure of supported schools against other K–12 private schools in the country, including international schools. Fees charged were often less than those comparators but still unaffordable for households close to or below the poverty line.

IFC investments rarely responded to barriers to access encountered by certain groups or to broader challenges faced by local education systems. Because of IFC's transaction-based approach, access was considered in relation to the schools financed by IFC without considering the effect those schools may have on the local education systems or opportunities available to potentially underserved groups.

Education Quality

IFC neither monitored education quality nor compiled evidence to verify it. Where indicators were associated with education quality, they tended to be output measures. IFC also did not identify, track, or monitor indicators associated with improved quality. Four projects collected data on the rate of student graduation; none tracked other key data such as the rate of dropout or repetition.

The advisory services accompanying the four RSFs were designed to improve the overall capacity of low-fee schools and financial intermediaries. The advisory program supported training provided directly to schools and capacity-building work that would strengthen their business viability. Case studies of two RSF projects found that the training and advisory support were highly valued by the school owners.

IFC's engagement with education quality in K–12 private schools was minimal. Investments rarely supported education quality enhancement, such as teaching quality. IFC assessed quality during appraisal based on the school's assessment systems, accreditation, curriculum, student graduation and retention rates, and teachers' qualifications. However, the assessment ended with project approval, as IFC education experts were not usually involved in project monitoring. Literature and secondary data analysis reviews suggest that the guarantee of better quality in K–12 private schools (compared with public provision) cannot be assumed.

Financial Sustainability and Investment Outcomes

IFC emphasized financial sustainability in assessing private K–12 school projects, and its additionality was primarily financial, as it offered loans with longer tenors and, in some projects, better interest rates than local or other international financiers. Nineteen of IFC's projects also created nonfinancial additionality through loan conditions that required improved business or financial management, corporate governance, and environmental, health, and safety standards. As a pioneer among development finance institutions in investing in private education, IFC provided signaling effects

to international and domestic financiers about the business potential of investing in K–12 private schools.

IFC loans to K–12 private schools experienced higher incidence of cancellation, droppage, and overall weak disbursement compared with the rest of IFC education sector investment projects and its overall portfolio. The cancellation rate of IFC loan commitments to K–12 private schools was 56 percent compared with an overall IFC loan cancellation rate of 15 percent. Nineteen of the 25 direct investments projects were either fully or partially canceled, including the 8 projects in which IFC’s loans were not disbursed or were dropped, indicating that the projects were not executed as planned. The incidence of nondisbursement or droppage was also high. Eight of the 25 direct investment projects were closed without using IFC’s financing commitment and therefore were not monitored for their performance and outcomes. Problems with land acquisition, cost overruns, and implementation delays halted school owners’ plans to relocate, expand their existing premises, or open new school branches. Several sponsors, especially the owners of small schools, also had difficulty complying with IFC financing covenants that curtailed the disbursement of IFC’s financing.

The high level of cancellations, dropped projects, and weak disbursement record of K–12 private school projects kept IFC from covering its transaction costs of doing business and making expected returns on its investments. IFC experienced negative risk-adjusted returns on its lending to K–12 private schools. It also experienced cash and economic losses from its investment operations in this education segment through FY21. Only one of IFC’s two direct equity investments in K–12 private schools met the expected equity internal rates of return. In this project, IFC’s equity participation in a successful school operation catered to upper-middle-class students and helped the school open branches in Australia, Canada, Malaysia, and Singapore. Despite this example, the overall IFC equity return on its investments in K–12 education over a 10-year period ending June 2021 was negative.

Even with the reported growth in the number of K–12 private schools and associated increases in enrollment in developing countries, the investable market is limited. Investments in K–12 private schools are dominated by traditional financing, including individual and family entrepreneurs, and

by private equity. Family-run K–12 private schools tend to be small, limiting investment opportunities. The small size and relative business immaturity of many K–12 private schools, particularly low-fee private schools, inhibit scalability.

Conclusions

At the level of individual clients, IFC’s investments were relevant but limited in scope, and there is no evidence of their relevance to the local education systems. The investments were relevant to the school owners in that they met a clear need for financing that was otherwise unavailable. However, case studies and reviews of project documents found no planned or actual spillover effects beyond the investment projects and the project sponsors.

It is not possible to assess the relevance or impact of IFC’s investments in K–12 private schools at the sectoral and country levels. The small scale and limited nature of the investments rendered nonexistent any effect or impact on broad educational needs at the sectoral or country level. In 9 of the 14 countries where IFC directly invested in K–12 private schools, the operations were single transactions. IFC commitments in K–12 private schools in 5 countries ranged from \$5 million to \$15.5 million, with four of the single transaction investments averaging \$1.7 million in IFC commitment amounts.

IFC’s engagement with education quality in K–12 private schools and education systems was minimal. Very few investments combined infrastructure improvements with quality-enhancing inputs—such as teacher training, instructional leadership, curriculum development, or textbook updates—that can contribute to accelerated learning. The same can be said for the four advisory services provided with the RSFs. In most instances, quality provision was assumed based on existing or expected national or international education accreditation.

Considerations for the Future

Resumption of IFC investments in K–12 private schools with a business-as-usual approach is not advised. If IFC decides to resume investments in K–12 private schools, it needs to adopt a different business model. IEG

provides the following suggestions for the consideration of IFC management and the Board:

- » Adopt an investment approach that engages a wider spectrum of stakeholders involved in the education system likely to be affected, whether positively or negatively, by the school receiving IFC financing. Recalibrate IFC processes and procedures throughout the investment life cycle to move from the current narrow transaction orientation to an approach in which IFC works with governments, the World Bank, development finance institutions, and other partners to harness and scale innovations and mitigate potential negative impacts on local education systems.
- » Establish a clear framework for investing in K–12 private schools that explicitly addresses equitable access and inclusion and the quality of education. This framework would require developing an educational rationale specific to K–12 private schools to underpin IFC’s engagement. The rationale needs to refer to reaching specific target groups (for example, out-of-school children) and improving quality of education without exacerbating inequality. The framework should take into account the potential for IFC interventions to maximize positive spillovers into public schools. It would also require engaging with clients who are committed to supporting links with a full range of beneficiaries and stakeholders—such as school administrators, parent associations, teachers, education experts and officials, and others—in the local education systems.
- » Consider trade-offs between ensuring financial sustainability of investments in K–12 private schools and supporting equitable access, education quality, and broader education system effects. IFC needs to ensure the financial sustainability of its investments. Earning sufficient revenue to cover costs plus extra earnings for reinvestment is also necessary for private schools. Investing in K–12 private schools will continue to require that IFC—and private schools—carefully consider the possible trade-off between achievement of educational outcomes (such as access, equity, and quality) and the financial sustainability of IFC’s investments.
- » Enhance monitoring systems and supervision mechanisms to learn from new investments in K–12 private schools. This change would require enhanced and more sustained project monitoring and evaluation beyond business

indicators and should include an assessment of factors related to education access, quality, and positive or negative effects on other schools and local education systems—whether the investments are made through direct loans, equity, quasi-equity, guarantee or RSF, or investments in K–12 private schools by Funds supported by IFC. Data collection and sustained project monitoring should include student profile, accommodations for children with disabilities, initiatives such as scholarships to support access for impoverished students or those out of school, and methods to address potential negative effects on the education system (and any potential adverse reputational risk to IFC and the client) during the implementation phase. Evaluation should be built into projects and contribute to reliable knowledge regarding private K–12 education outcomes that will require that IFC find resources to conduct rigorous evaluations within some of its investments or through a special fund.

International Finance Corporation Management Response

The management of the International Finance Corporation (IFC) thanks the Independent Evaluation Group (IEG) for the opportunity to comment on *An Evaluation of IFC Investments in K–12 Private Schools: An Independent Evaluation*. Management appreciates IEG for undertaking this evaluation and fostering proactive engagement throughout the process. The evaluation comprehensively responds to the request made by management to evaluate IFC’s investment in provision of private education from kindergarten through grade 12 (K–12), including impacts on educational outcomes, access, poverty, and inequality.

The evaluation demonstrates the importance of K–12 private schools. As the evaluation notes, enrollment in private schools has risen globally for more than a decade, from 10 to 17 percent at the primary level and from 19 to 27 percent at the secondary level. The increases are occurring in low- and middle-income countries due to the expansion of low-fee and mid-fee private provision. The evaluation finds that surveyed investors see an unmet demand for quality education at both the low-fee and mid-fee levels, and local civil society organizations see private investment as essential to meeting the fourth Sustainable Development Goal and other related education goals.

However, IFC has faced several challenges investing directly in private K–12 schools. Management agrees with the evaluation’s assertion that most private K–12 schools are difficult to invest in directly. Many of these schools are small and family run and face various challenges in securing external financing from different sources, including IFC. These challenges have contributed to the weak financial results IFC has seen on its debt and equity investments in private K–12 schools. These may have been exacerbated by difficult market conditions, given that the majority of IFC’s K–12 projects were in Sub-Saharan Africa and most of these were in International Development Association countries. Further, as the evaluation highlights, there is potential for investments in private K–12 schools to exacerbate inequalities and have unintended, undesirable spillovers into the public sector school

system. IFC management takes these findings seriously and wishes to refrain from activities unfavorable or detrimental to international development. The establishment of Anticipated Impact Measurement and Monitoring tool has strengthened the monitoring and supervision systems, and the establishment of the Upstream approach has enabled the organization to both engage a wider spectrum of stakeholders and take a more programmatic approach. Recent developments notwithstanding, IFC management duly notes IEG's conclusion that resuming investments in K–12 private schools is not advisable “with a business-as-usual approach” (xiv).

As a result, IFC will not resume investments in fee-charging K–12 private schools at this time. In line with the scope of the review, this decision will encompass any new (i) direct investments or advisory services related to the provision of education in fee-charging (for-profit and not-for-profit) K–12 schools; (ii) public-private partnerships related to school privatization or the provision of education in fee-charging K–12 schools; (iii) indirect investments in fee-charging K–12 schools through private equity fund clients. IFC also does not plan to resume investment in Risk-Sharing Facilities with local banks to support their financing of K–12 private schools. IFC's support to the K–12 sector will be limited to areas such as investment or advisory services related to (i) ancillary services and other support services and tools or both; (ii) education technology and digitalization; (iii) higher education institutions that may have private K–12 schools or divisions associated with them (as long as IFC's support is focused on the non-K–12 operations); (iv) public-private partnerships related to school construction or ancillary services (food preparation and so on); and (v) follow-on investments to existing private equity fund K–12 investments.

IFC's focus in the education space will continue to be postsecondary education. Even when IFC was investing in K–12 schools, these projects were a relatively small component of IFC's investment portfolio in education. IFC's focus for its investment activities will continue to be tertiary education and technical and vocational education and training. IFC has also implemented a successful advisory program, called Vitae, to support improved employment outcomes at tertiary education institutions. This advisory program helps institutions improve labor market insertion practices and implement practical interventions that chart a path to employability transformation. IFC is also

carrying out the global rollout of a program called Digital for Tertiary Education Program or D4TEP through which IFC assesses the digital maturity of a tertiary education institution and prepares a digital transformation road map for the institution. Lastly, IFC is also actively exploring ways to be more relevant through advisory services and investment in the early childhood education (pre-kindergarten and kindergarten services) space.

If IFC were to resume investing in K–12 private schools, management agrees with IEG’s suggestions on how to do so more effectively. This includes engaging a wider spectrum of stakeholders; establishing a clear framework for investing in K–12 private schools; considering trade-offs between financial sustainability of investments in K–12 schools and access, quality, and broader education system effects; and enhanced monitoring systems and supervision mechanisms. However, IFC does not envisage resuming investments in private K–12 schools in the near future.

1 | Evaluation Context and Background

K–12 Education Context and the Rationale for Private Sector Investment

Demand for private kindergarten through grade 12 (K–12) schools has been growing in low- and middle-income countries. Total enrollment in private K–12 schools in low- and middle-income countries has risen for more than a decade, from 10 percent of the school-age population to 17 percent at primary level and from 19 percent to 27 percent at secondary level (The Economist 2019). The highest shares of enrollment in private schools at the primary level are in South Asia and Latin America and the Caribbean (greater than 20 percent), with lower shares in Middle East and North Africa and East Asia and Pacific (less than 10 percent). Regional variation for secondary schools is similar.¹

A major reason for the increase in demand for K–12 private schools is the inability of governments to keep pace with rising populations, resulting in school crowding or lack of adequate provision. Income growth and urbanization, a changing labor market, and demand for greater choice and accountability also contribute (Caerus Capital 2017). Demand for private education has been especially strong among middle-class parents, often because of perceived or actual shortcomings in the quality of education offered through public schools (Tooley 1999). The growing pressure caused by both forces has prompted school owners to seek long-term financing to expand and meet that demand. It has also fueled an expansion of low-fee schools (Härmä 2021). Yet in many countries, financing can be difficult to obtain and then only at onerous rates. This situation has attracted the interest of international actors that include foundations, philanthropists, private investors, and development finance institutions (DFIs) such as the International Finance Corporation (IFC).

Governments have acknowledged that they cannot meet the growing demand on their own, leading DFIs—including IFC—to suggest that the private

sector can help ensure not only that the demand is met but also that it can contribute to the achievement of Sustainable Development Goal (SDG) 4. Private investment, the DFIs assert, can help narrow a sizable gap in funding—a shortfall in public investment and international aid—necessary to achieve “equitable and inclusive access to quality education,” as envisioned in SDG 4.² In 2020, the United Nations Educational, Scientific, and Cultural Organization projected a shortfall of \$148 billion annually to achieve the goal by 2030. It has recently indicated that the gap will be increased by the effects of the coronavirus (COVID-19) pandemic on education, to as much as \$200 billion annually (UNESCO 2020). The ability of the private sector to contribute to the achievement of SDG 4, however, depends on whether it can ensure both equitable access and quality improvements, given the degree of learning poverty in developing countries. In theory, the investments in private schools would free up government resources, which were being spent mostly on the middle class enrolled in public schools, to improve public schools (IFC 1999; Tooley 1999). In interviews for this evaluation, local civil society organizations expressed similar opinions regarding the value of IFC investments (and financing from other DFIs) as support to governments, especially in low-income, conflict, and postconflict countries that are under pressure to meet the commitments of SDG 4 (appendix G).

Evaluation Motivation, Purpose, and Focus

This evaluation was motivated by a commitment the World Bank Group president made as a condition of the \$5.5 billion capital increase approved for IFC in 2020. Under that commitment, the Independent Evaluation Group (IEG) would evaluate IFC investments in K–12 private schools “including impacts on educational outcomes, access, poverty and inequality...to determine whether there are any circumstances under which future IFC investments in private, fee-charging K–12 schools could be made without impacting negatively on poverty, inequality, the right to education, or the provision of public education.”³ Although educational outcomes such as equitable access and improved quality are particular to the sector and could be addressed by IFC investments, poverty and inequality are broader issues that are affected by many other factors and cannot be addressed in IFC’s limited investments in K–12 private schools.

The purpose of the evaluation is to meet the terms of that commitment and provide evidence to guide IFC’s future actions in K–12 private schools through an assessment of its investments in the subsector. The evaluation aims to aid IFC management and the Board of Executive Directors in deciding whether and under what circumstances it should resume investing in K–12 private schools. To do so, the evaluation not only assessed IFC investments in K–12 private schools but also sought to identify what changes may be needed for IFC to support K–12 private schools in the future.

Evaluation Scope

The evaluation scope is limited to IFC investments in K–12 private schools from fiscal year (FY)01 to FY20. Consistent with Bank Group President David Malpass’s mandate to IEG, the evaluation focus is on IFC investments in K–12 private or nonstate schools that operate by generating fee-based revenues. The schools may be for-profit or not-for-profit, but in either case, they earn revenues and may incur net returns and surpluses (or losses). The scope is also limited to IFC investments through loans, equity, quasi-equity, and Risk-Sharing Facilities (RSFs) used to finance projects (box 1.1). The evaluation assessed advisory services only for two case studies involving RSFs that included those services as part of the investments. The evaluation specifically excluded financing of other K–12 education projects, such as technology-related (EdTech) or public-private partnership projects.⁴ Also in line with the mandate from Bank Group President Malpass, the review homes in on systemwide effects of IFC’s investments, rather than assessing individual IFC investments in K–12 private schools. The evaluation also does not assess the inherent value of supporting K–12 private education or private education in general through any means. Finally, although the evaluation period is FY01–20, IFC stopped financing new investments to K–12 private schools (though not other areas of education) in 2017 for lack of viable investment opportunities. IEG reviewed IFC education strategies from its entry strategy in 1999 through its most recent articulation of education strategy in 2018. Although the evaluation assessed projects approved and committed relative to their consistency with the prevailing education strategy at the time of approval, because no K–12 private school projects were approved and committed after 2017, IEG explicitly did not review if and how IFC operationalized its 2018 strategy nor did

it review IFC's more recent initiatives, such as the Anticipated Impact Measurement and Monitoring (AIMM) system, Upstream activities, IFC Country Strategies, and Country Private Sector Diagnostics.

Box 1.1. IFC Instruments Used for Investing in K–12 Private Schools

Straight senior loan (International Finance Corporation [IFC] A loan): A loan to a client that ranks above or equal to other lenders and does not have subordination features or deferability of repayment of principal and/or interest characteristics. Straight senior loans do not have features that provide IFC additional upside return potential (such as convertible loans, loans with attached warrants or options, or income participation loans). An A loan is provided under IFC's own account. Some examples include IFC investments in Promotora de Centros Educativos de Occidente A.C., Kabojja Junior School, Braeburn Schools Limited, and Yayasan Pendidikan Singapura Indonesia schools.

Syndicated loan (IFC B loan): A loan for which IFC is the lender of record, but the loan is not booked for IFC's own account and in which other lenders acquire participations. Participants share risks with IFC, as the arrangement gives participants and IFC equal rights to payment. IFC investment in Yüce Özel Eğitim ve Kültürel Hizmetleri A.Ş. is an example.

Straight equity: IFC provides financing from its own account in exchange for ownership of 5 percent to 20 percent of the company (an "equity stake"). IFC becomes a part owner or shareholder of the company and participates in the profits when things go well but receives no returns if the company does not turn a profit. When IFC's role in the company is exhausted, IFC exits the company by selling its shares to either another investor or back to the company. IFC typically holds on to its shares for an average of seven years. IFC equity investments in Maple Leaf Educational Systems and New-Globe Schools/Bridge International Academies are examples.

Quasi-equity: Direct IFC investments in debt or equity instruments that are neither straight senior loans nor straight equity investments. Quasi-equity investments in debt-type instruments include senior loans with option (C loans) features that provide IFC additional upside return potential and subordinated loans that are junior in liquidation (or lower in priority) to senior loans or that include a provision that allows deferment of interest payments, principal payments, or both.

(continued)

Box 1.1. IFC Instruments Used for Investing in K–12 Private Schools (cont.)

Senior loan with options (IFC C loan): A loan to a client that ranks above or equal to other lenders and has option features that provide IFC additional upside return potential (such as convertible loans, loans with attached warrants or options, and income participation notes, including such participation notes with deferred rate-setting arrangements). Examples include investments in First Education Holding BSC and Cairo for Investment and Real Estate Development SAE (CIRA).

Risk-Sharing Facility: IFC shares the risk of loan default in an agreed-on portfolio originated by the partner bank, thus encouraging the bank to lend more to the chosen sector. IFC does this by agreeing to purchase a percentage participation in loans that defaulted or were written off, or both, (in line with local central bank requirements), usually subject also to the partner bank or another institution absorbing a first-loss component. IFC then shares in any recoveries from the defaulted loans. The Risk-Sharing Facility product allows a client originator and IFC to form a partnership with the goal of introducing a new business or expanding an originator's target market. In addition to sharing the risk of loss associated with the covered asset portfolio, IFC is often able to arrange for the provision of advisory services designed to expand the capacity of a bank or corporation to originate, monitor, and service the assets. Examples include the Risk-Sharing Facility with K-REP Bank (Sidian Bank), Banque Rwandaise de Développement, and The Trust Bank of Ghana.

Indirect investments through Funds: Investments in kindergarten through grade 12 (K–12) private schools made by private equity funds and venture capital funds (known collectively as "Funds" in this evaluation) in which IFC provided equity investments. The Funds, not IFC, set the investment criteria and conduct the appraisal, selection, and monitoring of the investments. Funds are required to submit a report to IFC about their investee companies.

Source: International Finance Corporation Business Glossary.

This is the first time that IFC’s investments in K–12 schools have been evaluated. IFC experimented and explored during 22 years of investing in K–12 private schools, but it has not yet conducted self-assessments or outsourced reviews of its investment experience. Moreover, during the period assessed, IFC has not articulated a theory of change specifically relevant to its investments in K–12 private schools. This evaluation seeks to fill both gaps to better inform any future IFC investment in K–12 private schools. In this, the evaluation was aided by consultation with IFC’s education specialists.

Evaluation Approach, Methods, and Limitations

The evaluators sought answers to three main questions:

1. How did IFC investments in K–12 private schools align with identified country education needs?
2. To what extent did IFC investments reflect the characteristics of quality K–12 private education?
3. What has been learned that could help IFC improve its engagement in K–12 private education in the future?

To answer these questions, the team assessed IFC investments in K–12 private schools on four dimensions: access (including equitable access), education quality, financial sustainability, and relevance of K–12 private schools in which IFC has invested. These dimensions were selected for their consistency with IFC’s strategic objectives in the education sector. The literature also maps these dimensions to long-term educational outcomes and the reduction of poverty and inequality, making them relevant to broader Bank Group goals. For more on the terminology and concepts used throughout this report, see appendix A.

The evaluators used a mixed methods approach to collect data and triangulate findings among various sources of evidence to answer the evaluation questions. The methods used include a portfolio review, a structured literature review (SLR), the analysis of five investment project case studies, a review of IFC strategies on education, and an analysis of education sector data from secondary data sources such as enrollment data and scores on

international learning assessments (Programme for International Student Assessment, Third Regional Comparative and Explanatory Study, and others). The full methodology is described in appendix B. The use of mixed methods and multiple sources of evidence strengthened the rigor of evidence. Yet the evaluation is constrained by the very small number of IFC K–12 private school investments in a short list of countries, scant monitoring and evaluation data, and limited literature—and often mixed findings—on private education results and outcomes in low- and middle-income countries. The evaluation is also constrained by the inability to conduct field research because of travel limitations imposed by the COVID-19 pandemic. For the same reason, most interviews for the evaluation were conducted virtually. When conditions permitted, the team conducted in-person interviews of local stakeholders, including local civil society organizations.

¹ For more information, see the United Nations Educational, Scientific, and Cultural Organization Institute for Statistics at <http://uis.unesco.org>.

² “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all: By 2030, all girls and boys complete free and equitable primary and secondary education” (Sustainable Development Goal 4, Target 4.1, <https://sdgs.un.org/goals/goal4>).

³ Letter from David Malpass, World Bank Group president, to Steven T. Mnuchin, secretary of the Treasury, March 20, 2020.

⁴ The International Finance Corporation also invested \$19.8 million in four kindergarten through grade 12 (K–12) educational technology projects and \$80 million in two public-private partnership projects by two municipalities in Europe and Central Asia Region. Because of the different nature and development pathways of educational technology and public-private partnership projects and the small number of these projects, these were excluded from the evaluation.

2 | IFC Involvement in K–12 Private Schools: An Overview of the Strategies and Portfolio

IFC Strategies and Business Models for K–12 Schools

Although it operated under multiple strategies during its 22 years of exploration, IFC has not explicitly stated its overall objectives for K–12 education. The IFC portfolio in K–12 private schools has roots in the small and medium enterprise (SME) work of the mid-1990s. Its investments in K–12 private schools subsequently evolved along with its education strategy but remained small and exploratory in nature. The range of financing instruments used and the types of schools financed since the mid-1990s suggest that IFC attempted to engage with different scales and types of institutions and contexts, although it is not clear that this was intentional.

Strategies

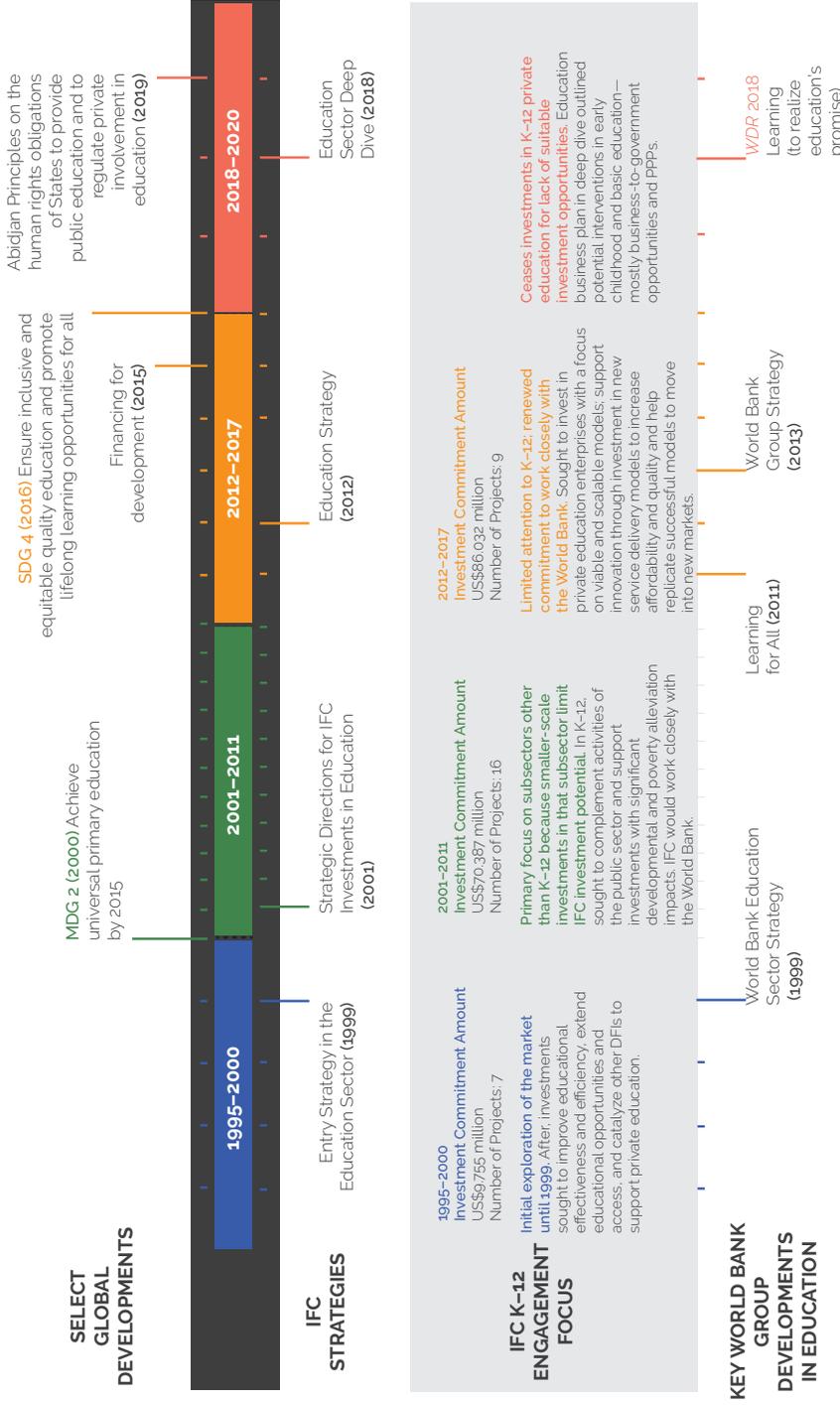
IFC’s institutional mandates in education are linked to those of the Bank Group. All institutions of the Bank Group operate under major international agreements on education: World Declaration on Education for All (1990), Millennium Development Goals (2000–15, Goal 2), and SDGs (2016–ongoing, SDG 4). In all cases, the central theme is that a quality basic education is a right—an essential public good—and should be accessible for all. SDG 4 goes further in seeking to ensure that by 2030, “all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes.”¹ IFC’s activities are also part of the Bank Group corporate mission and country-specific strategies, which encompass the work of the World Bank, IFC, and Multilateral Investment Guarantee Agency. Although this evaluation did not examine specific country strategies, IEG has found that in the education field, Bank Group country strategies

may envision support for improvement to the regulatory and institutional environments and support for public schools (including public-private partnerships). Such support is provided by the World Bank and rarely includes planned investment in private K–12 or early childhood education provided by IFC.

IFC investments in the education sector (including in K–12 private schools) have been guided by a series of strategies endorsed by the IFC Board of Directors since 1999. Those strategies have focused more on technical and vocational education and training and tertiary education than on K–12 education.² The strategies consistently strike several thematic notes: the importance of education to economic development and job creation, underperformance of public school systems and demand-side pressure from middle-class parents for private schools, the relative difficulty of finding investment opportunities in K–12 education (including private schools), an increased focus on access and education quality, and repeated and increasing emphasis on the need to collaborate and coordinate with the World Bank and other stakeholders. The strategies offer little guidance for how IFC should operate in the complex environment of countries' school systems that include public and private K–12 schools. As previously noted, the strategies also do not provide a theory of change to support IFC's investments in K–12 private schools. Figure 2.1 provides an overview of IFC's involvement in K–12 private education linked to the evolution of IFC and Bank Group education strategies and of global development goals on education.

The difficult investment environment has led other DFIs to make significant changes in their approach to the K–12 subsector in recent years. As previously noted, IFC stopped new investments in K–12 private schools in 2017 for lack of viable investment opportunities and weak financial results from its existing investments. Nonetheless, the subsector was mentioned in IFC's 2018 education sector deep dive, which focused on creating markets for private provision and solutions in early childhood education and basic education. IFC's plan to create those markets entails supporting public-private partnership frameworks and regulations and investing in private companies offering business-to-government and business-to-business solutions. The

Figure 2.1. Timeline of IFC Strategy and Engagement in the K–12 Education Subsector



Sources: International Finance Corporation education sector strategies from 1999 to 2018. IFC management information system reserve database, for the investment amounts and number of projects.

Note: Investment commitment amounts and number of projects refer to IFC direct investments only. DFI = development finance institution; FY = fiscal year; IFC = International Finance Corporation; K–12 = kindergarten through grade 12; MDG = Millennium Development Goal; PPP = public-private partnership; SDG = Sustainable Development Goal; WDR = World Development Report.

2018 strategy held open the possibility of direct investment in viable and scalable early childhood education and K–12 (or basic) education. Several other DFIs (such as the United Kingdom’s Department for International Development [replaced by the Foreign, Commonwealth & Development Office], the United States Agency for International Development, and the Swiss Agency for Development and Cooperation) have recently established frameworks for financing K–12 private education to overcome the challenges of investing in the K–12 subsector and address some of the criticisms about the potential of private education to aggravate learning inequalities (detailed in chapter 3).

Portfolio Profile and Evolution

Portfolio Profile

IFC’s portfolio in K–12 private schools was small and employed a variety of instruments. The portfolio consisted of 25 direct investments and 27 indirect investments through Funds (see box 1.1 for descriptions of these investment types). In addition, the amounts committed and the share of IFC investment in the total cost were generally low (tables 2.1 and 2.2). The 25 direct investments accounted for \$156.5 million in commitments—21 percent of all IFC education projects and less than 10 percent of its education sector commitments.

In addition to its direct financing, IFC had indirect equity participation in 27 Funds with K–12 private school investments. As of February 2021, IFC had invested in 21 Funds that in turn had 27 investments in 26 K–12 private schools,³ mostly located in Sub-Saharan Africa. The net asset value of these investments was estimated at nearly \$150 million, with IFC’s share being about 14 percent of the total. Seventeen Funds were still actively invested in 20 K–12 private schools as of February 2021; six Funds had exited from the subsector. Three of the K–12 investee companies were also direct recipients of IFC loans.

Table 2.1. Breakdown of IFC Investments by Instrument Type for Direct Investments

IFC Investment Instruments	Modality	Investment Projects (no.)	IFC Commitment Amount (US\$, millions)	Project Size (US\$, millions)	Share of IFC Investment to Overall Project Cost (%)	Examples
(1) Loans		17	84.90	1634	49.2	
Straight senior loans	SME facility	2	0.68	1.9	36.0	Cameroon, Uganda
	Direct loans	14	79.70	161.5	49.3	Indonesia, Kenya, Lebanon, Mexico, Nigeria, South Africa, Tanzania, Uganda, and an East Asia and Pacific regionwide project
Syndicated loan		1	4.5	10.0	45.0	Turkey
(2) Straight equity investments		2	25.5	65.5	38.9	China, Kenya
(3) Quasi-equity investments (C loans)		2	37.0	73.0	50.7	Egypt, Arab Rep. and a Middle East and North Africa regionwide project
(4) Risk-Sharing Facility (first-loss guarantee facility)		4	9.1	21.0	43.4	Ghana, Kenya, Rwanda
Total		25	156.5	322.9	48.5	

Source: Independent Evaluation Group.

Note: IFC's first investment in K-12 private schools between 1995 and 2000; IFC used two SME lending facilities to provide loans to four of the five K-12 private schools during this period. Refer to box 1.1 for a description of IFC instruments used in financing K-12 private schools: IFC = International Finance Corporation; K-12 = Kindergarten through grade 12; SME = small and medium enterprise.

Table 2.2. Breakdown of IFC Investments by Instrument Type for Indirect Investments

IFC Investment Instruments	Funds Investment in K-12 Schools (no.)	IFC's Share of Net Asset Value (US\$, millions)	Total Net Asset Value (US\$, millions)	Share of IFC to Total Net Asset Value (%)	Examples
(5) Equity investments through IFC investments in Funds	27	20.5	146.9	14.0	Cambodia; Colombia; Congo; Dem. Rep.; Ghana; Jordan; Kenya; Kyrgyz Republic; Morocco; Myanmar; Turkey; Vietnam; and two regionwide projects (Middle East and North Africa Region and World region)

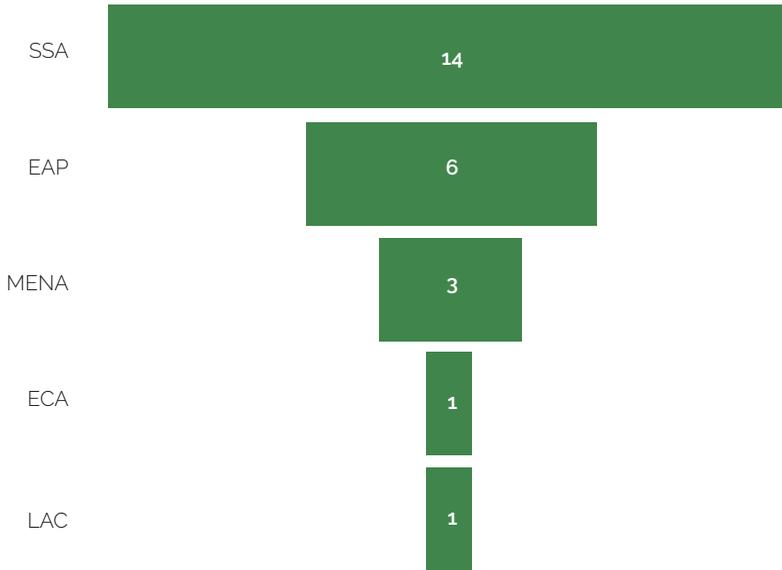
Source: Independent Evaluation Group.

Note: Indirect investment data are as of February 1, 2021. IFC = International Finance Corporation; K-12 = kindergarten through grade 12.

The evaluation focuses mainly on IFC direct investments; IFC indirect investments through Funds were not assessed in-depth because the operational details of the K–12 private school investee companies are not documented, and IFC does not monitor their development outcomes.⁴ Such practices are typical of many Funds, although impact investment and venture capital Funds will report on indicators such as enrollment numbers. These practices are also common among all DFIs that have provided financing to private equity, venture capital, or impact investment funds that in turn invested in K–12 private schools (refer to appendix F for more information). The Funds also typically include investments in multiple other sectors, with reporting aggregated in a manner that does not allow for assessment of the performance of individual investments. This lack of more detailed information on the fund investments in K–12 schools makes it impossible to evaluate their learning outcomes or even assess any element of education access, quality, or financial sustainability. For that reason, the main focus of the evaluation is on the 25 direct investments.

The 25 direct investments were distributed across all regions, although unevenly (figures 2.2 and 2.3).⁵ Sub-Saharan Africa accounted for the largest number of investment projects, with Kenya accounting for the largest number of projects; however, the average of IFC’s original commitments was highest in the Middle East and North Africa Region (\$15 million per investment), followed by the East Asia and Pacific Region (\$8.8 million per investment). The average commitment in Sub-Saharan Africa was just \$3.4 million per project at appraisal. In Middle East and North Africa and in East Asia and Pacific, IFC focused on middle-income countries. The number of projects is almost evenly distributed among International Development Association (IDA) and non-IDA countries (using country income classification at the time of project approval). By commitment amounts, 75 percent of IFC investments in K–12 private schools were to schools in non-IDA (or middle-income) countries.

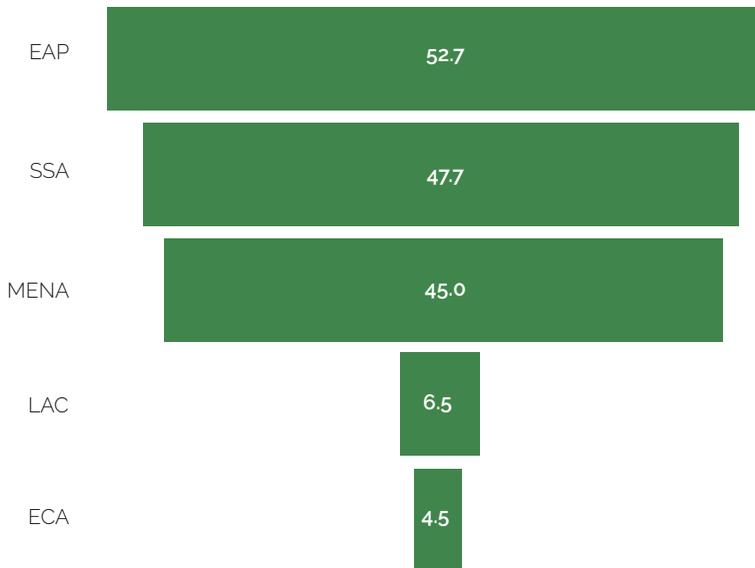
Figure 2.2. Number of IFC Direct Investments in K-12 Private Schools, 2001-17, by Region



Source: International Finance Corporation management information system reserve database.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa.

Figure 2.3. Amount of IFC Direct Investments in K-12 Private Schools, 2001-17, by Region (original commitment; US\$, millions)



Source: International Finance Corporation management information system reserve database.

Note: EAP = East Asia and Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = Sub-Saharan Africa.

Evolution of the Portfolio

IFC's K–12 private school investments were rooted in its work with SMEs. The earliest projects, between 1995 and 2000, were loan financing using two SME lending facilities, the Africa Enterprise Fund and the Small Enterprise Assistance Funds. These early loans were to small private schools, mostly in IDA countries in Sub-Saharan Africa and often family-owned schools seeking to expand. The projects ranged in size from about \$300,000 to \$10 million, with IFC loan commitment amounts ranging from about \$80,000 to \$7 million. Only one investment during this period was financed by a straight loan from IFC to an established network of prekindergarten and K–12 co-educational private schools in South Asia. IFC continued to provide loans to small schools through the SME financing facilities through the first part of the evaluation period. Because of inadequate business performance and high transaction costs—common issues across the entire SME portfolio at the time—the use of SME financing facilities to invest in K–12 schools was discontinued in 2002 (box 2.1).

Box 2.1. IFC Investments in Small and Medium Enterprises

The International Finance Corporation (IFC) last used the Africa Enterprise Fund (AEF) to provide loans to kindergarten through grade 12 (K–12) private schools in fiscal year 2001. The AEF was discontinued in 2007 because of shortcomings in IFC's ability to undertake, adequately monitor, and supervise retail lending to small enterprises. These projects also had a high incidence of nonaccruals (not disbursed). The Independent Evaluation Group's 2014 evaluation of IFC support to small and medium enterprises (SMEs) found that "from a financial standpoint, IFC's experience was disappointing. Although the amounts involved were relatively small, their gross non-accrual rates were much higher than IFC's portfolio as a whole" (World Bank 2014).

A 2000 evaluation found that the AEF program included viable operations with significant development impacts, and the program might otherwise not have proceeded because of the lack of term financing in Africa and the reluctance of local financial intermediaries to assume the higher credit risk that SME lending involves. However, the failure rate was high—as reflected in the low interest collection rate, negative

(continued)

Box 2.1. IFC Investments in Small and Medium Enterprises (cont.)

equity returns to IFC, and high rate of write-offs and reserves—relative to the rest of IFC's portfolio. The program also was inherently costly and likely to continue requiring cross-subsidy from the rest of IFC's portfolio to cover its operating expenses. Other limitations of the AEF model limited its efficacy, efficiency, and reach as an instrument of financing support for SME development. These limitations included the following:

- » Although IFC provided loans in foreign currency, the most viable SME businesses (those in the services sector) needed local currency.
- » IFC's expertise, structure, and instruments are those of a wholesale international project financier serving large corporate clients, whereas the needs of SME clients are often for working capital, and the business involves "character lending," often multiple business relationships beyond a single project, and the ability to provide a range of instruments besides term financing.
- » IFC's approach to processing projects under AEF and the resulting unit delivery costs were too high for the volume of its operations.

Sources: IFC 2000; World Bank 2014.

Difficulties with the SME approach to investing in K–12 private schools prompted IFC to change its approach from FY01 to FY08, the first part of the period evaluated. In this period, to encourage domestic banks to provide local currency financing to K–12 private schools in IDA countries and mitigate currency mismatch risks that could affect debt servicing, IFC introduced the RSF, an integrated investment and advisory program. The RSF was intended to help local financial intermediaries develop a new business line by financing small K–12 private schools. The RSF also provided the local partner banks and borrowing schools with advisory support to improve their operations. The RSF was used to support participating local banks in Ghana, Kenya, and Rwanda. The four RSF-supported projects ranged in size from \$2.1 million to \$12 million, with IFC commitments ranging from \$854,000 to \$4.8 million. IFC also provided a straight senior loan to finance the expansion into frontier cities of a school operated by a religious order in Latin America and to owners of international schools in middle-income countries

(Indonesia and Lebanon) and Kenya, at the time an IDA country, during this period. Compared with the early phase, project size and IFC commitment amounts were larger, especially projects financed by loans.

From FY09 to FY17, IFC shifted focus further, concentrating its support on experienced owners of larger K–12 private schools that were embarking on within-country, cross-border, regional, or even international expansion. By FY09, limitations of the RSF had become evident (box 2.2) and client cancellation of the facility agreement (but not the advisory services component) resulted in IFC’s abandoning the use of this instrument to finance K–12 schools. From FY09 to FY17, IFC financed the national and international expansion plans of nine project sponsors who owned and operated assorted brands of K–12 schools or operated as school chains (multisite schools with brand recognition, often with a predetermined curriculum or teaching methods and practices). During this period, IFC’s investments were primarily straight senior loans. It also offered two loans, convertible to an equity participation in the company at a prescribed date, to a school chain that was expanding in several countries in the Middle East and North Africa Region and a school chain that was expanding to frontier cities in the Arab Republic of Egypt.⁶ IFC also invested, through an equity participation in, respectively, large school chains in the East Asia and Pacific Region and in Sub-Saharan Africa. The size of the investment projects during this period was much larger than in the past and ranged from \$2 million to \$50 million, with IFC commitments ranging from \$2 million to \$22 million.

This investment history indicates an approach that was exploratory overall, with IFC seeking an appropriate investment niche in a risky subsector. Although IFC initially sought to engage small schools in low-income countries, it found that its most viable opportunities lay in larger schools, schools that cater to middle-income and upper-middle-income students, clients that have diversified sources of revenues other than tuition fees, and whole networks of schools in middle-income countries. It was, therefore, practical in its search for an entry point in the subsector even as it was exploring its options transaction by transaction, without internalizing lessons learned from its projects and without assessing the impact of its K–12 private school investments on the overall education system, including potential positive or negative spillover effects.

Box 2.2. Operational Challenges in the Use of IFC's Risk-Sharing Facility

The Risk-Sharing Facility (RSF) had several flaws that made it a less attractive financing instrument for the partner banks and the International Finance Corporation (IFC). First, the design and structure of the instrument were disincentives and operationally cumbersome to implement. Here are three examples:

- » The RSF required partner banks to have a sophisticated management information system to identify in advance the pool of eligible borrowers to be covered before the signing of the RSF agreement. It also required partner banks to closely monitor the financial and operational performance of each borrower and ensure that they complied with other IFC requirements, all of which is data intensive and requires up-to-date data collection to file claims with IFC for the first-loss component. In several instances, the partner banks did not have the capacity to meet these requirements.
- » The RSF required intensive IFC involvement in the vetting process, assisting in pre-identifying the eligible borrowers and verifying the borrowers' financial and operational performance.
- » To file a claim under the RSF, the partner bank had to identify—from among the agreed-on pool of loans—the individual kindergarten through grade 12 (K–12) school borrower accounts to be included or excluded from the claim. The partner bank then had to submit to IFC the repayment history of each of the borrowers in default, along with proof that the bank tried and had recovered part of the non-performing loan against the collateral provided. IFC, for its part, had to verify each borrower account submitted by the bank and determine which accounts were eligible to be paid before compensating the bank under the RSF. The local partner banks and IFC did not have the capacity to monitor every borrower, and IFC was not effective in monitoring the results and performance at the sub-borrower level, even in its regular investments in financial intermediaries.

Second, although the RSF is a loss-sharing facility, IFC's appraisal process and treatment of the project were similar to that of a loan. Each project underwent the same appraisal, financial assessment, and review process (such as meetings and endorsement by the Credit Review and Investment Review Committees) and required approval by the IFC Board of Executive Directors regardless of the size of IFC's commitment.

(continued)

Box 2.2. Operational Challenges in the Use of IFC's Risk-Sharing Facility (cont.)

As with its other investments in financial institutions, IFC requires the partner bank's compliance with IFC's environmental, health, safety, and social standards and governance requirements, and adherence to certain financial covenants and tracking of development indicators at the borrower level that relies on the partner banks to provide the required information. These requirements have added to the transaction cost of the RSF for both the partner banks and IFC.

Finally, the pricing advantage that the RSF as an investment tool provides to the partner bank may be minimal. Since IFC compensates the partner bank for losses only after the bank fully absorbs the first-loss tranche, the partner bank may only get a small basis point benefit from the RSF after all IFC fees are considered. That advantage may not be enough to compensate the partners, who use their own funds and capital to lend and conduct the intensive preparation and monitoring required.

Sources: Independent Evaluation Group portfolio review analysis and case studies.

¹ For more information about Sustainable Development Goal (SDG) 4 and specifically SDG 4.1, see <https://en.unesco.org/education2030-sdg4/targets>.

² From its 2001 education strategy onward, the International Finance Corporation (IFC) anticipated that its support to primary and secondary education would be in the “low probability” category compared with the other education subsectors.

³ Two investee companies received investments from IFC Funds’ clients for their global operations.

⁴ IFC tracks development outcomes of the funds’ investments, including for the kindergarten through grade 12 (K–12) portfolio of funds; however, the outcomes tracked are sector-agnostic (for example, number of jobs) and not specific to the sector of operation (for example, number of students). This is because of the uncertainty about the specific portfolio companies at the time of investment because IFC invests and sets targets based on Fund strategy before the fund investing in portfolio companies, rather than on an established portfolio.

⁵ The indirect Fund investments were more evenly distributed but still strongly focused on Sub-Saharan Africa. Fifteen of 26 investee companies in the Funds are in International Development Association countries, and 5 are in fragile and conflict-affected situations.

⁶ IFC also financed two K–12 school projects sponsored by two subnationals (municipalities) during this period. These were the only public-private partnership K–12 schools it financed.

3 | Outcomes for Access, Quality, Financial Sustainability, and Effects on IFC Returns

This chapter presents evidence on how access and equitable access (including inclusiveness and affordability), quality, and financial sustainability were treated in IFC’s investments in K–12 private schools and how they also affected IFC’s return on investment. The findings draw on the portfolio review and case studies undertaken for this evaluation and reflect issues raised in the SLR, secondary data analysis (SDA), and views expressed by key informants.

Access to Education and Equitable Access

Like most DFIs investing in K–12 private education, IFC financed the construction or expansion of school buildings, modern facilities, and other capital needs of K–12 private schools to increase student enrollment. The development objective for 11 of the 25 IFC direct investments in K–12 projects was some variant of “increasing access to quality private education to meet demand for quality education from middle-class parents”; for three other projects that were expanding their secondary school programs and introducing a vocational curriculum, the development objective was typically something akin to “increase in access to high-quality vocational training and subsequent human development effect.” Nineteen of the 25 IFC direct investments primarily supported the clients’ financing needs for the construction of new school buildings as part of school expansion. A further five projects (all in Sub-Saharan Africa) financed a combination of building a new school (through acquisition or new construction) and improving or modernizing existing facilities.

IFC investments are likely to have increased enrollment in supported schools, but mainly for children from middle-income families. In line with its education sector strategies before 2012, IFC’s focus on increased access

to quality education was mostly in schools that targeted students from middle-income families. Sixty percent (14) of projects supported schools that targeted children from middle-income families. IFC also invested in a school that enrolled K–12 students from upper-income households and another that enrolled students from both middle- and upper-income households. Appraisal documents for four projects provide no details on the target income level of students. As mentioned in chapter 2, IFC’s 1999 and 2001 education strategies aimed to meet the demand from a growing middle class, but the 2001 education strategy added an aspiration to expand educational opportunities to middle and lower classes to contribute to social mobility and poverty alleviation.¹ Possibly reflecting the emphasis in the World Bank’s 2011 education strategy, *Learning for All*, IFC’s 2013–15 education strategy referenced dropout rates, especially among the poorest students, which affect the efficiency of education systems.² The 2013–15 strategy also referenced plans to pilot low-cost business models with the potential to scale up (for example, low-cost schools in Africa).

The evaluation could not determine if the increase in the number of students enrolled in IFC-financed K–12 private schools was the result of drawing students away from other schools or enrolling out-of-school students. Appraisal documents did not indicate if IFC served surplus demand, although, given the core target group (students from middle-income families), the schools in which IFC invested were unlikely to have been seeking to attract otherwise out-of-school children.³ Because IFC did not collect relevant data on most of the projects’ stated development objectives after commitment, the absence of evidence also makes it impossible to determine if the stated development impacts of IFC investments (such as reduced crowding in public schools, increased efficiency in the public schools through increased competition from private schools, or spillover effects in training for public teachers and schools) occurred. Moreover, there is no indication that IFC investments were intended to address access beyond the students enrolled in the supported schools to include underserved groups, such as those out of school, the impoverished, or children with disabilities (see concept used to assess access in appendix A).

Most countries in which IFC invested in K–12 private schools currently report nearly universal enrollment at the primary level (2014–20). The findings of the SDA undertaken for this evaluation also found that over the period in which IFC was actively investing in K–12 private education, gross enrollment in primary school at the global level increased from about 98 percent in 1995 to more than 103 percent in 2017. Net enrollment rose from about 82 percent to more than 89 percent over the same period. Increased rates of enrollment were predominantly in public education, but the share of enrollment in private schools has also been increasing, consistent with the global trend noted in chapter 1. The combination of an increasing private share, increasing educational participation (and, in some countries, growing population), and the rise of the middle class in emerging markets means that the number of private school students has increased in most countries.

The SLR found that private education can screen out the poorest even in a low-fee context, which emphasizes the importance of careful design and close monitoring of investments where equitable access is a problem.⁴ Low-fee private schools are the result of both private entrepreneurship and strong household demand for quality education; these schools have emerged and expanded spontaneously in low-income countries at the margins of state systems (Verger, Zancajo, and Fontdevila 2018, citing Walford 2015). The SLR found that low-fee private schools are still not accessible for the poorest social groups in some contexts. They tend to attract those families among the impoverished that have higher levels of education and greater expectations for their children—that is, the most advantaged among the disadvantaged (Verger, Zancajo, and Fontdevila 2018). The SLR also found that context—type of private school, quality of public system, state regulation, country- and region-specific socioeconomic and demographic characteristics, and other factors—is very important (Bodovski et al. 2017; Snilstveit et al. 2015). Private schools are heterogeneous, which has to be considered along with their location (urban versus rural) in any assessment of their efficacy. Several studies show variance in private school performance among districts in the same country, such as in Indonesia (Asadullah and Maliki 2018) and India (Azam, Kingdon, and Wu 2016), which suggests that differences between urban and rural areas—and region-specific socioeconomic and cultural

characteristics—can significantly affect access to, and the quality of, private schools. Details of SLR findings are presented in appendix H.

IFC invested in a few low-fee schools, but no data are available to determine the socioeconomic profile of those who attended these schools. IFC provided first-loss RSFs to four projects in the Sub-Saharan Africa Region that were designed to support the expansion of schools that charged relatively low fees. Although some of these schools probably catered to students from low-income families, monitoring documents do not provide sufficient information to know whether the schools maintained the proposed low-fee structure, including the two RSF projects described in box 3.1.

Box 3.1. IFC Investments in Low-Fee Schools in Sub-Saharan Africa: Case Study Findings

In the Kenya and Rwanda school project case studies conducted for this evaluation, the International Finance Corporation (IFC) provided Risk-Sharing Facilities (RSFs), including advisory services, to support lending by two domestic banks to low-fee kindergarten through grade 12 (K–12) private schools. In both projects, the financial intermediaries, backed by IFC's RSF, provided loans to small schools to add classrooms and facilities, procure educational materials, and increase enrollment (although no data substantiate the extent of the increase).

In both countries, the introduction of free primary schooling in pursuit of the second Millennium Development Goal to achieve universal primary education resulted in overcrowding and perceived deterioration in the quality of education. The absolute level of public investment in education did not decline, but the starting point was low and did not increase commensurate with increased enrollment. This was particularly the case at the lower secondary level, although in one country there was also demand for private primary education within communities that did not require young children to travel significant distances to school and for teachers who live within the same community (a sense of familiarity).

The RSF in Kenya was designed to support schools for low- and middle-income students, and the case study found that the RSF benefited low-fee schools, including those in urban slums. The result is less clear for the Rwanda RSF.

(continued)

Box 3.1. IFC Investments in Low-Fee Schools in Sub-Saharan Africa: Case Study Findings (cont.)

In both cases, IFC advisory services provided school owners and managers with training to run their schools as self-sustaining businesses, with sound governance structures and financial and operational systems, creating creditworthy entities that could secure financing. IFC also trained financial intermediaries to help them appraise K–12 school borrowers and develop lending to K–12 schools as a business line. In one case, 22 schools secured loans from the intermediary (a local development bank), although school owners claimed that the financial terms were not different than what might otherwise have been available. Some evidence indicates that the accompanying advisory services resulted in a further 30 schools obtaining loans from other commercial banks, although the favorability of the terms of those loans is unknown.

There is no evidence that access policies of schools were considered by the financial intermediaries that partnered with IFC in either case. In one case, the law forbade any discrimination. In another, the project targeted low- and middle-income families, and in that case, it is clear that at least some of the schools, operating in slums, catered to impoverished families.

Source: Independent Evaluation Group case studies.

With the focus on middle-class students, IFC addressed the question of equitable access through the schools' provision of bursaries or scholarships to low-income households, but data on the number or profile of beneficiaries were not consistently collected and tracked. Project appraisal documents contain review of bursaries and scholarships offered to extend access to low-income students. In a few projects, the provision of scholarships to children of teachers and staff is part of their benefit package. Scholarships extended to low-income students were identified as expected development outcome indicators in the Board approval documents of 11 projects, while scholarships were assessed in the early screening documents in 12 of the 25 direct investment projects. For example, approval documents for one project indicated that the school intended to offer free education bursaries to low-income households for up to 10 percent of the enrolled students. As part of that project, the investment also intended

to provide free education bursaries for 200 students. One of the K–12 projects evaluated provided scholarships to 18 low-income students and reported the annual cost of the scholarships provided because of IFC’s investment. However, the scope for expanding the provision of bursaries and scholarships also affected costs and revenues for schools. Thus, there are few examples of projects that were able to expand scholarships to include low-income students. In another project, the school intended to offer 5 percent of school enrollment capacity to students from low-income households. However, when the project was evaluated, it had achieved a slightly lower rate of more than 3 percent because of the school’s financial difficulties.

The lack of evidence on opening access to low-income or impoverished students may also stem from the inadequate attention to concerns about equitable access. As examples, the Board documents for three K–12 private school projects in the East Asia and Pacific Region did not mention at all the provision of scholarships to low-income students. In two other K–12 private school projects in the Region, the Board documents indicated only that scholarships and tuition discounts were part of the economic return on invested capital calculation, but they did not specify the intended beneficiaries (and the number of scholarships to be provided), and no information was collected on whether the scholarships were provided and, if so, to how many low-income students. In another project supporting a school in the Middle East and North Africa Region, the Board documents identified the number of scholarships that it expected to award to low-income students as an indicator to be tracked, but monitoring reports provide no data on this indicator.

Little evidence exists that the schools in which IFC invested had access policies that referred to enrollment of specific target groups. IFC typically set out to track the number of students enrolled. Fourteen projects also intended to track the number of female students (and female faculty members and staff), but data were collected in only 4 projects during supervision. In all 25 projects, there is no reference to tracking school enrollment of marginalized groups such as the impoverished or people with disabilities in the project approval documents. Monitoring and supervision documents

for only 30 percent (7) of schools referred to policies of enrolling marginalized groups. Just 5 of the 25 IFC projects report on improvements in affordability or inclusiveness.

Enrollment numbers were regularly tracked without reference to student profile (such as disability or previous school attendance), and students' socioeconomic profiles were not monitored. All access-related indicators at appraisal were output rather than outcome oriented, such as enrollment, number of scholarships, additional hire of teachers and staff, and gender. The number of students enrolled was the predominant access-related indicator in IFC documentation at appraisal (21 projects), but data collection of this and other indicators diminished over the life of the projects. Enrollment was tracked for 15 projects (60 percent). The next most-referenced access indicator at appraisal was provision of scholarships. Other access-related indicators—tuition rates or access to quality education, vocational training, or bilingual education—were referenced in appraisal documents for 2 projects each.

IFC's assessment of affordability was broadly based on benchmarking the fee structure of supported schools against other private schools in the country, including international schools. Fees charged were often less than those comparators, but they were still at a rate that was unaffordable for low-income and impoverished families. In some cases, IFC financed school expansion into secondary cities in poorer parts of the country (Egypt, Mexico, Indonesia, South Africa) where the government had provided incentives to private schools to establish a scaled-down version of their flagship schools in the capital. IFC-financed schools in secondary cities still generally attracted students from middle-class families, although an evaluation of an IFC-supported school project in Mexico found that it also enrolled low-income students.⁵

IFC investments rarely responded to barriers to access encountered by certain groups or to broader challenges faced by education systems. Because of IFC's transaction-based approach—its focus on financing individual schools or networks—access was considered relative only to the schools financed by IFC without considering the effect those schools may have on

the local education systems within which they were located, or opportunities available to potentially underserved groups such as out-of-school children, the impoverished, or children with disabilities. Adopting an approach that took into account the local education system would be preferred because, as the SLR found, private schools may lead to greater inequality because of sorting and increased learning inequalities between, respectively, children from impoverished rural backgrounds and their wealthier rural and urban-based counterparts.

The evaluation also found weaknesses in mitigation efforts to counter potentially negative spillover effects such as exacerbating inequalities. No attempt was made to measure stated development impacts of IFC investments in the Board documents, such as reduced crowding in public schools, increased efficiency in the public schools through increased competition from private schools, or spillover effects in training for public teachers and schools. Development impacts that were achieved and monitored for the schools in which IFC invested included increases in student enrollment, number of teachers and staff employed, and taxes paid by the private school to the government. The apparent lack of attention given to spillover effects beyond the schools in which IFC invested is a weakness.

Other DFIs have recently developed specific criteria governing their investments in K–12 private schools to avoid limitations of the transactions-based approach and to recognize the broader education landscape within which financing is offered. The United States Agency for International Development, the Commonwealth Development Corporation, and Swiss Agency for Development and Cooperation have recently reappraised their engagement in K–12 private schools, recognizing the complexity of education systems (box 3.2). These DFIs have also recognized the substantial number and variety of stakeholders involved in education provision, explicitly identified target groups, and committed to piloting and testing innovations to reach them. These developments are recent and are, as such, untested.

Box 3.2. Adjusting to an Education System's Approach

The framework of the United Kingdom's Commonwealth Development Corporation (renamed as British International Investment) for maximizing the impact of education investments recognizes risks associated with private investment, such as significant variability in quality and little incentive for private companies to target harder-to-reach, costlier groups unless there is a clear business case (CDC Group 2019). It also recognizes that competition among private schools for the highest-quality professionals and students can have a negative impact on public provision.

The Swiss Agency for Development and Cooperation produced a scoping study for private sector engagement in basic education and lifelong learning that sets out certain principles, such as that although the provision of education is a shared responsibility that can include public-private partnerships, the Swiss Agency for Development and Cooperation is against for-profit schooling and the commercialization of basic education; private and alternative basic education provision must respect the right to universal basic education and adhere to regulatory national policies and quality standards (SDC 2020). The Swiss Agency for Development and Cooperation adopted a selectivity framework that identified the different types of private sector actors that it can work with based on likely educational impact. The framework is accompanied by additional guidance on how to develop monitoring and evaluation specifically for private sector engagement.

In a good practice guide to engaging with what it refers to as nonstate schools, the United States Agency for International Development (USAID 2020) adopts six principles for engagement, including, for example, the primacy of governments as the guarantors and regulators of education, a focus on schools serving marginalized and vulnerable populations, and an intention to catalyze innovation and scalable solutions in alignment with government priorities. It also recognizes that the nonstate sector is only one stakeholder in the education system, alongside governments, civil society, parents, and students; viewing education systems holistically and engaging all stakeholders can help achieve sustainability.

Sources: CDC Group 2019; SDC 2020; USAID 2018, 2020.

Education Quality

IFC support for education quality in K–12 private schools, as in the case of access, was largely limited to investment in school buildings. IFC’s financing was mostly intended for capital expenditures to enhance the physical capacity of schools. At appraisal, IFC assessed education quality (for example, teacher qualifications, assessment systems, curriculum, graduation and retention rates, accreditation, and other factors) to aid its investment decision.⁶ However, in the Board approval documents, education quality indicators were poorly defined and only captured outputs (such as number of teachers, training sessions conducted, and teachers training expenditures) that IFC rarely monitored during implementation (appendix D).

IFC rarely financed other key factors of education quality, such as the quality of teaching and training (as described in World Bank 2019a). In three projects, IFC financed education quality enhancement activities in addition to financing capital expenditures for physical infrastructure and facilities improvement. For example, a project in the Europe and Central Asia Region aimed to improve quality through refurbished classrooms and the introduction of high-end teaching equipment, and the pursuit of two international certificates with the help of IFC investment. In addition to infrastructure improvements, a project in Sub-Saharan Africa focused on teacher training and the inclusion of online learning platforms in the curriculum. In another project, IFC aimed to help the sponsor strengthen independent third-party longitudinal assessments of teaching quality (that is, objective assessments of teaching quality). In this project, IFC helped source funding partnerships and assisted the sponsor with developing thought leadership in assessing and reporting quality of education in low-cost private schools. In a project in the Middle East and North Africa Region, the project subsidiary operates a free online education portal that provides educational information and curricula for students in primary school through high school, in English and Arabic, that covers math, sciences, and social studies. The education portal is widely used in the country and the region.

IFC neither monitored education quality nor provided evidence to verify it. IFC did not consistently identify, collect data on, track, or monitor key indicators associated with improved quality for all of its investments. Only four projects tracked student outcome data on the rate of graduation, and none tracked other key data, such as the rate of dropout or repetition. In many projects, IFC did not seek to assess changes or enhancement in education quality over the life of the projects or as a result of its investment. Post-IFC investment commitment, the IFC education specialist hands over the monitoring and supervision to other departments and staff who have responsibility for data collection and reporting on the development indicators identified in the Board paper. IFC's Development Outcome Tracking System, the previous platform for tracking IFC projects' development outcome indicators, barely contained updated data on the indicators, which may have been exacerbated by the high incidence of cancellations and droppages in the K–12 private schools portfolio.⁷

The four RSFs were accompanied by advisory services designed to improve the overall capacity of low-fee schools and partner financial intermediaries. Case studies of the two RSF projects found that the advisory services were highly valued, although their focus was largely on improving the quality of the schools as a sustainable and viable business enterprise, rather than improving education quality. Advisory support in Rwanda included provision of training to 277 schools, mostly for middle-income students (of which 227 operated in low-income areas and 89 in rural areas). Participating schools received training designed to help them meet environmental and safety certification requirements that would allow them to operate legally and access financing. The program supported 28 schools in obtaining almost \$11 million worth of financing. Other schools received training in, for example, business planning, financial management, governance, and leadership skills. In Kenya, IFC's advisory services component of the RSF aimed at strengthening the private school subsector by improving planning, management, business, and finance capabilities, thus improving schools' chances of accessing loans. The advisory component reached

718 schools in 11 geographical areas across low- to high-income schools. When the RSF agreement was canceled, 61 schools had accessed loans, 27 of which had a total value of \$502,764 from IFC’s partner bank, while another 34 loans were approved by other domestic banks.

Private investors in education who were interviewed for this evaluation said that they offered postinvestment support to schools to promote both education and business quality.⁸ To address education quality, some private firms provide teacher training and coaching, while others offer enhanced curricula. Other firms engage external service providers to evaluate students’ literacy and numeracy or provide prospective parents access to students’ performance history so they are aware of the quality of education being offered. Most firms interviewed engage external education service providers to measure learning outcomes and track student performance. One firm asserted that sharing lessons learned and learning outcome data with other schools, both private and public, will lead to enhanced monitoring and evaluation practices more generally. Another firm shares its curriculum with other private providers and offers teacher training courses to public sector teachers at no cost to broaden its reach to more communities. Business supports can take the form of technical assistance to address specific issues such as software upgrades and teacher training and mentoring. School operators also receive support in expanding their management structure (for example, the creation of new staff positions in human resources, marketing, and financial management). Operational support can include identifying and securing school sites and ensuring that school buildings meet safety standards.

Interviews with key informants, and especially with local civil society organizations, indicate that the most significant policy considerations are equity and education quality rather than investment in K–12 education per se. Some key informants suggest that public (government) funding could support a privately run education network if the circumstances ensure that challenges are being overcome, quality is delivered, safeguards are in place, government regulation is fully articulated, and preferably no fees are being charged (or at least no more than the equivalent fees

charged by public systems).⁹ In other words, even public funding could support private delivery of education if it were both inclusive and more efficient (appendix G).

The literature is broadly inconclusive on the relative quality of private education. Several studies find no effect of private education on learning outcomes (Alcott and Rose 2016; Allcott and Ortega 2009; Azam, Kingdon, and Wu 2016; Bodovski et al. 2017; Calvès, Kobiané, and N’Bouké 2013; Choi and Hwang 2017; Singh 2015). Other evidence suggests that there is no improvement in durable learning outcomes, such as problem-solving abilities (Kumar 2018), or continued or sustained improvement over time (Barrera-Osorio and Raju 2010). (See appendix H for the summary results of the SLR conducted for this evaluation.) Small but significant improvements in test scores have been linked to decentralized decision-making, including hiring and firing of teachers and the ability to create a school culture that empowers staff, students, and parents, among other things (Allcott and Ortega 2009; Aslam, Rawal, and Saeed n.d.; Singh 2015). However, studies have found that unobserved heterogeneity among students accounts for up to 100 percent of positive effects on learning, although that percentage can vary depending on the subject and school location, such as urban or rural (Azam, Kingdon, and Wu 2016; Brandt 2018; Chudgar and Quin 2012; Singh 2015; Thapa 2015; Wamalwa and Burns 2018). Other studies find that learning outcomes vary significantly according to subject, students’ ages, and geographical context. Still other studies find that improved learning outcomes associated with low-cost private schools may be driven by “teaching to the test”—that is, priming the students for aptitude and related tests. IFC is aware of the complex issues surrounding quality and access, especially in low-fee schools (see box 3.3 for an illustrative example). Therefore, its monitoring and evaluation systems need to assess continued improvements in education quality as a result of its investments.

Box 3.3. An Example of Increasing Access and Quality through Financing to Low-Fee Schools

The increasing number of low-fee schools in Punjab, Pakistan, provided the rationale for a policy experiment. The results from an impact evaluation that changed the environment in which schools operate and let schools (the market) determine school input and enrollment choices shed light on the impact of private schools on access and quality.

The experiment randomly allocated an unconditional cash grant of US\$500—15 percent of schools' median annual revenue—to low-fee private schools in 266 villages in Punjab. For context, in Punjab, the median fee in low-fee (not elite) private schools is roughly US\$2 per month per child, or less than one-half of the daily minimum wage in the province. In some villages, only one private school received the unconditional cash grant (where the average village had three low-fee private schools). In other villages, all schools received the grant. The evidence compared results from control villages, one-grant villages (low saturation), and all-grant villages (high saturation).

In the one-grant villages, school owners invested in infrastructure or educational materials (for example, furniture, fixtures, and classroom upgrades or textbooks and school supplies). However, in all-grant villages, to attract students, school owners had to differentiate their school from others, which induced firms to increase infrastructure and quality-enhancing inputs, such as investing in teachers; test scores increased in these schools. The evidence suggests there may be ways to promote investments in teacher training that may directly impact learning but are risky (training may not be effective or trained teachers may leave). In this scenario, student test scores increased, but the schools raised their fees as well, quite possibly pricing out more disadvantaged students. The extent to which fees segment students in the market was not studied.

The experiment supports a role for financial intermediaries looking to invest in private schools. Depending on the amount of financing available in a given market, supply-side capacity constraints are relaxed, and enrollment of out-of-school children increases or enrollment increases along with quality.

Source: Andrabi et al. 2020.

Similarly, the SDA found that a private school advantage is not definitive and should not be assumed in every context. Overall, the SDA found that in roughly half of the countries for which data are available, there is a substantial (standard deviation 0.25 or higher) residual private school achievement advantage in the average student scores on math and language tests, even when controlling for student background. This finding applies to what the SDA categorizes as countries with low coverage of private schools and low or medium equity of access, and it is true at both the primary and the secondary levels. However, private schools do not always outperform public schools, or the advantage is fairly small (standard deviation < 0.10), especially after taking account of student and family background. This finding is consistent with those from the SLR and, in most cases, is applicable to countries in Sub-Saharan Africa (primary schools) or Asia (secondary schools). For high-equity countries with low coverage of private schools, the results are consistent between the primary and secondary school levels—that is, small raw differences in achievement between public and private schools are generally reduced to near or below zero when controlling for student and family background. A summary of the SDA results is presented in appendix J.

Financial Sustainability of K–12 Investment Projects, IFC Additionality, and IFC Investment Returns

This section presents findings about the financial sustainability of IFC’s investments in K–12 private schools and IFC’s additionality, either in financial or nonfinancial form. The evaluation assessed financial sustainability from two angles: the project and the returns to IFC of its investments in the subsector. The evaluation also reviewed the investable market in K–12 private schools.

IFC is expected to support financially viable projects and provide unique support to private investment projects that is not typically offered by commercial sources of finance. IFC has a mandate to “support productive private enterprise...without guarantee of [government] repayment”¹⁰ and therefore selects projects that are likely to be profitable and viable. Selecting financially viable projects makes it more likely that anticipated development benefits

will be realized while also contributing to IFC's own financial sustainability.¹¹ In the private education subsector, financial viability is important for sustained and improved operations and for supporting the schools' delivery of expected levels of access and quality.¹² In selecting projects, IFC must also provide unique support or additionality to the project and to the client or sponsor to increase the likelihood of achieving potential development impact, profitability, and sustainability.

IFC Additionality and Financial Sustainability of K–12 Private School Projects

IFC's additionality was primarily financial in nature, as it aimed to offer loans with better terms and equity participation than those available from local or other international financiers. IFC's investment projects attempted to help fill a gap by financing K–12 private school projects that might not have proceeded otherwise because of the lack of term financing and the reluctance of financial intermediaries to assume the high risk of investing in K–12 private schools. In the early phase of IFC's investments in K–12 private schools (see chapter 2), lenders were still reluctant to provide long-term financing comparable to IFC. IFC offered loans with 5 to 12 years' maturity and 2 to 3 years' grace period, compared with short-term (1-year or less) loans from other lenders. In nearly half of the projects, IFC offered lower interest rates than local banks and other financiers. In an equity investment, a school owner sought IFC's equity participation to increase the likelihood of a successful global initial public offering to finance the school's planned expansion in the aftermath of the global financial crisis. In nine projects, IFC was the only lender willing to finance the expansion plans of K–12 private school owners. As a pioneer among DFIs in investing in private education, including K–12 private schools, IFC signaled to other financiers the business potential of investing in K–12 private schools.

IFC also added value to its clients and the school projects through nonfinancial means. IFC helped clients improve business or financial management, enhance corporate governance, and adopt sound environmental, health, and safety standards (in 19 of 25 projects). Schools financed by IFC were required to have proper accounting systems and independent auditors and to appoint

nonfamily members in the school’s governing structure, among other sound business and governance practices. In six projects, IFC guided the owners in constructing green school buildings, and in all projects, sponsors were required to comply with IFC’s environmental, health, and safety standards (such as fire safety measures) during the life of IFC’s investment. Monitoring and supervision documents indicated improvements related to these non-financial additionalities in most projects.

Despite IFC’s emphasis on financial sustainability and financial additionality, most K–12 private school projects experienced financial difficulties that resulted in either partial or full cancellation of IFC’s investments. Cancellations corresponded to more than half IFC’s direct investment commitment amount (\$88 million out of IFC’s \$156 million direct investments; see table 3.1). An overwhelming 90 percent of the canceled amounts were in the form of IFC loans. Financial difficulties associated with shortfalls in expected student enrollment, high arrears in tuition payments, and the unpredictability of tuition receipts—the sole source of revenue for more than half of the schools in which IFC invested—were the main causes of the cancellations. Additionally, IFC loans were denominated in foreign currency (either US dollars or euros), whereas school revenues were in local currency. Therefore, shortfalls in revenues, especially for schools that relied fully on tuition payments, affected the sponsors’ ability to service IFC’s loans (appendix C). In the four projects supported by RSFs, the design and requirements led to the eventual cancellation of the facility by the financial intermediaries involved (box 2.2). Schools that charged higher tuition fees and whose sponsors had other revenue sources (from their other businesses) were more financially viable and could service IFC’s loans, even if the project itself was experiencing shortfall in expected revenues. By contrast, a school owner without adequate financial resources and with less business experience declared bankruptcy because of the sponsor’s inability to manage its finances. The two school projects funded by IFC equity investments showed better financial results for the project sponsors than the K–12 projects financed by loans and RSFs. These two schools are well capitalized and have sponsors with business experience, and access to financing from other investors.

IFC loans to K–12 private schools experienced higher incidence of cancellation, droppage, and overall inadequate disbursement compared with the rest of IFC’s

investments in the education sector and its overall portfolio. The cancellation rate of IFC loan commitments (stock data) to K–12 private schools was 56 percent,¹³ compared with IFC’s overall loan cancellation rate of 15 percent. By number of projects, 19 of the 25 (76 percent) IFC direct investments projects were either fully or partially canceled, including the 8 projects in which IFC’s loans were not disbursed or were dropped, indicating that the projects were not executed as planned. The incidence of nondisbursement or droppage was also high. One-third of the projects (8 of the 25 direct investment projects) were closed without using IFC financing commitment and therefore were not monitored for their performance and outcomes. Problems with land acquisition, cost overruns, and implementation delays halted school owners’ plans to relocate, expand their existing premises, or open new school branches. In three projects, the planned acquisition of another school did not occur. Several sponsors, especially the owners of small schools, also had difficulty complying with IFC financing covenants,¹⁴ which curtailed the disbursement of IFC’s financing.

Table 3.1. IFC Commitment Amounts That Were Canceled or Not Disbursed (US\$, millions)

Investment Type	Total		Actual IFC		
	Project Size	Original IFC Commitment	Commitment	Amount Disbursed	Amount Canceled
Equity	65.5	25.5	19.6	19.6	5.9
Loans	246.4	121.9	43.2	41.7	78.7
Straight senior	163.4	80.4	27.7	26.2	52.7
Syndicated	10.0	4.5	4.5	4.5	0.0
Senior loan with options or quasi-equity	73.0	37.0	11.0	11.0	26.0
Risk-Sharing Facility	21.0	9.1	5.5	—	3.6
Total	332.9	156.5	68.3	61.3	88.2

Sources: Independent Evaluation Group’s own calculation; International Finance Corporation management information system reserve database as of August 30, 2020.

Note: More than half (56 percent) of IFC investment commitment amounts were canceled or not disbursed, indicating that projects were not implemented as planned. There was no disbursement on the Risk-Sharing Facilities because there were no claims filed by the financial intermediaries. — = not applicable; IFC = International Finance Corporation.

Optimistic assumptions and assessment of risks at appraisal, as well as weak monitoring, partly explain the high incidence of cancellation and nondisbursements. In selecting K–12 private schools in which it could invest, IFC assesses the business, education, social, and economic rationale for the investment. IFC’s appraisal covers the project’s financial structure; academic, commercial, and legal and institutional factors; management structure; market factors; national policies and regulations toward private education and the financing of private schools; and barriers and risks to investments and corresponding mitigants (IFC 1999, 2010). However, as the high incidence of cancellation and nondisbursements indicates, IFC’s appraisals have shortcomings. Of the five K–12 private school projects that have been evaluated, four were rated partly unsatisfactory for the quality of IFC’s screening, appraisal, and structuring. Although the evaluated projects represent only one-fifth of the K–12 portfolio, the experience mirrors that of other projects with canceled or nondisbursed loans. Assessing the projects from a project finance perspective, combined with an optimistic assessment of projects risks, has contributed to the high cancellation rate. Although certain factors are difficult to control, K–12 project risks can be mitigated by improving project due diligence and education systemwide assessment at appraisal and reinforcing these factors through regular and appropriate monitoring systems. For example, a lesson from an evaluated project that experienced land acquisition problems led to a recommendation that IFC take time at appraisal to understand the issues that are likely to affect land procurement, including issues related to land reform. This lesson can be also applied to another project that committed IFC to provide a loan to build a school even though the sponsors had not secured the purchase of land for the new school site—with the sponsors unaware that the land had been already sold to another party, resulting in the cancellation of the IFC loan. In another project, IFC’s appraisal of macroeconomic conditions minimized the downside risk of an economic downturn that was already becoming evident at the time of project appraisal.

Projects were assessed based on how they fit with IFC’s and the World Bank’s country and education strategies and whether they meet parental demand due to weaknesses in the quality of public education; however, the potential negative spillover effects were not assessed and monitored. Project appraisals

assessed the country’s education sector, the regulatory framework for private education and private schools, and the “fit” of the proposed investment with IFC and World Bank country and education sector strategies. The appraisals also documented inadequate provision of quality education in public schools and strong demand for quality education from middle-class parents, and in most projects, they compared the K–12 school with other private schools based on curriculum offered, academic accreditations, and tuition fees. In addition, IFC appraisals also cited the project’s contributions to the economy—such as number of jobs created, salaries and wages paid, and taxes paid to government (appendix D)—and the increased efficiency of public schools resulting from competition as project development outcomes. However, there are no indications that the appraisals assessed the potential negative spillover effects or if the projects made provisions to expand access to reach out-of-school children. Finally, in all K–12 private school projects, IFC’s monitoring and supervision emphasized the projects’ financial performance and sustainability. Private sector investors interviewed for the evaluation similarly said they undertake market assessments as part of their due diligence and monitoring. Information gathered includes current and future public sector capacity and existing private provision and whether there is unmet demand. Data on public school quality (test scores) are also sought. A private investor mentioned that before investing in an existing school, they survey current parents to ensure their satisfaction and avoid reputational risk. The investors interviewed affirmed that they survey parents of the investee school to ensure they are reaching their target market.¹⁵

Where IFC achieved success is in signaling other financiers about the business potential of investing and addressing access to financing in the K–12 private school subsector. IFC was the pioneer among DFIs and other financiers when it started investing in the subsector in 1995. Although 19 of the 25 sponsors have fully or partially canceled the IFC investment commitment, local banks, private sector investors, and DFIs continue to provide financing after IFC’s exit. In one of the Africa Enterprise Fund loans, the sponsor prepaid the IFC dollar-denominated loan after a local bank offered local currency financing when the sponsor could no longer meet payment of IFC foreign currency loan because of rapid local currency depreciation. Another sponsor received ample financing for its school expansion plan so that it no longer

required IFC investment, which was not disbursed. In four projects financed by an IFC loan, school owners found alternative sources of longer-term, local currency financing from local banks, including schools that borrowed from three RSF financial intermediaries after the facility agreement with IFC was canceled. Before the COVID-19 pandemic, all of the K–12 private schools continued to operate and had expanded after IFC’s exit, even the schools that encountered financial difficulties during IFC involvement.

Returns to IFC on Its K–12 Private School Investments

The high level of cancellations among loans and RSFs and the inadequate disbursement record of the K–12 portfolio constrained IFC’s ability to cover its transaction costs or earn the expected returns on its investments. Most types of K–12 private schools financed by IFC, whether for-profit or not-for-profit, large or small, or high- or low-fee, encountered business viability challenges. This is particularly true for smaller schools financed through IFC’s SME facilities, such as the Africa Enterprise Fund. Smaller schools struggled with shortfalls in student enrollment, tuition fee receipts, and difficulties in meeting IFC’s loan covenants or requirements. Three projects had arrears or write-offs of IFC investments, indicating fragility of their operations. One equity investment had a negative equity internal rate of return for IFC as of June 2021. However, the other direct equity investment into a school network in East Asia that has expanded overseas exceeded IFC’s equity internal rate of return expectations. The company is well capitalized, has other sources of financing, and has opened overseas branches for upper-middle-class students in Australia, Canada, Malaysia, and Singapore.

Other investors in K–12 private schools have also struggled with the financial results of their investments. Private investors interviewed for this evaluation affirmed that financial sustainability is of paramount importance and that they require investments that are commercially viable—offering a return on investment from 10 percent for impact investors to 20 percent for a private equity investor. One private equity firm said it seeks to make three to five times the amount of its initial investment over the course of at least 20 years (appendix E presents the types of private sector investors

financing K–12 private schools in developing countries). If we compare this with the investment result of IFC’s direct equity investment in K–12 private schools, only one of IFC’s two equity investments met similar internal rate of return expectations, although IFC’s equity investment has a shorter time horizon because its policy on equity investment requires an earlier exit than the 20-year investment horizon of the private equity investors who were interviewed.

The K–12 Market and Implications for IFC

Despite growth in the number of K–12 private schools and associated increases in enrollment, the investable market is limited. The K–12 private education market is dominated by traditional financing, including individual and family entrepreneurs, and private equity (appendix E). Family-run K–12 private schools tend to be small, limiting investment opportunities. For example, only 10 to 20 percent of formal private education providers in Sub-Saharan Africa have a revenue scale large enough to make investment viable for large investors (Caerus Capital 2017). The small size and relative business-related immaturity of many K–12 private schools, particularly low-fee private schools, inhibit their scalability. Operators of low-fee private schools often have no financial training, lack access to capital, and rely on a single, uncertain revenue stream: tuition payments (Härmä 2021; Results for Development 2016). Because these small businesses cannot absorb large investments, private equity investments are rare and tend to be from local sources when they do occur. Some formal private schools have been able to expand into networks, but these networks typically remain small. According to the Global Schools Forum, an organization for private school networks in developing countries serving low- and middle-income students, the median Global Schools Forum member is seven years old and has grown by 1.6 schools each year (Global Schools Forum 2020). However, the average is skewed by some very large chains that have grown quickly (Caerus Capital 2017). Venture capital investments in K–12 private schools are small and tend to focus instead on educational technology start-ups rather than schools. Angel investors are rare, although some have invested in high-profile school ventures such as Bridge International Academies and SPARK Schools. Innovative, results-based financing—including impact bonds,

outcomes funds, and social bonds—has recently entered the market and may grow in importance as the market evolves.

IFC and other DFIs have invested in the same schools, an indication of the limited opportunity for viable investment in the subsector. At least five of IFC’s investments have attracted financing from other DFIs. For example, Bridge International Academies attracted investment from IFC and the Commonwealth Development Corporation, and the Bill & Melinda Gates Foundation, the National Education Association, Omidyar Network, and the Chan Zuckerberg Initiative. Given the small number of schools, a network of schools or school chains supported in the overall portfolio (25), and the large number of K–12 private schools in the developing world, the fact that some schools (16 percent) have attracted multiple DFIs seems indicative of the limited bankable investment opportunities in the K–12 subsector.

Earning sufficient revenue to cover cost plus extra earnings for reinvestment is necessary for private schools to improve education quality, and expand access and equitable access, but it also presents challenges in achieving the promise of SDG 4. This is particularly challenging because the broad policy goal of most governments and many education initiatives is to lower the cost of K–12 education (Braverman 2018). This is a problem too for private schools that want to target lower-income students. IFC financed a school in Latin America that offered a scaled-down version of its upscale schools to accommodate lower-income students targeted by the school’s expansion to secondary cities. But the parents’ request for similar services and amenities offered in the upscale schools operated by the sponsors led to the project’s financial difficulties and challenges in the ability to offer lower fees. Evidence from the SLR suggests that policies that aim to make public education more accessible (abolition of fees, for example, including in public schools) may undermine public school quality by causing a “rich flight” of children of well-off parents from public schools to enroll in private schools. This phenomenon can result in an increase not only in demand for private schools but also in sorting and, potentially, greater inequality within the education system (Ganimian and Murnane 2014; Johnes and Virmani 2020; Lucas and Mbiti 2012; Manda and Mwakubo 2013). What is evident, as set out in *World Development Report 2018*, is that the push to increase enrollment in basic

education under the Millennium Development Goals was not accompanied by increased learning outcomes (World Bank 2018).

K–12 private schools are highly localized businesses, which makes it difficult for most providers to replicate their education model across different regions and achieve economies of scale and efficiencies. Other challenges include the long-term nature of private investments in education, with returns unlikely for seven years—and even longer horizons needed to demonstrate successful academic outcomes. Individual K–12 private school operators also face expansion challenges, including lack of financial literacy and access to capital, and an uncertain revenue stream from tuition payments. In addition, because education is a long-term business, it can take considerable time for operators to demonstrate successful academic outcomes and secure longer-term viability. However, IFC’s difficulty in covering its costs and earning the expected risk-adjusted returns on its loans to K–12 private schools, in addition to the negative return of one of its two equity investments, makes it challenging to confirm a business case for IFC to resume its investments in K–12 private schools.

¹ The 2001 education strategy of the International Finance Corporation (IFC) asserted that to enhance impact, one of its focus areas would be the expansion of educational opportunities for the middle and lower classes, which can contribute to social mobility and poverty alleviation (IFC 2001, 4, para. 6).

² The foreword to the strategy notes, “Learning for All means ensuring that all children and youth—not just the most privileged or the smartest—can not only go to school but also acquire the knowledge and skills that they need to lead healthy, productive lives and secure meaningful employment” (World Bank 2011, v).

³ All key informants interviewed expressed special concern for the most vulnerable and marginalized children, especially girls, children living in extreme poverty, and children with disabilities. All interviewees also believe that these populations are not being well served either by private or public sector education in their countries and regions. However, local civil society organizations think that public systems do accommodate the needs of children with disabilities.

⁴ Other development finance institutions also shifted their focus to the low-fee market. For example, in 2015, the United Kingdom’s Department for International Development (replaced by the Foreign, Commonwealth & Development Office) committed to invest up to \$45 million with Global Education Management Systems (GEMS Education) for the development of GEMS Africa.

⁵ At the time of project evaluation in 2004, 7.3 percent of the students enrolled received partial or full scholarships, with 3.11 percent of the students (36) enrolled receiving full scholarships. The school also had a policy that any enrolled child who is orphaned is automatically provided with free tuition through grade 12, estimated at \$45,000 for the child’s entire education experience. About 10 such scholarships were planned until the end of project.

⁶ Project appraisals also assessed the history of school operations, governance structure, and learning environment (including teachers’ qualifications and, in some projects, teachers’ salaries and benefits), capacity and facilities constraints, examinations and awards received, competition and competitive advantage of the supported school (including graduation rates), and project risks.

⁷ IFC’s Sector Economics and Development Impact Department (CSE) is responsible for coordinating data collection and reporting on the development indicators from the Board paper. Operational (portfolio) staff are responsible for gathering the data from the client, with CSE monitoring progress. This annual exercise usually starts in February or March for data cov-

ering the previous calendar year. The first step entails identifying the list of projects that are subject to the process (for example, active and in the portfolio as of December 31 of the prior year). Portfolio colleagues then reach out to the clients, with the bulk of the data collection happening between April and June.

When data are collected, CSE reviews their quality, focusing on top contributors and conducting a few other quality checks for those indicators included for corporate reporting purposes (in the *IFC Annual Report*). The annual report external audit happens in July and August, with the annual report released in August, although the coronavirus (COVID-19) pandemic has delayed the release until September for the past two years. Indicator data may also be used for regional or industry strategic efforts, and CSE pulls the data, but that is ad hoc (by request from a region or industry as needed).

⁸ To offer a counterfactual comparison, the private investors interviewed comprised mostly investors who have not worked with IFC but do not consider themselves as a competitor. The Independent Evaluation Group (IEG) recognizes that the suggestions here are from a very small sample of investors and that IEG has neither evaluated nor is aware of assessments of the initiatives referenced.

⁹ Many local civil society organizations interviewed for this evaluation argued that public systems are not free, in any case, because families are often expected to pay for supplies, uniforms, transportation, lunch, and other hidden costs that are not obtained through taxation (another cost to many parents). In a case study for this evaluation, parents of students in public schools also pay for private tutoring because of low-quality teaching in the public schools. They also are against eliminating private provision of basic education because developing countries' governments do not have the resources to finance improvements in the public school system.

¹⁰ IFC Articles of Agreement. Revised 2020. https://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about+ifc_new/ifc+governance/articles.

¹¹ IFC has a mandate to support productive private enterprises in developing markets but also needs to remain financially sustainable. Unlike most multilateral development banks, IFC does not benefit from explicit contractual callable capital support from its shareholders. Instead, IFC relies on its accumulated earnings for the majority of its capital and on maintaining a AAA rating with its two rating agencies—Moody's and Standard & Poor's—to raise capital in the capital markets. In case of severe capital constraint, IFC can raise additional capital from its shareholders, as it did in 2019–20.

¹² As an example, a project that experienced reduced cash generation had negatively affected sponsors' plans for community development and social activities.

¹³ IEG used fiscal year (FY)01–20 data from the IFC management information system reserve database, which reports stock data of IFC commitments. IEG also derived the stock data on cancellations and droppages of IFC investments in kindergarten through grade 12 (K–12) private schools only. IFC also shared with IEG its cancellation and droppage flow data, which differ from IEG's calculations. First, the IFC flow data covered FY13 to FY20 only, and second, the data include other K–12 private education projects. Thus, the cancellation and droppage or nondisbursement rates differ from those of IEG. Based on IFC's 2013–20 flow data, the tertiary education subsector has higher cancellation and droppage rates (87 percent and 60 percent, respectively) than the K–12 education subsector (13 percent and 37 percent, respectively).

¹⁴ Examples of financing and loan covenants required by IFC include pledge of shares, evidence of proper land titles of the school sites held by the sponsor and nonviolation of government's zoning requirements, and other loan security requirements. The covenants also include meeting agreed-on financial ratios, such as debt service coverage ratios, debt-equity ratios, and current ratios. Additionally, IFC financing covenants may include limits in salaries and allowances and increases payable and dividends paid to the school directors or to project sponsors.

¹⁵ The parents' survey questionnaire also included questions to determine household income and other proxies, such as whether there is a radio or television in the household.

4 | Conclusions and Implications for the Future

The findings of the evaluation support a single major conclusion: resumption of IFC investments in K–12 private schools is not supported by existing evidence and could be justified only with substantial changes to its approach. IFC’s business model is poorly suited to supporting small schools. Success in the K–12 subsector was elusive for IFC, with the possible exception of larger networks of schools that catered to the middle class. IFC’s focus on the growing middle class was a strategic aim for much of the period evaluated and was justified by gaps in the provision of quality education by public schools. Although IFC’s focus on business fundamentals was practical and potentially useful in improving the schools’ creditworthiness and eligibility for financing, it overlooked important measures of education access, equity, and quality. IEG concludes that the challenges of financing K–12 private schools and the lack of a financially viable market make it difficult for IFC to cover its transaction cost and make a sufficient return on investment (consistent with its mandate), particularly if it were to pursue equitable access and aim to reach lower-income and impoverished students.

The remainder of this chapter supports the main conclusion, drawing on the evidence in chapters 2 and 3 to answer the evaluation questions set out in chapter 1. The chapter also discusses key parameters for IFC management consideration should it decide to resume investment in K–12 private schools. It also links those parameters to a simple theory of change that connects outputs such as pilots, infrastructure, training, and, ultimately, student outcomes, such as learning for all (Carrillo, van den Brink, and Groot 2016; World Bank 2018; World Bank 2019b), which is a prerequisite (second-level outcome) to get to later outcomes (improved human capital and impact (reduced inequality and poverty), which require other factors (outside of schooling).

Relevance

How well aligned were IFC’s investments in K–12 private schools to country educational needs?

The evaluation examined the relevance of IFC’s investments in K–12 private schools from three levels: IFC client, local education, and sector and country needs.

IFC investments were relevant for its clients, at least initially, in that the investments met a clear need related to school capacity and financing that was unavailable in the market. Analysis of the project portfolio finds that all of the schools and school networks in which IFC invested sought to better serve a growing school-age population, albeit primarily among middle-class families. In every case, the investments also served growing demand—driven by perceived shortcomings in the public school system—through expanding or improving their facilities to increase capacity.

There is no evidence that IFC project investments were relevant for the local education systems within which the schools operated. The literature, background papers, and key informants all stress the importance of considering the relationship of investments in K–12 private schools to the education systems in which they operate. The case studies of IFC’s investments found no planned interaction between supported projects and local education systems, such as piloting of curricular innovation or co-use of facilities. Project documents did not discuss mitigation against potentially negative spillover effects—such as movement of students from public to private schools rather than increasing overall access, as noted in the literature. The sorting that results from this dynamic can reinforce social and educational inequalities. Whether this occurred with IFC’s investments is not known, however, because of limits in investment data collection. Moreover, while the evaluation team sought evidence of positive spillover effects for public K–12 education and schools in the specific cities and locations where IFC-supported private schools operated, it found none.

The relevance of IFC interventions at the sectoral and country level could not be assessed. The small scale of IFC investments in K–12 education in any

given context rendered it unreasonable to expect any effect or impact on broad educational needs at the sectoral or country level. However, as summarized in the previous section, schools can and do impact—both positively and negatively—the local education systems within which they are located. Although IFC examined the regulatory policy, market for basic and secondary education in the country, and limitations of the country’s public school system in every project reviewed in this evaluation, it did not assess fully the specificities of the education systems within which the supported schools operated. It should be noted, however, that because IFC’s mandate is to support the private sector, its view of education systems cannot be as expansive as that of the World Bank. The limitations of IFC’s mandate further emphasize, as per all IFC education strategies since 1999, the importance of engaging and working with the government, World Bank, and others to understand how IFC’s own investments would interact with the education sector in the countries where it invests. As noted earlier, this evaluation found that IFC did not work with the World Bank (an expectation in IFC’s education strategies) to understand and better support the schools in which it invested in the context of local education systems.

Education Quality

To what extent did IFC investments reflect the characteristics of quality K–12 private education?

IFC’s engagement with education quality in K–12 private schools was minimal. Very few investments combined infrastructure improvements with quality-enhancing inputs, such as teacher training, instructional leadership, curriculum development, or textbook updates, that can help accelerate learning. Advisory services provided in parallel with the RSFs, for example, largely focused on improving the business capacity of schools and financial intermediaries, with little attention given to improving education quality. A few investments included financing of teacher training that might have improved quality, but the extent to which they may have done so was not measured. In certain instances, quality provision was assumed based on existing accreditation, although equitable access, as envisaged in more recent IFC education strategies and in SDG 4, was neglected. Nor is there evidence

that competition from IFC-supported schools or projects influenced learning or quality in the local education systems within which they operated.

There is little support for a simple correspondence of private education with quality learning outcomes. The literature review undertaken for this evaluation is inconclusive on the relative quality of private education. However, the SDA undertaken for this evaluation found that a private school advantage is not definitive and should not be assumed. Similarly, the Center for Global Development (2019) found that students in private schools achieved better learning outcomes in some instances, but much of this advantage is a result of the access and selection policies operated by private schools that favor advantaged students. The authors emphasize that what really matters is “the real-world size of these impacts, which are small.”

Conditions for Future Engagement

What has been learned that could help IFC improve its engagement in K–12 private education in the future?

This evaluation sought to identify and suggest conditions necessary to improve IFC’s engagement in K–12 private education if management decides to resume investment. Those conditions first need strong roots in the country context and principles of ensuring quality education that does not exacerbate inequalities (see the assumptions and risks listed in appendix I). The literature shows risks associated with support for K–12 private schools that lead to more sorting of students and failure to serve impoverished or marginalized students (people with disabilities, girls, and others). IEG developed an illustrative theory of change derived from the evidence gathered in the evaluation that IFC management may consider with a view to improving IFC’s investment strategy in the subsector.

The starting point of IFC engagement would be working with a broad group of stakeholders beyond the client or private school owner to improve IFC’s understanding of the education systems within which it might invest. This engagement is necessary to not only increase enrollment in supported private schools but also help support access and quality learning that goes beyond enrolling middle-class (and higher-income) students, which was the

predominant focus of IFC investments. For this reason, the engagements with clients or project sponsors need to be supported by consultations with a broader group of stakeholders, including government, World Bank, and other DFIs, to help achieve the broader goals of the Bank Group through reducing the number of out-of-school children, improving access, reducing inequalities in access, and improving quality in the form of enhanced learning. We note, as discussed in chapter 3, that other DFIs have recently reviewed their investment policies for K–12 private education and have emphasized the importance of broad stakeholder engagement and a revised approach.

More strategic collaboration and cooperation between private and public sector schools may help support planned, positive spillover from innovations in curricula, teaching, and learning. This type of purposeful interaction was not observed in case studies or project documents. Key informants, particularly among local civil society organizations, noted the potential for positive learning in teaching practices, as private schools could be a way of piloting and sharing between private and public, but these relationships would need to be nurtured. Key informants in IFC and the World Bank noted that realizing this type of cross-fertilization between the public and private sectors is difficult (appendix G). Case studies showed that private school owners have little incentive to create demonstration effects on an economic systemwide scale mentioned in this evaluation.

As noted in the Relevance and Education Quality sections of this chapter, there were shortcomings in the way IFC undertook its investments in K–12 private schools, including an inadequate focus on access to and quality of education. That said, IEG recognizes that there are trade-offs between attaining these development outcomes and ensuring the financial sustainability of the supported schools and adequate returns to IFC (at least to cover its costs). This tension, a trade-off that IFC management needs to resolve, informs the central conclusion of this evaluation.

Considerations for the Future

IEG’s evaluation findings suggest that resumption of IFC investments in K–12 private schools with a “business as usual” approach is not advised, but if there is a case to be made and IFC decides to resume investments in K–12

private schools, it needs to adopt a different approach to contribute to equitable access and quality education for all. IEG provides the following suggestions for management consideration:

- » Adopt an investment approach that engages a wider spectrum of stakeholders involved in the education system likely to be affected, positively or negatively, by the school receiving IFC financing. Recalibrate IFC processes and procedures throughout the investment life cycle to move from the current investment transaction orientation to an approach in which IFC works with government, World Bank, DFIs, and other partners to harness and scale innovations and mitigate potential negative impacts on local education systems.
- » Establish a clear framework for investing in the K–12 private schools that explicitly addresses equitable access and inclusion and the quality of education. This framework would require developing an educational rationale specific to K–12 private schools to underpin IFC’s engagement. The rationale needs to refer to reaching specific target groups (for example, out-of-school children) and to improving the quality of education without exacerbating inequality. The framework should take into account the potential for IFC interventions to maximize positive spillovers into public schools. It would also require engaging with clients who are committed to supporting links with a full range of beneficiaries and stakeholders—such as school administrators, parent associations, teachers, education experts and officials, and others—in the local education systems.
- » Consider trade-offs between ensuring financial sustainability of investments in K–12 private schools and supporting equitable access, education quality, and broader education system effects. IFC needs to ensure the financial sustainability of its investments. Earning sufficient revenue to cover costs plus extra earnings for reinvestment is also necessary for private schools. Investing in K–12 private schools will continue to require that IFC—and private schools—carefully consider the possible trade-off between achievement of educational outcomes (access, equity, and quality) and the financial sustainability of IFC’s investments.
- » Enhance monitoring systems and supervision mechanisms to learn from new investments in K–12 private schools. This change would require more sustained project monitoring and evaluation beyond business indicators

and would include the assessment of factors related to education access and equity of access, quality, and positive or negative effects on other schools and local education systems—whether the investments are made through direct loans, equity, quasi-equity, guarantee or RSFs, or investments in K–12 private schools by Funds supported by IFC. Data collection and sustained project monitoring should include student profile, accommodation for children with disabilities, initiatives such as scholarships to support access for low-income impoverished students or those out of school, and methods to address potential negative effects on the education system (and any potential adverse reputational risk to IFC and the client) during project implementation. Evaluation should be built into projects and contribute to the body of knowledge regarding private K–12 education outcomes that will require that IFC find resources to conduct rigorous evaluations within some of its investments or through a special fund.

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APPENDIXES

Independent Evaluation Group

*An Evaluation of International Finance
Corporation Investments in K–12 Private
Schools*

Appendix A. Terms and Concepts Used

Access. For purposes of this evaluation, access refers to the ways in which educational institutions and policies ensure—or at least strive to ensure—that students have equal and equitable opportunities to take full advantage of their education. (Refer also to United Nations Educational, Scientific, and Cultural Organization [UNESCO] definition.) The evaluation’s concept of “access” encompasses the “equitable” aspect and goes beyond increasing student enrollment.

Additionality. Additionality refers to key financial and nonfinancial inputs multilateral development banks bring to a client and project to make it happen or improve its design or development impact. It differs from development impact, which captures the development results that the project is expected to deliver. Additionality may include elements and actions essential to deliver expected development outcomes, which would not have been expected to occur without the involvement of the multilateral development banks (adapted from *Multilateral Development Banks’ Harmonized Framework for Additionality in Private Sector Operations* principles, definitions, and guidelines).

C loan (senior loan with options). A loan to a client that ranks above or equal to other lenders and that has option features that provide International Finance Corporation (IFC) additional upside return potential (such as convertible loans, loans with attached warrants/options, and income participation notes, including such participation notes with deferred rate-setting arrangements).

Cancellation (IFC). Reduction or elimination, by IFC, or at the request of a client, of an undisbursed commitment, initiated by the issuance of a “Cancellation Memorandum” in accordance with IFC’s Operational Procedures—New Business.

Droppage (IFC). For investment services, project or financial product permanently stopped before commitment. For advisory services, project is permanently stopped before approval of advisory services implementation plan.

Education quality. For purposes of this evaluation, education quality includes characteristics such as valued and effective teachers, high-quality and diverse learning resources/curricula, safe and inclusive environments, and sound management—factors that can contribute to students’ positive learning outcomes. This working definition was derived from the synthesis of education quality characteristics by the World Bank (*Ending Learning Poverty: What Will It Take?* [World Bank 2019]), the United Nations Children’s Fund (UNICEF), the Norwegian Agency for Development Cooperation (NORAD), and the Association for Supervision and Curriculum Development.

Education system (World Bank Group 2011 education strategy: Learning for All). The term typically refers to public schools, universities, and training programs that provide education services. In the Bank Group 2011 education strategy, “education system” includes the full range of learning opportunities available in a country, whether they are provided or financed by the public or private sector (including religious, nonprofit, and for-profit organizations). It includes formal and nonformal programs, plus the full range of beneficiaries of and stakeholders in these programs—teachers, trainers, administrators, employees, students and their families, and employers. It also includes the rules, policies, and accountability mechanisms that bind an education system together, and the resources and financing mechanisms that sustain it. This more inclusive concept of the education system allows the Bank Group and its partner countries to seize opportunities and address barriers that lie outside the bounds of the system as it is traditionally defined (World Bank 2011).

Financial sustainability (IFC). IFC’s ongoing ability to accomplish its mission by generating and maintaining sufficient financial resources through business activities and resulting profitability.

Financial sustainability (project level). Refers to the project’s actual and projected impact on the company’s or project sponsor’s profitability and overall prospects for sustainability and growth. This evaluation assumes a private school’s revenues should exceed its recurrent operations and maintenance costs (including costs for borrowed money) plus some extra for capital investments. Without a minimal level of revenue, the school might be forced

to cut costs and forgo improvements, both of which may adversely affect the quality of education offered or even force the school to close.

Investment outcome. Refers to the projects' investment performance, which is essential to IFC's sustainability and to accomplishing its corporate purpose. It refers to the extent to which IFC has realized to date and expects to realize, over the remaining life of the investment, the loan income and/or equity returns that were expected at approval.

Quasi-equity. Direct IFC investments in debt or equity instruments that are neither straight senior loans nor straight equity investments. Quasi-equity investments in debt-type instruments include senior loans with option (C loans) features that provide IFC additional upside return potential and subordinated loans that are junior in liquidation (or lower in priority) to senior loans, or that include provision that allows deferment of interest and/or principal payments.

Risk-Sharing Facility. IFC shares the risk of loan default in an agreed-on portfolio originated by the partner bank, thus encouraging the bank to lend more to the chosen sector. IFC does this by agreeing to purchase a percentage participation of loans in the portfolio that defaulted and/or were written off (in line with local central bank requirements), usually subject also to the bank or another institution absorbing a first-loss component. IFC then shares in any recoveries from the defaulted loans. The Risk-Sharing Facility product allows a client originator and IFC to form a partnership with the goal of introducing a new business or expanding an originator's target market. In addition to sharing the risk of loss associated with the covered asset portfolio, IFC is often able to arrange for the provision of advisory services designed to expand the capacity of a bank or corporation to originate, monitor, and service the assets (IFC n.d.).

Straight senior loan (IFC A loan). A loan to a client that ranks above or equal to other lenders and that does not have subordination features or deferability of repayment of principal and/or interest characteristics. Straight senior loans do not have features that provide IFC additional upside return potential (such as convertible loans, loans with attached warrants/

options, or income participation loans). An A loan is provided under IFC's own account.

Syndicated loan (IFC B loan). A loan for which IFC is the lender of record but not booked for IFC's own account and in which, other lenders acquire participations. Participants share risks with IFC, as the arrangement gives participants and IFC equal rights to payment.

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Appendix B. Methodology and Approach

Evaluation Purpose

The evaluation aim was to provide information to aid the International Finance Corporation (IFC) decision-making on future investments in kindergarten through grade 12 (K–12) private education. The main question motivating the evaluation is “to identify under what conditions, if any, should IFC invest in K–12 private education going forward” (see evaluation question 3).

To do this, the evaluation sought to assess the extent to which IFC investments in K–12 private education between 2000 and 2017 aligned with (i) key education quality features identified in the literature and quantitative analysis of education data, and (ii) IFC’s strategic objectives in education.

Evaluation Questions

The evaluation sought to answer three key questions, each of which had subquestions:

Q1: How did IFC investments in K–12 private schools align with identified country education needs?

- » To what extent are IFC investments in K–12 private schools appropriate for different countries?
- » To what extent did IFC integrate access, education quality, financial sustainability, and relevance in project design, supervision, monitoring, and evaluation of its K–12 private school projects?
- » To what extent did project design, supervision, monitoring, and evaluation of IFC’s K–12 private school projects mitigate potential negative impacts and risks?
- » How do IFC investments in K–12 private schools compare with the target clients and markets, processes, and criteria of other development finance institutions (DFIs) and private investors?

Q2: To what extent did IFC investments reflect the characteristics of quality K–12 private education?

- » To what extent did IFC investments reflect factors that contribute to improved access and education quality of K–12 private schools, based on literature and secondary data analysis?
- » To what extent do the objectives, development rationale, and strategy of IFC investments in K–12 private education differ from the investments of private investors and other DFIs?

Q3: What has been learned that could help IFC improve its engagement in K–12 private education in the future?

- » What is the broader rationale for investment in K–12 private education?
- » What is the rationale for IFC investment in K–12 private education?
- » What project-specific factors and country conditions support or hinder a project's success?
- » What changes are required in IFC's policies, processes, procedures, and project design and content to ensure that future IFC investments in K–12 private schools improve access, educational quality, financial sustainability, and relevance?

Overarching Approach and Evaluation Design

The following core attributes characterized the evaluation approach and design:

- » The evaluation was grounded in a theory of change that sought to model how IFC investments in K–12 private education could contribute to the promotion of access to education and education quality in a financially sustainable manner.
- » The evaluation followed a mixed methods approach that combined a range of methods for data collection and analysis and applied systematic triangulation to ensure the robustness of the findings.

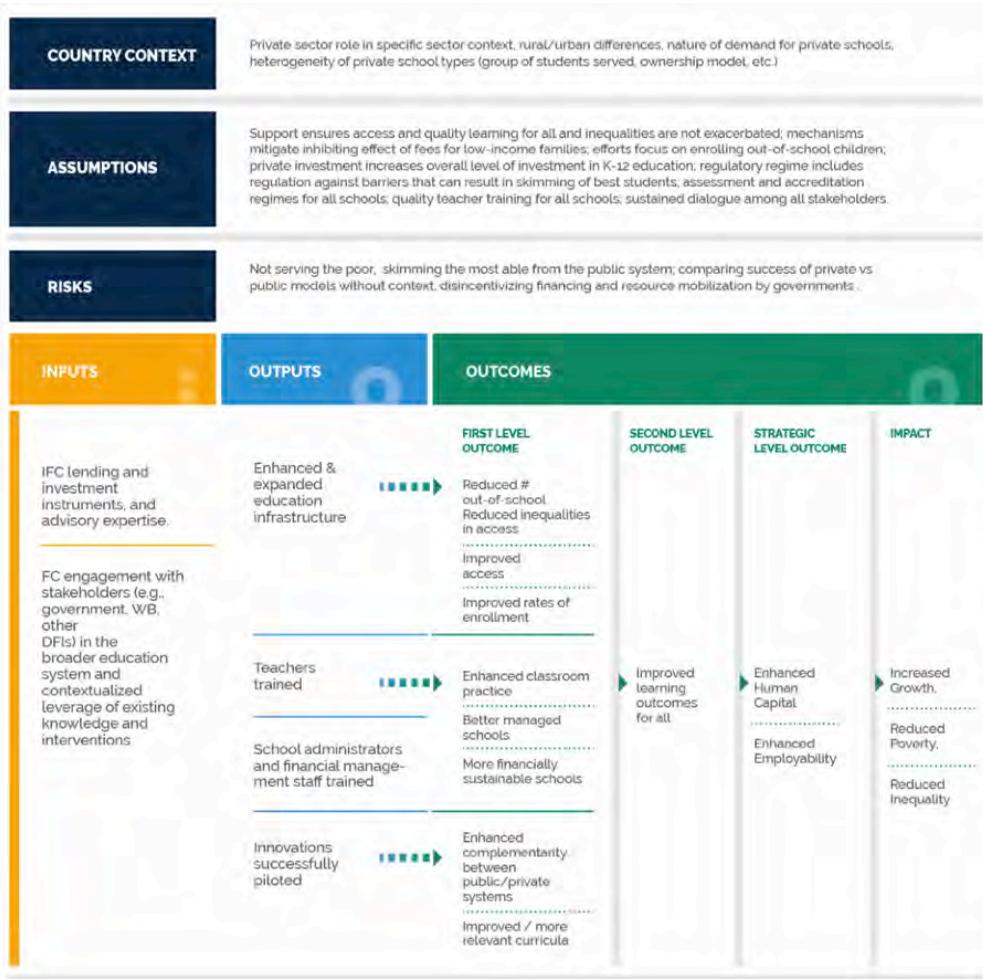
The theory of change and evaluation questions provided a focus through which triangulation of findings from disparate data sources (for example, case studies, structured literature review [SLR], portfolio review, and key informant interviews) was facilitated.

Theory of Change

The overall approach to the evaluation (design, data collection, and analysis) was theory-based, supported by mixed methods principles.

The evaluation is grounded in a theory of change (figure B.1) that provides an illustrative example of how IFC—should it decide to continue to pursue a business line in K–12 private schools—can enhance access to K–12 education and education quality while supporting sustainable businesses.

Figure B.1. Proposed Theory of Change for Future IFC Investments in Private Primary and Secondary Education



Source: Independent Evaluation Group.

Note: DFI = development finance institution; IFC = International Finance Corporation; K–12 = kindergarten through grade 12.

A Mixed Methods Approach

The evaluation adopted a mixed methods approach to generate and gather relevant data. This approach included SLR, secondary data analysis, portfolio review and analysis, and case studies of IFC investments. In addition, background papers were produced on, respectively, DFI investment and broader private sector investment in K–12 private education.

The evaluation team gathered data from the various sources of evidence on a phased basis through which learning from early-stage interventions (SLR) fed into later interventions (portfolio review, case studies, and analysis); a theory for protocol development was initially based on hypotheses identified based on limited review of studies and then finalized after review of the full set of studies included in the SLR.

The team used the processes identified in the theory of change (and the evaluation questions) as an organizing mechanism, meaning that data from the various sources were subject to systematic triangulation to underpin the robustness and credibility of findings and associated recommendations.

Table B.1 summarizes the various methods and sources of evidence underpinning the evaluation, each of which are further elaborated.

Table B.1. Methods and Approaches Used for the Evaluation

Source of Evidence	Description
Phase 1	
Structured literature review	Reviewed evidence of what works and provided theory-based foundation for the evaluation that fed into the theory of change, and a coding template for the portfolio review analysis (phase 2). Early findings from the review were used to generate hypotheses of the impact (positive and negative) of K–12 private schools that were examined in case studies, interviews, and portfolio review.
Background paper on DFIs' support to K–12 private education	Provided context to the evaluation, allowing it to broadly describe financing of private K–12 schools by DFIs. This involved written contact and exchange with DFIs that invest in K–12 private education, review of online materials on the portfolio of K–12 private education projects held by DFIs (DFI websites), and interviews with representatives of three DFIs that invest in K–12 private schools.

(continued)

<p>Background paper on private sector investments in K–12 private education in developing countries</p>	<p>Situated IFC investments in K–12 private schools within the relevant market context. Document review, secondary data analysis, and interviews (5) were conducted to describe key players and understand their investment philosophy, investment products offered, and expectations and requirements of private investors to provide a frame of reference for the rationale for private K–12 education and its key features and financiers. This background paper fed into the process of benchmarking IFC support.</p>
<p>Case studies</p>	<p>Undertook five case studies and conducted cross-case analysis to understand the contextual relevance of IFC support to K–12 private schools, including positive and negative effects on access and quality and complementarities or competition with public schools. The cases also sought to examine the financial sustainability and profitability of the schools in question. The case studies involved documentary review and interviews with local stakeholders such as school owners and management and local CSOs. A total of 64 interviews were undertaken for the case studies.</p>
<p>Semistructured key informant interviews</p>	<p>Conducted 28 interviews—in addition to those undertaken for the case studies (64) and background papers (8)—with key informants, including internal (IFC, World Bank) and external stakeholders (education experts, CSOs [including global and local organizations], DFIs, and other investors) informed about the K–12 private school (and education) market and perceptions of IFC’s involvement therein.</p>
<p>Analysis of interviews</p>	<p>Performed a close textual analysis (as described in the phase 2 section of this table) of verbatim notes of interviews conducted with both key informants (28) and local CSOs interviewed as part of the case studies (20).</p>
<p>Phase 2</p>	
<p>Quantitative analysis of secondary data</p>	<p>Analyzed underlying factors associated with student learning outcomes in private schools in developing countries using international and regional education assessment data; also analyzed global trends in private schooling through United Nations Educational, Scientific, and Cultural Organization’s Institute for Statistics data sets.</p>

(continued)

Portfolio review analysis	Conducted a portfolio review that built on an initial assessment of IFC K–12 portfolio (fiscal years 2000–20) undertaken during the Independent Evaluation Group’s evaluability assessment. The review was based on a protocol developed from the findings of the structured literature review, stakeholder interviews, quantitative secondary data analysis, case studies, and background papers and reflected common definitions. This protocol was used to assess the rationale for and key characteristics of IFC K–12 private school projects. It assessed how investments contributed to access (for whom, to what degree, and so on), education quality, and financial sustainability.
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Source: Independent Evaluation Group.

Note: Interviews were undertaken for case studies and background papers, in addition to a series of interviews with key informants on the substantive issues at stake in the evaluation. All interviews were conducted remotely because of the coronavirus pandemic. CSO = civil society organization; DFI = development finance institution; IFC = International Finance Corporation; K–12 = kindergarten through grade 12.

Structured Literature Review

The evaluation conducted an SLR. The objectives of the SLR were to establish the evidence base related to access for particular groups of students, quality-enhancing features of private education, theoretical arguments for and against the private provision of education in developing countries, and how to determine the common elements of effective provision of private education in the context of developing countries. The focus of the review was on the change in access, affordability, equity, quality, and poverty reduction associated with private education, and spillover effects from private to public education.

The SLR was used to (i) identify the most common theoretical justifications for private investment in K–12 education or private provision of K–12 education in developing countries; (ii) identify what types of private investments in K–12 education or private provision of K–12 education are effective in developing countries, if any; and (iii) benchmark IFC investments, IFC investment performance, and IFC performance (that is, how IFC implemented its education strategy and business plan and the extent to which it aligned with available evidence).

Search Strategy and Criteria for Considering Studies for the Structured Literature Review

Academic bibliographic databases were searched to capture a wide range of education literature. Databases were chosen both for their subject specialization in education and for including cross-disciplinary papers from other sectors. A selection of specialist evidence databases that contained both primary and gray literature was also searched. Searches were limited by publication date (2005 and later), with no specific language exclusion, although searches were conducted in English. The following databases were searched:

- » ERIC (Education Resources Information Center; EBSCO)
- » Teacher Reference Center (EBSCO)
- » EconLit (Ovid)
- » Social Sciences Citation Index/Arts and Humanities Citation Index (Web of Science)
- » Scopus (Elsevier)
- » EBSCO Discovery Service (limited to Repec database and World Bank e-library)
- » 3ie (International Initiative for Impact Evaluation) Development Evidence Portal (<https://developmentevidence.3ieimpact.org>)
- » Cochrane Library (<https://www.cochranelibrary.com>)
- » Campbell Collaboration (<https://www.campbellcollaboration.org/better-evidence>)

Different elements were used to build search strings that were then combined to achieve a focused result. Depending on the database being searched, keywords from titles and abstracts were searched, as were author names. Where appropriate, index terms specific to the database were

included. Including both natural language (text words) and controlled language (index) terms together is commonly used to account for any inadequacies in searching only for either of those terms, so that the chance of papers being missed is reduced. The first element of the search encompassed the geographic limitations. For comparison, the team decided to retrieve impact evaluations from low- and middle-income countries and from Organisation for Economic Co-operation and Development countries (systematic reviews only).¹

The second element of the search strategy covered the educational aspects that included both relevant terms for education and schools linked to terms relating to the private sector (such as *fee-based*, *fee-paying*, *independent*, *private*, *religious*, and *faith-based*, among others) for focus.

The third part of the strategy contained the study design filter to identify specific types of studies. The search criteria narrowed the scope of the SLR to experimental studies, such as randomized controlled trials, and quasi-experimental studies, such as regression discontinuity and propensity score matching; it also included more general terms such as *impact*, *evaluation*, and *assessment*. The search included studies of evidence syntheses—for example, systematic reviews, meta-analyses, scoping reviews, rapid evidence assessments, and gap maps. Such studies are especially useful for identifying relevant primary studies and gray literature missed by or not indexed in the databases searched, either from the list of included studies or in the references cited.

For the 3ie Development Evidence Portal, a simplified strategy was used to ensure sensitivity given that the database is small. For the Cochrane Library, no study design filters were needed. There were no results from the Campbell Collaboration search.

Each set of results from all databases was imported into EndNote in RIS format, and an amalgamated file was created that included all results, with duplicates partially removed ($n = 3,976$) as the file to use for screening.

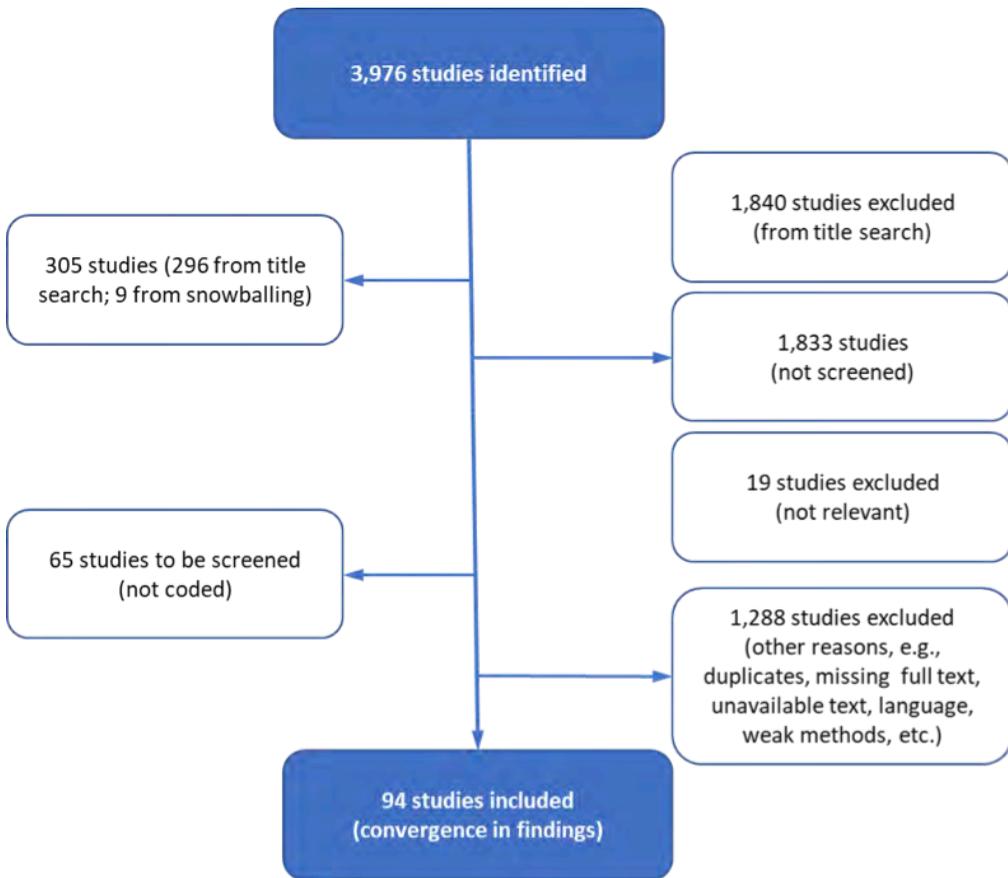
Data Collection and Analysis for the Structured Literature Review

To determine the relevant set of studies for an in-depth screening and coding, an initial screening of the EndNote database was conducted based on title only; title screening excluded 45 percent of the full sample of studies identified by the search. When the title alone was insufficient, a second screening was conducted based on the title and abstract; 150 studies were screened by title and abstract. When the information conveyed by titles and abstracts was insufficient to determine whether to include or exclude an article, the full text was screened. The strategy of the review was to reach a point of convergence in findings rather than an exhaustive approach. To reduce potential bias, the initial (title) screening prioritized databases that were more likely to include studies with a rigorous quantitative or qualitative counterfactual.

Studies that did not meet the inclusion criteria of the review were excluded, and the reason for exclusion was recorded. Studies with weak methods were excluded, such as those that did not consider confounding factors and selection bias that could undermine the robustness of the results. Other examples of excluded studies were those that (i) did not distinguish between private and public education effects, (ii) focused on secondary or higher education, (iii) assessed inputs or administrative processes and did not include findings on education outcomes, and (iv) were purely theoretical or descriptive. Finally, full texts that were not available in English, French, or Spanish were excluded, as were studies of faith-based private schools. Figure B.2 provides more detail on the screening process.

Included studies provided relevant evidence about the role of K–12 private education on access and quality and controlled for selection bias or at least showed awareness of the risk of selection bias, and that the full text was available in English, French, or Spanish.

Figure B.2. Criteria Used for Screening Relevant Materials for the Structured Literature Review



Source: Independent Evaluation Group.

Data Extraction and Management for the Structured Literature Review

Included studies were coded using an Excel-based coding sheet. The coding sheet sought to capture, for example, basic bibliographical detail, information on the intervention and school type, and the theoretical rationale for the intervention, and discussion and detail on relevance, access, quality, financial sustainability, and other outcomes. Each study was coded by a single reviewer. The coding sheet extracted basic bibliographic and qualitative contextual information, the key theoretical arguments in the article about

private education (if any), and the relevance of private education (for example, parental demand, lack of government spending). The main section of the coding sheet extracted information on the evidence related to access, quality, and financial sustainability.

Information and findings that could inform future IFC engagement, links to poverty and educational equity, contextual factors, and causal pathways were also coded when present. During the coding process, emerging themes were identified and incorporated into the coding tool. Relevant extracts from the full texts were copied into the coding sheet, signaling the page number of the exact location in the full text.

After coding the full text of each study, the main conclusions and the key emerging themes for each study were recorded separately.

Data Synthesis for the Structured Literature Review

Coded data were synthesized in a thematic analysis, structured by the main themes that emerged from the coding tool: relevance, access, quality and learning, systematic selection of students, inequality, cost-effectiveness, context, and policy-relevant points. Once the data were summarized, with points of convergence (divergence) highlighted and individual study findings linked to key contextual factors that could enrich the analysis, a message-driven narrative synthesis was produced as an input to the evaluation.

Background Papers

Background Paper on Development Finance Institution Support for K–12 Private Schools

The background paper on DFI support for K–12 private schools provided broad summary context for investment in K–12 private schools among DFIs and generated findings that were fed into the evidence base for the overall evaluation.

The Independent Evaluation Group (IEG) contacted all of the DFIs identified by the Organisation for Economic Co-operation and Development as providers of support to the private sector to establish if they invested in private education and if, within that, they invested in K–12 private schools.² IEG received written responses from the majority of DFIs confirming or disconfirming investment in K–12 private schools (and K–12 private education more broadly). As relevant, respondents also detailed the nature of the K–12 private school portfolio held and specific investment criteria used to select investments. In a limited number of cases, IEG spoke directly with staff of DFIs, who provided additional information regarding their policies and portfolios. In a small number of cases where there was no direct written or verbal confirmation, IEG researched the websites of relevant organizations (organizational websites typically provide sector and portfolio details) to determine if the DFIs had invested in private education in general and in K–12 private schools specifically.³

Background Paper on Private Investments (Non-Development Finance Institution) in K–12 Private Education in Developing Countries

An online search was undertaken to identify investors in low- and mid-fee K–12 private education in developing countries. The results of this search were then delimited to represent investors across regions and investment type (private equity, venture capital, and others). Research was then undertaken to determine the investors' financial rationale, financial results and returns, targeted market segment, access, quality, and spillover effects on public education. Finally, for this background paper, the private sector investors identified in the report were approached, and an interview was requested. Five investors were interviewed.⁴

Semistructured Interviews

Two interview guides were developed for the evaluation, one for use at the local level in support of the case studies where local civil society organizations, school management, and others were interviewed, and another for use in global-level interviews with civil society organizations and education

experts. Most of the questions overlapped across the two instruments, although the interview guides at the local level included additional questions related to context. The questions in the protocols covered, for example, how interviewees (or the organizations they represented) define free and quality education; in what contexts public support for private involvement in basic education might be appropriate, relevant, or otherwise; what the potential positive and negative impacts of private education are; and how developing countries can best ensure access to free and quality education.

Interviewers took verbatim notes during all conversations.

Researchers analyzed the data using the “structured transcript” method developed by Janet Mancini Billson (Billson 2013, 2020; World Bank Group 2021).⁵ The first step was a question-by-question analysis across the various respondent groups (table B.2). Within each question, global codes and sub-codes were developed as the data came in, which created a more synthetic picture of responses from all respondents within a group. Researchers labeled categories and subcategories using schemata for categorizing interrelated topics and links among them. The codes fell into categories that relate back to the key research question (evaluation question 3).

Data-driven concepts and key findings fed into cross-cutting summary statements produced through revisiting findings within each group and making tentative comparisons across groups. The analysis was written as much as possible using respondent voices in indirect or direct quotes to illustrate insights and key findings.

Table B.2 details the number of global-level respondents and local civil society organization respondents engaged through one-on-one and group-level interviews by the evaluation team over the course of the evaluation. All interviews were semistructured, meaning they were guided by a common set of questions. Transcripts from these interviews were subject to Billson’s structured transcript analysis. Not included here or in that analysis are interviews conducted with school management and others as part of case studies, or interviews conducted in support of background papers.

Table B.2. Number and Profile of Interviewees Whose Interview Transcripts Were Subject to Close Textual Analysis

Global-Level Interviews	Organizations	Interviewees
International Finance Corporation education specialists	1	6
World Bank education experts	1	4
Global civil society organizations and foundations	8	9
Global education experts	9	9
Global-level subtotal	19	28
Representatives of locally based civil society organizations interviewed for the case studies	18	20
Total included in key informant interview analysis	37	48

Source: Independent Evaluation Group.

Note: The total, all-inclusive number of interviews conducted for the evaluation, inclusive of those listed in table B.3 (case studies) and those undertaken for background papers, is 100.

Secondary Data Analysis

Secondary data analysis relied on regional and international assessment data to analyze private school characteristics and performance across a diverse sample of countries. The regional assessments from Africa (the Southern and Eastern Africa Consortium for Monitoring Educational Quality; Programme d'Analyse des Systèmes Educatifs de la Confemén) and Latin America (Laboratorio Latinoamericano de Evaluación de la Calidad de la Educación) were used to analyze private schooling at the primary level, and the Programme for International Student Assessment data were used for secondary-level analysis (15-year-olds).

The assessment databases provided coverage of developing countries across multiple regions and extensive information on both student-family background and teaching-learning environments that made it possible to focus on two related research questions: (i) Are private schools more effective at raising student achievement levels when controlling for differences in family background? (ii) What kinds of teacher, classroom, and school variables distinguish especially effective private schools within the private school sector itself (comparing private schools to other private schools)?

The analysis of effective private school characteristics was preceded by a country-level analysis that developed typologies of countries based on coverage (private share of total enrollment) and equity (socioeconomic makeup of the private school student body) of the private school sectors. This was necessary given the significant variation in private school sector profiles that potentially complicates the search for a “universal” set of core features of effective private schools.

For the Third Regional Comparative and Explanatory Study, Programme d’Analyse des Systèmes Educatifs de la Confemen, and Programme for International Student Assessment countries, the estimations are based on plausible values, which are dependent variables with replicate weighting schemes; for the Southern and Eastern Africa Consortium for Monitoring Educational Quality, a single dependent variable is incorporated for each subject with a single weight (at the individual student level). The student and family background characteristics included in the analyses vary across assessments but are extensive and generally include student age, gender, family language and ethnicity, parental education, home socioeconomic status (SES; based on possessions and services), student absences and engagement, books in home, student work activities, student textbook ownership, school location (urban or rural), student preschool attendance, and family size (or number of siblings).

The fundamental challenge of evaluating the impact of private schools is the nonrandom selection into most private schools (exceptions include factors such as lotteries for admission that are common in charter schools in the United States). If this selection was determined by “observable” (or measurable) characteristics such as parental education or SES, then it would be possible (in theory) to identify the direct effect of private schooling on outcomes such as test scores using multivariate estimations. However, it is the “unobservable” factors that complicate the analysis—for example, a low-SES family with a very gifted child may make an extra effort to enroll the child in a private school. These selection dynamics predict that private school children—or their families—are likely to be more engaged, or have more favorable endowments of some kind, than children whose families have chosen not to enroll them in private school. Unfortunately, the omitted variable/self-selection issue not only complicates the estimation of the direct private

school effect on student achievement but also impacts the search for significant school and teacher predictors of student achievement. This is true even when restricting the samples to private schools.

Finally, the United Nations Educational, Scientific, and Cultural Organization's Institute for Statistics data sets were analyzed to identify regional and global trends (1995–2019) in private school enrollment. This analysis relied mainly on primary and combined lower- and upper-secondary school because of data availability (combined secondary is more available than separate lower-upper categories). The main findings do not vary much when using other metrics for monitoring private school trends. At the primary level, there is clearly growth in the share of private schooling across most regions and countries, whereas at the secondary level, the proportion of private enrollment is higher than in primary but has remained relatively steady in growth terms. However, these trends need to be evaluated against changes in the population and overall enrollment rates at these levels.

The econometric underpinnings of the secondary data analysis are elaborated in appendix J.

Case Studies

There were 25 available portfolio of approved IFC investments in K–12 private schools between fiscal year (FY)07 and FY17. Five project cases were selected purposefully from the portfolio based on the following criteria that were designed to ensure, for example, identification of projects for which even a minimum level of documentation would be available (such as those that at least reached the commitment stage) and variation in the sample (for example, type of instruments deployed):

- » Project approved between FY07 and FY17
- » Approved IFC investments that at least reached commitment stage
- » Type of IFC investments or instruments deployed (loan, equity, Risk-Sharing Facility, and/or advisory services [AS])
- » School type (for example, chain schools)

- » Potential for learning
- » Variation in country and education system characteristics

The selected case studies covered 5 countries representing more than 20 percent of the 13 countries in which IFC invested in K–12 private education. The cases also covered investment types ranging from equity investment as part of an initial public offering to straight loans and Risk-Sharing Facilities.

Each of the case studies followed a common protocol that sought to gather data under relevant headings: relevance, access, quality, and financial sustainability.

Table B.3. Number and Type of Case Study Interviews
(no.)

Case Study Interviewees	Organizations	Interviewees
IFC staff	1	7
School owners and managers	12	21
Parents ^a	n.a.	7
Local CSOs ^b	18	20
Other ^c	9	9
Total	40	64

Source: Independent Evaluation Group.

Note: CSO = civil society organization; IFC = International Finance Corporation; n.a. = not applicable.

a. A case study conducted a mini-survey of 60 parents that generated 42 responses.

b. This includes representatives from the local offices of five global CSOs. Transcripts of interviews with all local CSOs were included, as per table B.2, in the close textual analysis, along with transcripts of key interview informants at the global level.

c. This includes three teachers' union officials, two heads of private school associations, and four academics who specialize in education topics.

For each case, all relevant IFC project documentation was reviewed, which spanned initial engagement, appraisal, monitoring, reporting, and evaluation (as available). This review was followed up with semistructured interviews with project personnel and other relevant stakeholders, including, as referenced previously, local civil society organizations. A total of 64 individuals were interviewed for the case studies.

Data extracted from the documentary review, together with perspectives taken from interviews, were used to complete the protocol for each project. A comparative analysis of the case studies was undertaken to identify key

lessons and learning. This was achieved through the organization and collation of case study findings associated with respective key criteria (access, education quality, and financial sustainability), review, and write-up. The analysis found significant convergence relating to certain operational aspects, such as the relative lack of project monitoring data (for education quality and learning outcomes) and, broadly, the financial sustainability of individual schools. On the other hand, the case studies highlighted the divergence associated with context (such as state-of-the-art schools built by local authorities and operated by a private provider versus schools operating in urban slums) and the unique characteristics of individual projects and investments that ranged from an equity investment in a chain of schools in Asia targeted at middle-class students to Risk-Sharing Facilities in Sub-Saharan Africa that supported intermediaries (development entities and banks) that would, in turn, lend to schools that targeted diverse populations.

Portfolio Review and Analysis

Scope. IEG identified IFC’s K–12 private school projects from IFC’s management information system database of investment projects as of February 2020, using IFC’s tertiary sector code “T-AA” (elementary and secondary schools). IEG also identified a project with tertiary code “T-AB” (colleges, universities, and professional schools) that was a secondary school providing vocational education and added this to the T-AA projects. Thirty-six T-AA and one T-AB investments that were committed between FY95 (the year when IFC first committed to invest in projects in the K–12 education sub-sector) and FY20 were initially identified, of which 25 investments met the following scoping criteria:

1. **Investments committed between FY01 and FY20:** Seven investments were excluded because these were approved before IFC’s first education strategy in FY99. Four rights issues transactions related to existing equity projects were excluded from the count. The rights issues are recorded in the management information system database to reflect the additional equity provided by IFC in its existing equity investments and are not considered by IEG as a new project. Although the period covered extended

to FY20, Board of Executive Directors’ approval for and IFC investment commitment to T-AA projects stopped in FY17.

2. **Investment in a secondary school:** Further review of the entire education portfolio captured an investment in 2005 with a sector code “T-AB” (colleges, universities, and professional schools). The IFC investment was intended to provide primary and secondary education, information technology training, and educational software development in the Middle East and North Africa Region. On review of the project documents, IEG included this project among the K–12 private schools that were evaluated.
3. **Investments in K–12 private schools:** Project documents were reviewed for the remaining 26 projects (37 projects, including the “T-AB”–coded project, less 11 projects that were excluded) to ensure that these were consistent with the evaluation focus on investments in K–12 private schools. Of the 26 T-AA projects, one was excluded from this evaluation because the project involved investment in an online K–12 educational technology (EdTech) company. Because the company’s mode of operation differs from schools’ modes of operation, and it therefore has a different development pathway, IEG excluded the EdTech project from the final list of projects reviewed. IEG shared the final list of 25 direct investments in K–12 private school projects with IFC technical counterparts for verification, and confirmation was received in November 2020.

The review of the K–12 project portfolio also discovered K–12 education projects involving investments in two K–12 school projects owned by subnationals (municipalities). These two projects had a tertiary sector code of “W-BE” (municipal finance—schools and hospitals [project only]). Because the evaluation is focused narrowly on IFC investments in K–12 private schools, IEG excluded these two subnational K–12 projects from the evaluation scope.

On the suggestion of IFC’s education sector team, IFC’s Funds team also shared with IEG the list of K–12 private schools that were recipients of equity investments from private equity and venture capital funds (known collectively as “Funds”) in which IFC invested directly. IEG considered the list of K–12 investee companies as “indirect” investments. Although IFC’s Funds

department shared available documents relating to the Funds' investments with IEG, the evaluation team was unable to conduct an in-depth analysis for three reasons: (i) IFC does not track sector-specific outcomes because it does not know in advance which sectors the Funds will invest in and, therefore, cannot specify sector outcome indicators to report. Although IFC collects information from Funds and investee companies related to the number of new jobs created, female jobs, internal rate of return, economic performance, and governance aspects, the available data do not provide answer to this evaluation's dimensions of access and equity of access and education quality. (ii) Funds also have investments in other sectors in addition to the K–12 private schools. The K–12 private school investee is only a small part of each fund investment. (iii) The documents shared were inadequate to conduct the in-depth portfolio analysis like the analysis that the team undertook for the 25 direct investments in K–12 private schools.

Finally, except for two IFC AS projects linked to the two K–12 school projects case studies supported by IFC's Risk-Sharing Facility (an integrated investment and advisory first-loss-sharing facility), IEG did not assess in-depth IFC's AS projects in K–12 schools. Most of the K–12 IFC AS school projects involved public-private partnerships that are outside the scope of this evaluation.

Project document review. Available project documents from iPortal/iDesk were reviewed by the team for the 25 direct investments in K–12 private school projects. The review covered IFC's investment rationale or thesis; the purpose and use of IFC investment; project context; client characteristics; expected and actual development outcomes; expected and actual IFC additionality; client or project sponsor education experience, client financing, and financing by other investors and lenders; proposed and actual monitoring indicators tracked; consideration of access, quality, financial sustainability, and relevance in the appraisal, structuring, monitoring, and supervision of the projects; and project development after IFC investment commitment. In terms of actual outcomes, only 5 of the 25 direct investment projects were evaluated under the Expanded Project Supervision Report process. Thus, the team used other methods described in this appendix to supplement the evidence gap.

Design Limitations

At the outset, it is necessary to acknowledge that it was not possible to evaluate IFC investment in K–12 private schools in line with the criteria set out by the president of the World Bank Group—that is, to assess impacts on educational outcomes, access, poverty, and inequality. IEG’s evaluability assessment found that existing project data could not support an assessment of the impact of investments on educational outcomes, poverty, and inequality. Based on the available data and documentation, IEG found that it would be possible to assess access, education quality, and financial sustainability.

Almost all of the investment projects were closed, and only 5 of the 25 direct investment K–12 school projects were evaluated. Despite these limitations, the small portfolio size (25 projects) of direct investments meant that IEG could comprehensively cover the portfolio under the portfolio review and analysis and was able to subject 5 projects (20 percent of the portfolio) to in-depth studies that involved full review of all documentation supplemented by interviews with stakeholders.

Through the portfolio review and case studies, the evaluation found significant gaps in monitoring data that limited the ability of the evaluation to definitively report on certain aspects, such as the level of access generated by IFC investments and for whom (boys versus girls, socioeconomic background of students attending, and other similar factors). IEG’s evaluation noted the gaps in evidence without concluding that the absence of evidence signaled evidence of absence.

The evaluation findings are also constrained by the fact that because of the coronavirus (COVID-19) pandemic, it was not possible to undertake field visits to allow for a more intense assessment of cases in context, although this constraint was to some extent allayed by the work of local consultants.

The SLR found that many of the studies reviewed did not distinguish the type of private schools being assessed or discussed, which, given heterogeneity in the sector, can make it difficult to identify generalizable conclusions. IEG carefully analyzed the literature and separated private school types as

much as possible in the analysis to better understand the research, its conclusions, and its implications.

The results from the statistical analysis undertaken for the secondary data analysis had forward- and backward-looking purposes—that is, to assess previous IFC investments while also providing guidance for future investments in private school providers in developing countries. This agenda met with the inherent difficulty in identifying teacher and school characteristics that are directly (“causally”) related to student achievement using cross-sectional data. The exercise also encountered the potential mismatch between the results generated from analyses of national samples of private schools and the kinds of private school providers that are supported by IFC. The limitation was partially addressed through the typology classification and, when possible, by focusing the statistical analysis on private schools that enroll significant numbers of lower-SES children. The limitations from the secondary data analysis were also addressed, in part, through the in-depth SLR; in other words, the exercises complemented each other.

References

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- World Bank Group. 2021. *In Focus: How Focus Group Research Can Inform Your Evaluation*. Washington, DC: World Bank Group.

¹ The list of low- and middle-income countries was derived from the World Bank’s list in 2019, using a geographic filter from the Cochrane Effective Practice and Organisation of Care group, which was updated in 2020 (<https://epoc.cochrane.org/lmic-filters>), whereas the list of Organisation for Economic Co-operation and Development countries was derived from <https://www.oecd.org/about/members-and-partners>.

² See <https://www.oecd.org/development/development-finance-institutions-private-sector-development.htm>.

³ The Independent Evaluation Group used online material to determine whether relevant development finance institutions invested in education and kindergarten through grade 12 (K–12) schools for the development finance institutions of Austria, Belgium, Italy, Portugal, and Spain, and the European Bank for Reconstruction and Development, the European Investment Bank, and the Islamic Development Bank.

⁴ Interview questions were as follows: (i) What is the investment rationale for the investment(s), including objectives and criteria? (ii) What value added does your firm offer to the school operator (for example, capital/financing; strategic guidance/mentoring—that is, how to structure management/operations as business expands; advantage that private equity or VC [venture capital] investors provide that other sources of finance do not (domestic bank, development finance institution)? (iii) What is your investment approach, principles or philosophy, and strategy (for example, support regional businesses; support SMEs [small and medium enterprises]; support SDGs [Sustainable Development Goals])? (iv) What are the expected financial results or returns for this investment(s)? (v) What expected social/developmental benefits do you foresee as a result of this investment? (vi) What due diligence process was undertaken and/or other conditionalities or requirements must be met (for example, access, quality, financial sustainability, relevance)?

⁵ The data analysis followed guidelines for the “structured transcript” (see Billson 2013, 2020; World Bank Group 2021).

Appendix C. Project Results, by International Finance Corporation Investment Instruments Used

Table C.1. Project Results

IFC Investment Instruments	Modality	Results	Underlying Reasons
1. Loans			
Direct senior straight loans (IFC A loan)	SME facilities	(i) One project filed for bankruptcy. (ii) The other project prepaid the IFC loan.	(i) Cost overruns because of financial mismanagement caused bankruptcy. (ii) Refinanced the IFC dollar-denominated loan with local currency loan.
	Direct loans	Of the 14 K–12 private school projects financed by IFC A loans, 12 projects were approved and canceled, including 5 projects that received partial disbursement of IFC loans. IFC loans were not disbursed in 7 projects.	Reasons: bankruptcy/financial difficulties; client found other cheaper sources of financing or sold substantial share to other investors; planned land acquisition or acquisition of another school did not materialize; or project sponsors were unable to comply with IFC loan conditions.
Syndicated loan (IFC B loan)		Project experienced financial difficulties and delayed loan payment to IFC.	Tuition payments from parents who pay via personal checks (50 percent of tuition payments) are delayed that affected cash flow and debt servicing.

(continued)

IFC Investment Instruments	Modality	Results	Underlying Reasons
2. Direct equity investments		Both projects remain active in IFC's books. IFC has divested most of its shareholdings. IFC equity internal rate of return met expectations.	IFC does not hold to its equity investments and must sell its shares at a specified time. One school has negative reputational risk for IFC and is under the Office of the Compliance Advisor Ombudsman investigation. The other school caters to upper-middle class in secondary cities in the country (China) and in its four international branches (Australia, Canada, Malaysia, and Singapore).
3. Quasi-equity investments (IFC C loan)		Both were canceled including one that was not disbursed. Average duration in IFC's portfolio was 3 years compared with 7-10 years of duration of the C loan.	In the undisbursed project, the planned acquisition of other schools did not materialize. In the canceled project, the sponsor prepaid when it sold a substantial share to a venture capital fund.
4. Risk-Sharing Facility (first-loss guarantee facility)		All four projects were canceled. Average duration in IFC's portfolio was 5 years compared with the 10-year tenor of the Risk-Sharing Facility. In one Risk-Sharing Facility project, IFC's return was negative.	Design, fees, and requirements of the Risk-Sharing Facility were burdensome to financial intermediaries. One of the financial intermediaries was acquired by another bank, and the Risk-Sharing Facility was not renewed. IFC was unable to find other banks to take over the Risk-Sharing Facility in the case of another financial intermediary.

(continued)

IFC Investment Instruments	Modality	Results	Underlying Reasons
5. Equity investments through IFC investments in Funds		Of the 26 K-12 private schools with investments from IFC-financed Funds, 21 have active investments from IFC-financed Funds.	Four Funds have exited from six K-12 investee private schools by selling or cashing out its investments. Only one experienced net loss during the divestment. No other information is available on the K-12 investee companies.

Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; K-12 = kindergarten through grade 12; SME = small and medium enterprise.

Appendix D. K–12 Private Schools' Project-Level Development Indicators Identified and Monitored

Table D.1. Project-Level Development Outcome Indicators for K–12 Private Schools Occurring in IFC Projects, Excluding Funds Investments

Indicators	Subindicators	Projects Reporting Indicators (excluding Funds K–12 investee projects) (no.)		
		At appraisal (<i>n</i> = 25)	At monitoring and supervision (<i>n</i> = 25)	At evaluation (<i>n</i> = 7)
Access	Number of students enrolled, including female students	21	15	7
	Bursaries/financial aid/scholarships awarded	11	7	3
	Tuition rates	3	2	1
Education quality	Amount spent on staff and teacher training; training provided to employees/teachers	9	9	1
	Graduation rates, including female students	4	4	0
	School or student awards received	5	2	2
	International accreditations received	2	0	0
	Others (vocational training improvement, university placement rates)	2	2	0

(continued)

Indicators	Subindicators	Projects Reporting Indicators (excluding Funds K–12 investee projects) (no.)		
		At appraisal (<i>n</i> = 25)	At monitoring and supervision (<i>n</i> = 25)	At evaluation (<i>n</i> = 7)
Environmental health and safety and social standards	Implement environmental and social action plan/improved environmental and social management system	9	11	5
	Compliance with IFC and national/World Bank environmental health and safety requirements	24	13	5
	Land acquisition and resettlement monitoring	0	4	0
Financial sustainability	Returns to capital providers (annual return on invested capital), or return over project life	24	14	6
	Project financial internal rate of return	12	5	5
	Profitability (annual earnings before interest, taxes, and depreciation)	18	8	5
	Debt service capacity (debt service coverage ratio; debt-equity ratio)	12	2	2
Education sectorwide effects	Number of borrower schools more than 360 days past due with loan repayment (for Risk-Sharing Facility only)	1	1	0
	Number of schools receiving loans (for Risk-Sharing Facility only)	3	4	0
	Number of schools receiving technical assistance (for Risk-Sharing Facility only)	3	4	1
Economy-wide effects	Returns to society (economic return on invested capital; economic rate of return)	10	9	4

(continued)

Indicators	Subindicators	Projects Reporting Indicators (excluding Funds K-12 investee projects) (no.)		
		At appraisal (n = 25)	At monitoring and supervision (n = 25)	At evaluation (n = 7)
	Taxes/levies paid to government	17	8	4
	Employment effects (number of jobs, wages paid)	14	5	3
Private sector development	Demonstration effect: construction of green buildings	8	2	2
	Demonstration effect: replication of facility	2	1	0
	Corporate governance effects (for example, succession planning)	1	1	2
	Others (for example, sale of educational software to other public and private schools)	2	1	1
IFC additionality/role and contribution	Financial additionality (provision of long-term finance not available from other financiers)	21	4	3
	Increasing access to quality education	11	4	1
	Partnership and knowledge sharing	10	2	0
	Demonstration effect: encouraged local lending to the education sector	3	0	1
	Demonstration effect: quality affordable education is possible in the private sector	8	2	1
	Improved corporate governance; financial management (including Risk-Sharing Facility)	2	4	0

Source: Independent Evaluation Group.

Note: IFC = International Finance Corporation; K-12 = kindergarten through grade 12.

Appendix E. Highlights from a Background Paper on Private Investments in K–12 Private Education in Developing Countries

Market Overview and Trends

Enrollment in private schools has risen globally for more than a decade, from 10 percent to 17 percent at the primary level and from 19 percent to 27 percent at the secondary level, and these increases are occurring in low- and middle-income countries (The Economist 2019). Within these countries, low-fee and mid-fee private provision has driven the increase in enrollments (Assomull, Abdo, and Pelley 2015).¹

The main drivers of this increase are income growth and urbanization, a changing labor market, and demand for greater choice and accountability (Caerus Capital 2017). In addition, a growing middle class is increasing demand for English language instruction. This has resulted in a rise in the number of mid-fee schools, which are operated by both international school networks and local operators.

Low-Fee Private Schools

Low-fee private schools (LFPS) are overwhelmingly operated by individual entrepreneurs operating “mom-and-pop” schools, which enroll more than 120 million students worldwide (Crawford and Hares 2019). There are few data on the extent and nature of these schools because many are informal and unregistered (Edwards 2020). The percentage of registered LFPS varies significantly by country. Operators often have no financial training, lack access to capital, and rely on a single, uncertain revenue stream—tuition payments.

Mid-Fee International and Bilingual Schools

International schools offer curriculum from countries other than the host country (for example, the International Baccalaureate), while meeting the requirements of the host country’s Ministry of Education. Instruction is carried out in a language other than the local language, usually English.²

There has been a roughly 20 percent increase in the number of international kindergarten through grade 12 (K–12) schools worldwide between 2018 and 2020, with a 17 percent increase in enrollment (ISC Research 2020). Growth is strongest in Latin America, where enrollment data for 2015–19 show a 37 percent increase, whereas East Asia and South Asia logged 32 percent growth (Merriman 2020). Enrollment in international schools in the Middle East has grown by more than 20 percent between 2015 and 2018 (L.E.K. Consulting 2019).

International schools are traditionally high-fee and cater to an upper-income market. This is changing, with a large element of the international schools’ growth now being driven by local populations rather than expatriates, leading to a greater range of options across multiple price points (ISC Research 2020).

Language schools offer the national curriculum taught in the local language and second-language instruction, which is usually English. Although there are no available data on the growth of the global bilingual schools market, there is evidence of growing demand at the country level.

In Brazil, new private K–12 models known as “bilingual schools” have emerged as the fastest-growing segment in the private education market. With fees that are approximately 50 percent lower (\$7,500) than those of high-fee international schools, these schools reach more than seven times the number of households in Brazil (L.E.K. Consulting 2018).

In Vietnam, bilingual affordable schools are predicted to be in increased demand. Spurring this demand is a young population and the fastest-growing middle class in Southeast Asia (Pham and Le 2020). Vietnam does not rank highly in terms of language proficiency, leading parents to consider private providers (Tiong and Bhattacharya 2020).

For some high-fee networks, expansion into mid- or low-fee markets was supported by development finance institutions. For example, in 2015, the Commonwealth Development Corporation (now British International Investment), a development finance institution owned by the UK government, committed to invest up to \$45 million alongside global education provider Global Education Management Systems (GEMS Education) for the development of GEMS Africa—an initiative that supports low-fee schools (Dream Africa Schools), teacher training, and school services.³ Dream Africa currently runs 19 campuses in Uganda that offer early childhood development and K–12 education.⁴ Beaconhouse, a high-fee operator in Pakistan, received loans from the International Finance Corporation (IFC) to expand into the mid-fee market (IFC 1996).

Bridge International Academies received an equity investment from IFC of \$13.5 million in 2014 to expand its LFPS in Africa and India (IFC 2014). Bridge also secured \$4.5 million from the United Kingdom’s Department for International Development (replaced by the Foreign, Commonwealth & Development Office) to expand into Nigeria (Edwards 2017). Mid-fee Curro schools in South Africa also expanded into underserved markets with support from IFC, and the Innova Schools mid-fee network expanded in Peru with a \$15 million loan from the Inter-American Development Bank in 2012.

Regulatory Frameworks and Role of Government

Regulations can impede or encourage private sector investment. Private sector participation depends on transparent, consistent, and supportive regulations. Regulations that impede private sector growth include caps on school fees, foreign investment limitations, and barriers to accreditation and standard setting. The impact of changes to regulations is significant.

In the Arab Republic of Egypt, for example, private education accounted for approximately 11 percent of total school enrollment in 2018–19, and conditions were favorable for growth. However, a 2019 ministerial decree limiting foreign ownership of private schools to 20 percent brought private sector investment to a standstill. In January 2021, the Ministry of Education acknowledged that private sector investments are essential to meet growing

enrollment, given the inadequate government budget. The Ministry of Education changed course and issued a decree allowing unlimited foreign ownership of international and private schools. Global education provider GEMS Education responded by announcing a joint venture with investment bank EFG Hermes to build K–12 schools in the next two years (Leila 2021).

In Vietnam, the Ministry of Education and Training has recently encouraged private sector investment interest, particularly for international schools, by easing conditions to establish and operate international schools and increasing the percentage of Vietnamese nationals allowed to enroll in international schools to 50 percent of total enrollment, up from the previous 10 percent to 20 percent (Ly 2020). These reforms have led to an increase in foreign direct investment in the education and training sector, reaching \$64 million in the first half of 2019, an increase of 124 percent over the same period the previous year (Do 2019). Certain barriers remain, however, including requiring both a business eligibility license and an education operator’s license (Do 2019).

These examples demonstrate how a government can encourage private sector provision and how the private sector can help the government meet its enrollment goals. For example, in Egypt and the Philippines, the private sector helped the governments increase enrollment. In Vietnam, easing of conditions for establishing international schools and enrollment restrictions for local enrollment led to an increase in foreign direct investment.

Governments can also support private investment by providing accurate data and information. In the case of Educate Girls development impact bond (DIB) in India, local government data identified an unmet market need (gender gap in education) and enabled Educate Girls to respond and provide services in districts where it was most needed, increasing learning gains for boys and girls and increasing enrollment of out-of-school girls (L.E.K. Consulting 2019). In Brazil, the government coordinated with Investe São Paulo—the investment promotion agency associated with the São Paulo State Department of Economic Development, Science, Technology, and Innovation (SDECTI)—to furnish private education provider SABIS with strategic socioeconomic information to support their due diligence process and led to SABIS launching their mid-fee school in Campinas (InvestSP 2015).

Financing in the Private K–12 Market

The private K–12 market is dominated by individual and family entrepreneurs. According to Caerus Capital (2017), only 10–20 percent of formal private education providers in Sub-Saharan Africa have a revenue scale large enough to make investment viable for large investors. Some formal private schools have been able to expand into networks, but these typically remain small. According to the Global Schools Forum, an organization for private school networks in developing countries serving low- and middle-income students, the median Global Schools Forum member is 7 years old and has grown by 1.6 schools each year (Global Schools Forum 2020). However, this number is skewed by some very large chains that have grown quickly (Caerus Capital 2017).

The entrepreneurs who have been able to increase from a single school to a network overwhelmingly rely on traditional sources of financing, such as private equity, venture capital (VC), bank loans, and angel investors and foundations. Many rely on a combination of financing sources.

Private Equity

Private equity investors, either high-net-worth individuals (HNIs) or firms, directly invest in companies or engage in company buyouts (Investopedia 2021). In the education sector, private equity investors often offer expertise and capital to maximize returns (Assomull, Abdo, and Pelley 2015).

Unlike VC, which invests in start-ups, private equity firms mostly buy mature, established companies that may be deteriorating or failing because of inefficiency, then streamline operations and increase revenues. Private equity firms usually invest a minimum of \$100 million in a single company (Investopedia 2021). However, there are examples of smaller private equity investments in the education sector, such as Ecoles Yassamine and Tiba International School.

Venture Capital

VC can be considered a subset of private equity. Venture capital is finance given to start-up companies that are seen as high risk but also high reward. Most venture capital investments are long term, locked in for 5–10 years, while start-up companies mature. The company is then acquired or goes public, and the VCs realize profits. This type of financing can be attractive to start-ups because it offers financing without taking on debt, as the start-ups pay VCs through shares. However, as VCs become shareholders, they may influence key business decisions, often sitting as board members (CBInsights 2021). VCs have the expectation of anywhere from a 10 percent to a 100 percent return on their investment (Weston 2020).

Data on the amount of VC investing in the education sector overall are unavailable; however, VC investments in this sector gravitate toward educational technology because of scalability and high-growth prospects (Assomull, Abdo, and Pelley 2015). VC investments in K–12 education are small and, in some regions, declining. In Latin America and the Caribbean, VC in education and education services declined from \$6 million in 2011 to \$0 in 2015, despite an overall surge in VC investing (Latin America Private Equity and Venture Capital Association 2016).

In 2012, education publishing and assessment firm Pearson Education launched a \$15 million VC fund, Pearson Affordable Learning Fund (PALF). This fund invested in 10 education companies, including LFPS Omega Schools in Ghana (Fallon 2016). After fully committing the initial \$15 million, Pearson launched a new VC fund of \$50 million in 2019, which will focus exclusively on educational technology start-ups (Cavanagh 2019).

Angel Investors

Angel investors are usually HNIs who invest in early-stage start-ups with seed capital in exchange for ownership equity or convertible debt. They often have less rigorous commitments, diligence, and requirements than other investors (Assomull, Abdo, and Pelley 2015). In addition, they often offer more favorable terms than other lenders (Investopedia 2021). Angel

investors typically take ownership of between 20 percent and 40 percent of a business, depending on its valuation.

Education and training institutions are not a priority sector for angel investors, ranking 17th in popularity for angel investors (Hicks 2021). In India, for example, angel investors in the education sector made up only three percent of total angel investments (Sabarinathan 2019). These investors gravitate toward educational technology (37.4 percent) and health care (23.5 percent) industries (Cremades 2018). Examples of angel investors supporting private K–12 include Bridge International Academies and SPARK Schools.

Franchise Model

A franchise is a joint venture between franchisor and franchisee. The franchisor is the original business, and the franchisee buys the right to sell the franchisor’s goods or services under an existing business model and trademark, which requires up-front capital (Investopedia 2021). Franchising is an “active” investment in which the franchisee will operate the business on a day-to-day basis (Daszkowski 2019).

Franchising allows companies to raise funding before reaching a sizable scale, when capital is difficult to access (Dutta 2012). The franchisor will receive revenue when the franchisee makes the initial purchase of the controlled rights, or trademark, from the franchisor in the form of an up-front fee. The franchisor can also receive payment for providing training or business advisory services. Finally, the franchisor receives ongoing royalties or a percentage of the operation’s sales. Royalties paid to franchisors vary by industry and can range from 4.6 percent to 12.5 percent (Investopedia 2021). In the education sector, Grupo SEB has relied heavily on franchising. Beaconhouse in Pakistan franchises its mid-fee brand, The Educators.

Foundations

A foundation is a nonprofit corporation or charitable trust that historically makes grants to organizations, institutions, or individuals for charitable purposes. Foundations can be privately funded, with money coming from a

family, an individual, or a corporation (Candid Learning n.d.). Some private education providers have established philanthropic foundations, such as the Varkey Foundation, established by Sunny Varkey, founder of GEMS.⁵

Very little information is available on foundations. As of 2012, only five foundations contributed more than \$5 million annually to supporting education in developing countries. Four were foundations funded by family or an individual (the Ford Foundation, the William and Flora Hewlett Foundation, the Open Society Foundations, and the Carnegie Corporation of New York) and one was a corporate foundation (Mastercard).

Foundations have historically awarded grants to fund specific projects. Unlike private capital, such as loans, grants cannot be recycled. However, foundations are becoming more involved in innovative approaches to financing projects, in part because they can absorb the initial financial risk (Global Partnership for Education 2017). For example, impact investments were initially developed by private foundations and HNIs to harness private capital toward social services while maintaining a focus on achieving outcomes (Steer et al. 2015).

In addition to financing impact bonds, private foundations have invested in private K–12 schools and education outcomes funds and have funded initiatives that support LFPS, such as the IDP Rising Schools Program in Ghana, which provides microloan and finance training to low-fee school operators.

Innovative Financing

Impact Investing

Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return (Global Impact Investing Network 2019). Impact investors include VC firms, HNIs, financial institutions, foundations, and commercial banks (Assomull, Abdo, and Pelley 2015). Impact investors have diverse financial return expectations, with some intentionally investing for below-market-rate returns, in line with their strategic objectives. However, most impact investors pursue competitive, market-rate returns (Hand et al. 2020).

Impact Investors

The education sector has not received significant interest from impact investors. According to the Global Impact Investing Network *2020 Annual Impact Investor Survey*, the education sector attracted only 3 percent of impact investing assets, with only 1 percent of sector investors focused on emerging markets. In fact, among repeat respondents to Global Impact Investing Network surveys (2015–19), the compound annual growth rate in the education sector shows a 7 percent decline (Hand et al. 2020).

The growth of impact investing in education is challenged by several factors. Nearly 80 percent of spending in the education sector is driven by governments, meaning the number of investable assets is lower. Furthermore, unlike investments in the health sector, for example, where investments are scalable, with clear, measurable, and sustainable results, learning outcomes are affected by various external variables, such as quality of content and the availability of teachers and infrastructure (Assomull, Laad, and Budhiraja 2020).

Impact investing deals in the education sector remain small, particularly for investments that target lower-income students. The typical deal size for K–12 LFPS is \$0.5 million, and \$0.8 million for K–12 mid-fee schools. This contrasts with deals in educational technology (\$5 million) and support services (\$10 million; D. Capital Partners 2013).

Impact investors can play an important role reaching vulnerable segments of the population by providing “patient capital,” meaning long-term horizons and tolerance for risk, for small-scale and pilot initiatives. These investors are willing to accept a modest return. An example of impact investing in K–12 education that generates low returns is the debt and equity investment in Nasra Public School by VC impact investor Acumen. In contrast, Norsad Capital, the impact investing firm that extended a long-term debt facility to Nova Pioneer schools in South Africa, limits its investments to companies with earnings before interest, taxes, depreciation, and amortization (EBITDA) of more than \$2 million (with emphasis on \$2 million to \$10 million); EBITDA margins of more than 10 percent; and revenues of more than \$5 million (emphasis on \$5 million to \$50 million).⁶

In general, impact investors seeking a meaningful return from education sector investments, such as VC firms Gray Ghost Ventures, Kaizenvest, and The Rise Fund, invest in educational technology and services rather than schools (Assomull, Laad, and Budhiraja 2020).

Impact Bonds

Impact bonds are a form of results-based financing in which an investor provides up-front capital for social services programs, and this investment is repaid—often with interest—based on the program’s achievement of predetermined outcomes. In a social impact bond, the repayment is made by the government, while in a DIB, the repayment is made by a third party, usually a donor organization or a foundation. In low- and middle-income countries, impact bonds are referred to as DIBs (Gustafsson-Wright 2020).

Outcomes Funds

An outcomes fund is a funding mechanism that enables several results-based contracts to be developed and supported in parallel and under a common framework. A primary goal of outcomes funds is to improve services and programs that tackle complex social issues by scaling up the results-based contracting market through funding impact bonds and other results-based mechanisms.⁷

The Education Outcomes Fund for Africa and the Middle East (EOF) is an independent trust fund hosted by the United Nations Children’s Fund (UNICEF). It will pool grant funds from aid, philanthropic, and private sector donors to fund DIBs. The website does not list specific outcome funders, nor does it list the impact investors. It does list sponsors that have provided support for the EOF over the years: the Ford Foundation, the UBS Optimus Foundation, the Atlassian Foundation International, the Aliko Dangote Foundation, the William and Flora Hewlett Foundation, the ELMA Foundation, and Big Win Philanthropy, and hybrid impact investor/foundation Omidyar Network, UK Aid (under the Foreign, Commonwealth & Development Office), and HNI Sir Ronald Cohen (Education Outcomes Fund 2021).

EOF will use DIBs to rapidly increase proven and innovative services from private service providers, working in areas of priority to government.⁸ EOF will focus on targeting underserved populations, including girls, children with disabilities, and refugee populations. Further, EOF will only support programs that can demonstrate a sustained increase in learning outcomes (Education Outcomes Fund 2018).

EOF will fund private providers of both ancillary services and core education provision at the early childhood development and vocational levels. At the basic education level, ancillary services only, not core education, can be provided by the private sector (Education Outcomes Fund 2021).

EOF plans to raise \$1 billion in funding and reach 22 countries in the Middle East and North Africa Region. EOF has the potential to address some of the challenges and limitations of DIBs, such as being small in scale and high cost in terms of monitoring and evaluation and overhead costs. EOF plans to create more standardized contracts and processes, centralize expertise and resources to structure contracts, and leverage technology and existing evaluation frameworks to ensure that monitoring and evaluation can be achieved with high quality and low cost (Education Outcomes Fund 2018).

Social Bonds

A recent innovation, social bonds are broadly defined as a regular bond that exclusively finances or refinances projects that address or mitigate a social issue or aim to achieve a positive social outcome (Laugel and Vic-Philippe 2020). Social bonds were originally driven by multilateral organizations such as IFC. However, the private sector has begun to show interest—recent figures indicate that of the \$8.8 billion worth of social bonds issued globally in 2017, private sector issuers accounted for nearly 15 percent, whereas in 2016 they were nonexistent (Kinley 2018). Since the outbreak of the coronavirus (COVID-19), social bonds have become of increasing interest to investors looking to achieve positive social outcomes together with a financial return (Peeters, Schmitt, and Volk 2020).

Investors in social bonds can expect a social return without a diminished financial return. Voluntary guidelines for social bonds include the identification

and assessment of social benefits, selection process for the project, financial transparency, and annual reporting on expected assessed impact (International Capital Market Association 2021).

In 2019, Innova Schools issued the first social bond in the Peruvian market to finance capital expenditures for expansion. As of 2019, there were 54 schools in the Innova Schools network, and the company plans to expand to 90 schools by 2023. The social bond, issued for 15 years, raised approximately \$63.5 million. Sustainalytics, a global company specializing in environmental, social, and governance risk, will monitor and evaluate compliance that expansion will be limited to midmarket schools (Green Finance for Latin America and the Caribbean 2019). Sustainalytics will receive impact reporting from Innova Schools that may include, where feasible, quantitative and/or qualitative indicators such as number of schools built, number of enrolled students per year, percentage of students in academic “satisfactory” level and by socioeconomic status, price of tuition, and capital expenditure per year for new schools and expansion (Sustainalytics 2019).

Challenges to Private Investing

The private K–12 education sector does not attract significant interest from traditional investors, and although there is growing activity from results-based financing initiatives, investment remains low. Investors in this sector face a variety of challenges.

Local Contextualization

Education is a highly localized business, subject to cultural, regulatory, and financial variations across geographies. This prevents business models from being implemented across regions. In Brazil, for example, university entrance exams differ by region, which means curriculum varies across the country (L.E.K. Consulting 2018). In addition to undertaking extensive market research, GEMS works with local partners who understand local market conditions (Kerr 2013).

Adaptability

Education providers must be flexible to meet their goals. For example, in Educate Girls, program implementation was adjusted after data indicated that after two years Educate Girls had reached just half the learning target because of chronically absent children not benefiting from the program. In the third year, the group added home visits and remedial classes to better reach these students, and subsequently their gains were comparable to students who attended school regularly (IDinsight 2018).

Long-Term Investment

Education is a long-term business. Successful education businesses rely on the ability to prove quality; therefore, education investments must have a long enough horizon for operators to demonstrate successful academic outcomes. According to GEMS Group Executive Director and board member Dino Varkey, a single school can take five to seven years to become sustainable (L.E.K. Consulting 2019). Impact investing that uses patient capital can play a key role in education financing.

Lack of Qualified Teachers

Hiring qualified teachers is another challenge. Growth in mid-fee and low-fee K–12 schools in Africa is limited by a shortage of qualified teachers (L.E.K. Consulting 2019). Some school networks hire less experienced teachers who are supported by technology and a well-defined and codified curriculum supplemented with assessments. For example, Bridge International Academies has developed its own teacher training program that relies on scripted lesson plans and video-based training. Maple Bear Global Schools met this challenge by instituting internationally competitive training for local teachers. Training is led by Canadian teachers and aligned to Maple Bear’s customized bilingual curriculum.⁹

Barriers to Scaling Up

The overwhelming majority of LFPS operators are unable to increase the number of schools they operate. Operators lack financial acumen and access

to capital and rely heavily on tuition payments for revenue. For many school operators, tuition payments are their only revenue stream (Results for Development 2016).

The IDP Rising Schools Program in Ghana is an example of a successful initiative that provided both training and small loans to school operators. These operators became more profitable and invested in school infrastructure improvements.

Impact of COVID-19

COVID-19 school closures are having a devastating impact on LFPS. These schools are often unable to offer digital education because of challenges related to household access to digital devices and internet access for teachers. Many parents are shifting their children to government schools that are offering free classes on television. This drop in enrollment spells financial disaster for LFPS operators who rely on timely tuition payments and are unable to secure loans (Niazi and Doorly 2020). Private school teachers are suffering economic hardship, with accounts of private school teachers not being paid or losing their contracts, while schools were closed in Cameroon, the Democratic Republic of Congo, Ethiopia, The Gambia, Ghana, Malawi, Nepal, Niger, Saudi Arabia, Senegal, Tanzania, and Vietnam (Carvalho and Hares 2020a).

Once schools are able to reopen, parents who are suffering economic constraints may not be able reenroll their children. This would result in a shift to public schools that would strain government systems, particularly in urban areas where investment in new public schools has not kept up with population growth (Carvalho and Hares 2020b).

Private Sector Impact on Public Sector

Competition

The empirical evidence on the impact of school competition on efficiency is mixed. Although several studies show that competition between public and private schools increases educational outcomes, others find no evidence of

impact. In addition, some studies have analyzed the relative efficiency of private and public schools, with varying results. Although some studies show no significant differences between both types of schools, others find an advantage in favor of private schools, but the magnitudes are low after controlling for students' socioeconomic status and selection bias (Elacqua, Iribarren, and Santos 2018).

Critics are also concerned that private schools will have incentives to skim off high-achieving students at the expense of disadvantaged and low-performing ones who will remain at their low-performing and segregated neighborhood public schools. For example, several studies have found that more economically advantaged families and high-performing students are more likely to opt out of their assigned public school (Elacqua, Iribarren, and Santos 2018).

Investor Interviews

To better understand the goals and investment rationale of private investors in the K–12 sector, interviews were conducted with a range of investors at both the low-fee and mid-fee level in emerging markets.

All investors are committed to the private K–12 market, which they see as a growing investment opportunity, fueled by population growth among young people and unmet demand for quality education.

Interestingly, there are different views on investing in school chains. One investor has concluded that no future investments in school chains will be pursued, given the slow expansion rate of three to four schools per year. Instead, future investments will focus on education services through an investment fund. Possible services include educational television programs, teacher training, and a peer-to-peer learning application. This firm will also work with an education finance company to provide loans to private K–12 schools.

Another investor prefers to invest in school chains. This investor has established teacher training academies, which are viable because of a larger number of teachers who undergo training. Training their own teachers allows for quality control. Another investor supports investing in school chains but cautions against rapid expansion. As it usually takes three to five years

before schools make a profit, expanding quickly could lead to a restriction in cash flow. One investor plans to continue to finance the expansion of its K–12 network and in parallel invest in educational technology and technical and vocational education and training institutions in Africa.

Investment Rationale

All investors surveyed see an unmet demand for quality education at both the low-fee and mid-fee levels. The public sector is overcrowded, with parents on waiting lists for public schools in some markets. Steady population growth in low-income countries means that this demand will continue. Further, parents see quality education as a priority and budget school fees into their household expenses.

Value Added

All firms offer postinvestment support through a variety of avenues. This includes technical assistance to address specific issues, such as software upgrading, and teacher training and mentoring. School operators also receive support in expanding their management structure. This may involve the creation of new positions such as human resources, marketing, and financial management. Operational support can include identifying and securing school sites and ensuring that school buildings meet safety standards. One private equity firm ensures that school buildings are environmentally responsible. Investors also provide best practice knowledge and support research on improving learning outcomes.

One private equity invested in a K–12 African network just as COVID-19 was affecting the local job market and schools were facing closure because of a significant decrease in enrollment. This firm oversaw the closing of 3 out of 21 schools in the network. The firm then worked with the remaining schools to provide operational and human resource support. Despite the risk of investing in a K–12 network during a pandemic, this investor is confident that the network will grow to more than 50 schools throughout Africa over the long term.

Advantages Provided by Private Equity or Venture Capital Investors

All investors confirmed that domestic banks were typically uninterested in providing financing to private K–12 operators, requiring collateral that these operators usually do not have. Further, banks are reluctant to lend to schools until they see evidence of student enrollment, which prevents lending to greenfield projects. In cases where domestic banks do lend to established private K–12 schools, they may offer unfavorable, short-term loans of one year only, renewable annually.

Some investors suggested that private equity is better placed to provide financing to small private operators because they have a higher risk tolerance than domestic banks. It was also suggested that because VC firms tend to have a greater number of investments and a more diverse portfolio, they may not be able to provide the necessary support and mentoring needed for a small operator to expand.

One investor sees an advantage in investing in K–12 schools in partnership with development finance institutions, whose relationships with the Ministries of Education throughout the developing world could facilitate a strong relationship between private K–12 operators, investors, and the Ministries of Education. This would lead to dialogue regarding accreditation and regulatory requirements.

Investment Approach, Principles, and Strategy

All firms surveyed cited strong support for United Nations Sustainable Development Goal 4 and are committed to providing quality education in their schools. There is a common belief that access to quality education will lead to poverty reduction.

All firms indicated that they are investing in urban centers at either the low-fee or mid-fee level. Firms survey parents to ensure that they are reaching their target market. Questions to determine income include employment and other proxies, such as whether there is a radio or television in the household.

All firms invest in small and medium enterprises, and the majority are interested in regional markets. Indeed, one private equity firm noted that financial sustainability requires scale, which will lead to regional expansion.

Due Diligence

All firms undertake market assessments as part of their due diligence process. Information gathered includes current and future public sector capacity, and existing private provision and whether there is unmet demand. Data on public school quality (test scores) are also sought. One firm indicated that before investing in an existing school, it undertakes a survey of current parents to ensure their satisfaction, as a way to avoid reputational risk to the firm.

Financial Sustainability and Returns on Investment

Financial sustainability is of paramount importance. All investors require their investments in this sector to be commercially viable. The desired return on investment varies, from 10 percent for one impact investor to 20 percent for a private equity investor. Another private equity firm seeks to make three to five times its initial investment over the course of 20 years or longer.

Access and Quality

There is consensus among the firms interviewed that providing quality education is paramount. They believe that access to K–12 education has been achieved; however, learning outcomes remain inadequate. To ensure quality education, several firms provide teacher training and coaching, while others offer enhanced curricula. Several firms engage external service providers to evaluate students’ literacy and numeracy. Others provide prospective parents access to student performance history so that they are aware of the quality of education being offered.

Social and Developmental Benefits

All firms interviewed are committed to supporting private K–12 schools that provide quality education, with the goal of poverty reduction. The majority engage external education service providers to measure learning outcomes

and track student performance. One investor believes that sharing lessons learned and learning outcome data with other schools, both private and public, will ultimately lead to widespread monitoring and evaluation. Another firm shares its curriculum with other private providers and offers teacher training courses to public sector teachers at no cost to broaden its reach to more communities.

One investor in particular is focused on ensuring that the graduates of their K–12 network are well prepared for postsecondary education and ultimately have the necessary skills to enter the local job market. As students graduate from the network, this investor plans to launch a longitudinal tracking survey to determine the impact their schools have had in achieving this goal.

Relevance

Several firms indicated that they strive to ensure that the curriculum offered is relevant for the community being served, with an emphasis on developing critical-thinking skills. One firm that has shared its curriculum globally via radio during the COVID-19 pandemic had recordings made locally to ensure that the content would be easily understood by different audiences.

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¹ There is no standard definition of a low-fee private school. The United States Agency for International Development defines low-fee private schools as schools with tuition rates of less than 50 percent of the country's minimum wage.

² For more information, see <https://internationalschoolsglobal.com>.

³ See <https://www.cdcgroup.com/en/our-impact/fund/solon-capital-holdings> and <https://www.cdcgroup.com/en/our-impact/investment/gems-africa>.

⁴ See <https://dreamafricaschools.com>.

⁵ See <https://www.gemseducation.com/the-gems-difference/schools-for-good/varkey-foundation>.

⁶ See <https://norsadfinance.com/our-solutions/#whatwelookfor>.

⁷ See <https://golab.bsg.ox.ac.uk>.

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Appendix F. Highlights of Development Finance Institutions' Support for Private K–12 Education

Introduction

This appendix focuses on development finance institutions (DFIs) that invest in the private sector—that is, on DFIs that invest in the education sector either directly (market-based financing, direct equity) or indirectly (private equity funds). It does not consider DFI support for publicly provided education through, for example, grants and loans at preferential rates. Private or “nonstate” schools can take different forms, ranging from schools operated by religious orders to low-cost, not-for-profit schools to schools operated by entrepreneurs on a for-profit basis.

Summary Approach

The Independent Evaluation Group (IEG) contacted all the DFIs identified by the Organisation for Economic Co-operation and Development as providers of support to the private sector to establish if they invested in the education sector and if, within that, they invested in private kindergarten through grade 12 (K–12) schools.¹ IEG received a written or verbal response from the majority of DFIs confirming or disconfirming investment in K–12 private schools (and private K–12 education more broadly). In a limited number of cases (for example, Commonwealth Development Corporation [CDC; now British International Investment], Proparco), IEG spoke directly with staff who provided additional information regarding their policies and portfolios. Other contact—for example, with the Asian Development Bank (ADB), African Development Bank, and others—was conducted by way of correspondence. Where there was no direct written or verbal confirmation, IEG researched the websites of relevant organizations (organizational websites typically provide sector and portfolio details) to determine if the DFIs had

invested in private education in general and in private K–12 schools in particular.² When looking at ongoing developments related to support for K–12 private education, IEG also spoke with a representative of the United States Agency for International Development (USAID).

Support for K–12 Private Education among DFIs

Level of Support for Private K–12 Education among Bilateral DFIs

Of the 17 bilateral DFIs that invest in the private sector, 8 (47 percent) have invested in private education at any level, and 6 (35 percent) have invested in private K–12 education. The 6 bilateral DFIs that have invested in private K–12 are the Belgian Investment Company (BIO), Proparco (France), the Swiss Investment Fund for Emerging Markets (SIFEM), CDC Group (United Kingdom), the US International Development Finance Corporation (DFC; United States), and Finnfund (Finland).

Both direct and indirect investment modalities have been adopted. Where a direct investment approach is used (loan, equity), the specific magnitude or level of investment is apparent. (For example, Proparco has invested \$25 million in Mozambique, and CDC invested \$7.6 million in Bridge International Academies, which also attracted investment from the International Finance Corporation [IFC].) Where the mode of the investment is indirect or intermediated, the specific level of investment in private K–12 schools is not necessarily apparent. For example, BIO has two intermediate investments that support private K–12 schools. The first investment is with Kaizen Private Equity II (KPE II; in which IFC has also invested) that is dedicated to the education sector in South and Southeast Asia targeting the (lower) middle population. The fund invests in education, defined as core education (such as K–12 schools), parallel education (such as preschool, test preparation), and education-enabling services.

Overall, among bilateral DFIs, IEG found that a small number invested in K–12 private education. The number of investments made by individual DFIs is typically limited. For example, Finnfund has one investment, and SIFEM

and BIO each have two. DFC (United States) and CDC (United Kingdom) are the most significant bilateral investors in K–12 private education.

Indirect investment was the most common form of engagement for bilateral DFIs, often using investment vehicles that are targeted at multiple sectors—that is, a portfolio approach. K–12 private education can be one option on a sectoral menu (as in the case of Grameen Impact India, which is supported by the DFC). In other cases, K–12 private education is a nominated “carve out” (targeted or marked) within the investment or the investment fund itself (for example, KPE II, which is supported by a number of DFIs) that specifically targets education (though not exclusively at K–12 schools).

In certain instances, and typically involving direct investment made by Proparco (France) and DFC (United States), investment may have a cultural dimension. For example, in the case of Proparco, investment may be made in Francophone schools, and in the case of DFC, investment may be made in schools that are pursuing an American curriculum (for example, schools in Bamako).⁵

Among DFIs that have not invested in private K–12 education, some—such as FinDev Canada—noted that it would be possible for them to do so, but that such business had not yet presented itself. Or, as Swedfund and other DFIs noted, education is not a target sector for investment, but it is possible that they may have had indirect exposure through a fund, although this would not necessarily be known to them.

Deutsche Investitions- und Entwicklungsgesellschaft (DEG; Germany) noted that it had supported financing of vocational studies; however, for K–12 proposals it had handled, there were problems either with collateral or with debt repayment capacity, and the projects were not pursued. DEG also noted that in addition to financial conditions, learning output access would be crucial. For example, support was denied in one instance where only expatriate children were attending the school; local children could not attend because of hard currency required for the fee payment. DEG also noted that what was referred to as the “ideological orientation” of the school may be considered in its decision-making.

Level of Support for Private K–12 Education among Multilateral DFIs

Of the six multilateral DFIs providing support to the private sector, four (67 percent) have provided support to private education at any level, and one (ADB) has invested in K–12 private education.

Among multilateral DFIs that have not invested in private K–12, we note the following:

- » The African Development Bank has supported one private education project with a special focus on technical and vocational education and training and higher education, including research and development. Private sector in basic and secondary education level may be considered for exceptional cases, especially in fragile states, but to date no projects have been supported.
- » In 2015, the European Bank for Reconstruction and Development was considering a senior loan, now canceled, in the amount of up to \$5 million to two schools as part of the Quality Schools International network—\$1 million to Tirana International School in Albania and \$4 million to Ashgabat International School in Turkmenistan. The operation would have enabled the borrowers to (i) build a new facility on the existing premises of Ashgabat International School in Turkmenistan, and (ii) refinance a new facility for Tirana International School in Albania, which was largely completed in 2014.
- » The European Investment Bank has invested in the building of primary schools as part of public-private partnership (PPP) arrangements with the municipality of Espoo (Finland) and with the city of Vienna (Austria). The Espoo venture is the first municipal-level PPP financing in Finland, part of which involves the European Investment Bank providing up to €60 million, the Nordic Investment Bank up to €75 million, and OP Corporate Bank up to €35 million (loans with 21.5-year tenor). The Vienna venture involves the construction of nine school and kindergarten campuses in the city of Vienna under a PPP (€69 million).

- » The Inter-American Development Bank has funded projects in the education sector that include, for example, a loan of \$25 million to support a PPP arrangement undertaken by the government of Uruguay as part of its strategic plan to develop the country's educational infrastructure; a \$5.4 million investment in a project in Mexico with a company (Edilar S.A. de C.V.) that markets instructional and cultural materials to public school teachers in 27 states across the country; and an investment of up to \$100 million in Prodigy Finance, which provides access to financing for Latin American and Caribbean students to attend top-tier postgraduate institutions.
- » In 2019, ADB invested \$5 million in K–12 education through KPE II, in which IFC and other DFIs have invested.⁴ ADB's stated value added is that its involvement will attract other institutional financiers and enhance the funding available to the private education sector in South Asia and Southeast Asia, strengthen Kaizen Capital's environmental and social management system, and promote gender mainstreaming within KPE II and its investee companies.
- » An ADB representative highlighted that objectives under ADB's Strategy 2030 include the following: (i) expanding private sector operations to reach one-third of total operations by 2024, and (ii) diversifying private sector operations beyond the infrastructure sector. Support for private education is included in this expansive approach.
- » There are two ways in which ADB can support private schools: (i) assistance through the Private Sector Operations Department (PSOD)—the equivalent of IFC—which provides equity investments and loans directly to private sector entities, and (ii) assistance through regional operations departments that provide sovereign financing of government projects and programs. To date, the private sector wing of ADB (PSOD) has had limited involvement in the education sector; in 2019, only \$7 million, or 0.05 percent of the PSOD's portfolio, was in education. Where PSOD has been active in education, that involvement has been limited to higher education, although engagement in the education sector more broadly is expected to grow over this decade.

Observations on DFI Support for K–12 Private Education

What Does DFI Investment Support?

In all cases where there is available evidence, principally in relation to direct investments via loans and equity, it is clear that DFI investment in K–12 private education has typically supported infrastructure development to assist in building, relocating, or expanding private schools. It is not clear, however, how indirect investments are used. Funds may be used for infrastructure development or to support activities such as online platforms, second-language tuition, or other purposes.

Popular Investment Vehicles and Opportunities

Certain investment vehicles and opportunities have attracted investment from multiple DFIs (together with other donors). For example, Bridge International Academies has attracted investment from IFC and CDC, and the Bill & Melinda Gates Foundation, the National Education Association, Omidyar Network, and the Chan Zuckerberg Initiative. The International Community School (Ghana) has attracted investment from IFC and CDC (the school follows the British system of education and offers the International General Certificate of Secondary Education [IGCSE] and A-level programs at the high school level).

KPE II has attracted the most investment attention from DFIs. KPE II has attracted investment from IFC, ADB, BIO (Belgium), Proparco (France), and SIFEM (Switzerland). KPE II is an investment fund that specializes in the education sector in South and Southeast Asia. The fund is managed by Kaizen Capital Management Private Limited (Kaizenvest), a private equity fund manager incorporated in Singapore that is dedicated to education investments. KPE II was set up in 2009, and its first funding was raised in 2011, allowing for investment in 10 companies specializing in the education sector. The fund is a 10-year, closed-end fund with a \$125 million target size. The management team consists of both private equity professionals and education sector specialists. KPE II is investing in education sector companies

across Bangladesh, India, Myanmar, the Philippines, Sri Lanka, Thailand, and Vietnam. Target subsectors include K–12 education, test preparation, pre-schools, online education, and vocational training.

Rationale for DFI Investment

Where there is clear intentionality to invest in K–12 schools supported by direct investment in the form of a loan, equity, or insurance, the rationale for bilateral DFI investment is largely driven by some form of national or cultural self-interest (for example, Proparco and DFC).

Most of the indirect investment by DFIs is part of a wider package of support for micro, small, and medium enterprises or growth sectors—that is, education is treated the same as, for example, health or transport.

In some instances, indirect funding may be explicitly dedicated to investment in education. In those cases, the rationale for investment may vary across relevant DFIs. For example, with reference to investment in KPE II, gender is a factor in the investment decisions made by ADB, BIO, and Proparco. Poverty alleviation is also referenced by ADB, and BIO states that the target population is “lower middle income.”

In three instances, there is some suggestion of the investment having an impact on the broader educational ecosystem, although it is not clear from available documentation how these effects will occur or be measured.⁵ Proparco states that investments will be complementary to public provision; BIO states that the investment will help bridge the disparity between public and private schools, noting that education is identified as an underfunded sector in South and Southeast Asia; and SIFEM notes that investing in the Indian education sector is expected to result in substantial indirect development effects, such as raising literacy levels and improving the employability of India’s youth.

Recent Developments in DFI Policies for Investment in K–12 Private Education

Although investment in private K–12 education is a minor activity even for the most active DFIs in the field, it (and the question of investment in

private education more broadly) has attracted significant recent attention and features in important policy-level developments at key bilateral DFIs, including USAID, DFC, and CDC. Other DFIs (such as Proparco and Finnfund) also said they are reviewing their policies regarding investment in K–12 private education.

These developments are elaborated on in the following sections, as they are of particular relevance to the third evaluation question: What has been learned that could help IFC improve its engagement in K–12 private education in the future?

Developments at CDC (United Kingdom)

The British government reviewed CDC (see the Report of the National Audit Office) after an exposé-type piece in a 2010 edition of the magazine *Private Eye*. The article claimed that the CDC had moved away from financing beneficial international development toward a purely profit-seeking agenda that had minimal benefit for impoverished communities. Following that review, the government decided to reconfigure CDC to better focus its investments on poorer countries and to ramp up its engagement in direct investment as a counterbalance to the use of arm’s length investment through funds. In presenting the review, the head of the National Audit Office said, “By achieving strong financial performance with a portfolio weighted toward poor countries, CDC will have made a credible contribution to economic development in those countries. But the scale of that contribution, or the direct effect on poverty reduction for impoverished people, is harder to demonstrate. DFID [Department for International Development] needs better evidence on the scale of CDC’s impact to make sure it secures the greatest development benefits.”

In 2014, DFID published a report on the role and impact of private schools in developing countries (Day Ashley et al. 2014). The report noted a history of strongly divided opinion in public discourse on the relevance and appropriateness of investment in private schools in a development context. Advocates regarded private education provision as essential in meeting targets associated with the Millennium Development Goals and also saw total reliance on government-funded education as a factor leading to low quality of education and affecting the education chances of the impoverished, with

private offerings having the added advantage of reduced costs. The opposing perspective raised concerns about the appropriateness of the involvement of the private sector in the provision of education, particularly if subsidized by the state or donors—that is, in conflict with the recognition of education as a human right. Advocates of free, high-quality public education emphasized the need to concentrate efforts on reform to meet the needs of the majority of the poorest and most vulnerable.

The 2014 report found strong evidence that teaching is better in private schools than in state schools; moderate evidence that private school pupils achieve better learning outcomes when compared with state schools, although significant ambiguity was attached to this finding; and moderate evidence that the cost of education delivery is lower in private schools than state schools (again, significant ambiguity was associated with this finding, given data gaps). The report found that evidence is ambiguous about whether private schools geographically reach the impoverished, and there was inadequate evidence on whether the impoverished are able to pay private school fees. It also found that although children of poorer households do attend private schools, research indicates that welfare sacrifices are made and that continued attendance is difficult to sustain. Another of the many findings suggested limited evidence to enable any conclusion to be drawn about the financial sustainability of private schools. The report stated that general conclusions are difficult to arrive at because of the diversity of private schools, the significant gaps in the evidence, and the fact that available research is rarely generalizable in itself.⁶

A 2017 report from the House of Commons International Development Committee asserts that education is a fundamental human right that underpins the improvement of lives and the eradication of poverty; however, the report also notes that despite this and the aspirations of Sustainable Development Goal 4, 263 million children and young people remain out of school around the world, and an estimated 330 million more are in school but not believed to be learning the basics. The report covers a wide range of topics, including investment in private education, about which it notes:

DFID's support to private sector schools is controversial, and we recognize that the Department does give the vast majority of its support to

public education initiatives. Where DFID has supported private sector providers, it has seen some learning gains, but there are questions as to the sustainability of this model. There is a lack of research into the added value from private sector schools, and research into this area should be supported. Where evidence-based research on low-fee schools does exist, the Department should review the findings. (4)

In 2019 the CDC published *Maximising the Impact of Education Investments*, in which it developed a framework designed to help identify all impacts in potential CDC education investments and then to maximize the positive impact of CDC portfolio companies over time. The report's foreword notes that, critically, the Education Impact Management Framework contained in the report looks at not only the institution-level impact of investment but also the impact on the system as a whole, moving the focus beyond what it refers to as the zero-sum thinking that has influenced the education debate (CDC Group 2019, 4).

The document notes that the question is not whether the private or public sector is better, but how all players in the system can contribute to and ultimately achieve universal access to quality education. It also states that education systems in developing countries tend to rely more on the private sector than do systems in the developed world, suggesting a need for private sector companies participating in education systems to be held to account for their positive and negative impacts at the system and institutional levels.⁷

The framework developed to assist in regulating and assessing private sector involvement in education is built with reference to the following five design choices: applies to all types of education providers; identifies positive and negative impacts; identifies the impact at the system level and the institution and learner level; considers the impact of education on the economy and society (although this is hard to measure); and makes room for judgment calls by not allocating weightings or scores to different impacts.

The document recognizes risks associated with private investment that are taken into account in the framework, including, for example, significant variability in quality; little evidence that the private sector is, on average, operating at higher quality than the public sector; little regulation of educational

technology products and among all forms of education (there is often a lack of rigorous evidence of learning outcomes); little incentive for private companies to target harder-to-reach, costlier groups unless there is a clear business case; and competition among private schools for the highest-quality professionals and students, with a potential negative impact on public provision.

Developments at USAID and DFC (United States)

A 2019 coordination report referencing the relationship between DFC and USAID notes that “through the DFC, the U.S. government—and USAID in particular—will be able to access a much deeper toolkit of development finance tools and expertise than has been available in the past. This access to the DFC’s financing tools is especially critical to USAID’s core objective of promoting a path to a recipient country’s self-reliance and resilience.”

Representatives of USAID and the Overseas Private Investment Corporation (now DFC) noted in a letter accompanying the coordination report:

As the DFC increases its ability to mobilize private capital, and USAID places more emphasis on its engagement with the private sector, close coordination between USAID and the DFC to pursue the [US government] development objectives is essential.

USAID’s 2018 *Education Policy* recognizes the need to muster all available resources to meet the learning crisis originally identified in *World Development Report 2018*. The policy notes the following:

The capacity and effectiveness of governments to provide high-quality education varies across countries and contexts. Many children and youth would be denied access to education if not for non-state schools and providers—including private, for-profit, non-profit, community, faith-based, and other non-governmental organizations. (17)

USAID recognizes the complexity of an “education system” and the many stakeholders involved. It defines an education system as consisting of the people, public and private institutions, resources, and activities whose primary purpose is to improve, expand, and sustain learning and educational outcomes. Stakeholders include national and local governments, schools,

teachers, instructors, unions, students, parents and caregivers, nongovernmental organizations, faith-based and community organizations, universities, and the private sector, including firms that deliver education and training or ancillary services.

In 2020, USAID published *Private Sector Engagement (PSE) in Education Plan*. The stated purpose of the plan is for USAID to make organizational and behavioral changes to be a better partner, be intentional and strategic in its engagement and partnerships with the private sector, build shared value relationships that align with USAID’s Education Policy, and provide technical support that is responsive to the mission. Private sector engagement in education is defined as follows:

A strategic approach to planning and programming through which USAID consults, strategizes, aligns, collaborates, and implements with the private sector for greater scale, sustainability, and effectiveness in achieving development or humanitarian outcomes across all sectors.

The goals for private sector engagement within primary-level education are use of Global Book Alliance best practices; successful Global Book Alliance and USAID programs that strengthen book chains and a culture of reading; support for all children in the Reading Grand Challenge; productive relationships with publishing, educational technology, and ancillary industries; and scaled impact and sustainability.

In 2020, USAID also published a good practice guide, *Engaging Non-State Schools*, which notes that nonstate schools present an opportunity to fill the gaps where governments are already overburdened, while providing increased choices for students and parents, and that USAID’s education policy recognizes the role of nonstate institutions in contributing to the resolution of educational challenges and improvement of learning and educational outcomes in alignment with national education sector plans. The guide sets out six principles for engaging nonstate schools:

1. Governments are the guarantors of education, but they are not the only provider or financier of education. USAID’s support for non-state schools is targeted towards providers who are committed to accountability to governments, parents, and students.

2. Governments play an important role in ensuring non-state schools are regulated.
3. The majority of USAID's financial resources and technical assistance remains committed to public education. When resources are directed towards non-state educators, USAID's focus is on schools serving marginalized and vulnerable populations and seeking to catalyze innovation and scalable solutions in alignment with government priorities.
4. Consistent with USAID's 2018 Education Policy and support to public schools, USAID's support to non-state schools is focused on access, equity, quality, inclusion, sustainability, and relevance of education.
5. USAID's support to non-state schools is focused on contexts where demand already exists and USAID can support existing local systems.
6. As both a provider of education and an offeror of ancillary services, the for-profit, private sector is only one stakeholder in the education system, alongside governments, civil society, parents, and students. Viewing education systems holistically and engaging all stakeholders can help achieve sustainability. (9)

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² The Independent Evaluation Group used online material to determine whether relevant development finance institutions invested in education and kindergarten through grade 12 (K–12) schools for the Austrian Development Bank, the Belgian Investment Company for Developing Countries, the Belgian Corporation for International Investment, CDP/SIMEST (Italy), SOFID (Portugal), COFIDES (Spain), the European Bank for Reconstruction and Development, the European Investment Bank, and the Islamic Development Bank.

³ Through its investment in Enko Education, Proparco is supporting the creation and running of about 30 international schools in French-speaking Africa targeted at the middle classes. Through its investment in Mission Laïque Française (MLF), Proparco is investing in a historic operator of French education abroad (projects in Morocco, Côte d’Ivoire, Lebanon, the Arab Republic of Egypt, and Ethiopia), with the funding also forming part of the French government’s development plan for French education in the world.

⁴ The Asian Development Bank also invested in Hippocampus, which provides supplementary education inputs for primary school children but is not a primary school per se. See <https://www.adb.org/results/hippocampus-rural-education-project>.

⁵ The authors of a recent piece on the role of private school chains in developing countries observe that although some school chains in the developing world do try to work in partnership with relevant government partners, it is difficult to see what a chain running two or three private schools can teach the government, given the size and complexity of public education systems (Crawford and Hares 2019).

⁶ In 2019, the Center for Global Development published *Low-Cost Private Schools: What Have We Learned in the Five Years Since the DFID Rigorous Review*. The authors reviewed 78 reports published since the 2014 Department for International Development (replaced by the Foreign, Commonwealth & Development Office) publication and found that recent evidence broadly reinforces the earlier findings. They found that, in some instances, students in private schools achieved better learning outcomes, but much of this advantage is because of selection of wealthier or better motivated students. The effect of private schools drops sharply after controlling for family background. The authors emphasize that what really matters is “the real-world size of these impacts, which are small.”

⁷From the Commonwealth Development Corporation (now British International Investment) perspective, private education includes core education (pre-primary up to higher education and technical and vocational education and training) and ancillary services (supplementary education, student finance, institutional finance, publishing, and teacher training). It also includes private for-profit and private not-for-profit providers, providers contracting directly with learners, and providers contracting with institutions.

Appendix G. Highlights from Key Informant Interviews

Research Approach

The Respondents

Key informant interviews were conducted in spring 2021 with knowledgeable education experts drawn from a purposive sampling of civil society organizations (CSOs): 9 global CSOs, which referred to those with a global reach; 20 local CSO officers, representing 18 locally registered CSOs active in the field in a subregion of Africa, the Middle East, or China, or in one country (Kenya, Rwanda, Tanzania); 9 academic global education experts (AGEEs); 4 World Bank education experts; and 6 International Finance Corporation (IFC) education sector experts.

Achieving Consistency of Approach

All global CSO interviews were conducted virtually by Group Dimensions International. The local CSO interviews were conducted in-person in the specified countries by local consultants who assisted with the five case studies. To achieve consistency across multiple sites and interviewers, all local CSO researchers participated in an extensive virtual interview training in April 2021 that was offered by Group Dimensions International to Independent Evaluation Group staff and managers. Participants were able to practice their skills with the draft interview guide and give input on the guide. The training emphasized that interviewers should pose the same questions to all respondents with exact wording, probe only for meaning and depth, withhold their own views to achieve unbiased data, and ask for respondent reflections at the end of each interview.

Key Findings

All Respondent Types Cite Sustainable Development Goal 4

All respondent types are aware of and embrace Sustainable Development Goal (SDG) 4. They define education as a human right and a positive force for development as children learn to become productive members of society. Holistic education means that children learn to contribute to the community and develop emotional wisdom, interpersonal skills, and artistic and other talents. Public education tends to emphasize literacy and numeracy toward passing national exams more than private education does.

Local CSOs and AGEEs especially emphasized that “education enables upward socioeconomic mobility and is a key to escaping poverty.”

All respondent types pointed to the millions of children who are out of school (exacerbated by the coronavirus [COVID-19] pandemic).

Many expressed concern that even children who are in school are not emerging with “minimum proficiency in reading and mathematics,” an explicit part of SDG 4.

The Global Goals Also Place a Strain on Public Basic Education Systems

Local CSOs pointed out that the effort to enroll all children in kindergarten through grade 12 (K–12) since 2000 (under Millennium Development Goals and SDGs), while laudable, has also placed extreme pressure on governments in lower-income countries to meet SDG 4.

Although local CSOs understand and embrace the commitment to achieve this goal by 2030, they also emphasized the lack of capacity for governments to achieve SDG 4 (especially in lower-income, conflict, postconflict, and least-developed countries). Many AGEEs and World Bank education experts also see this pressure on public systems.

Countries that lack resources, or have pushed more resources into sectors other than education, lack school infrastructure and materials or suffer from unresolved disputes with teacher unions are unlikely to meet the global goals.

Therefore, local CSOs are more likely than other respondent types to support private investment in private schools to close the education gaps facing children in their countries and regions.

Some described an “education crisis” that governments cannot resolve without the private sector taking some of the burden off their shoulders.

The realities of low quality in education and outright lack of access to viable schools are of greater concern to most local CSOs than the question of who finances schools, at least in the short term.

Local CSOs and AGEs noted that although private education students may have higher academic outcomes than public education students, private school students still might not receive “quality” education.

Nonetheless, local CSOs are more hopeful than are global CSOs and others that private education might provide models and innovations that will positively impact public education.

Local CSOs Accept Private Education as a Normal and Necessary Supplement to Public Systems

Private education is a long-standing, historically rooted supplement to public education.

In a perfect world, free and quality education would be provided through the public sector, but since that has not traditionally been the case in many developing countries, privately supported and managed schools serve an important purpose.

When governments fail to deliver basic and secondary education, it is logical, pragmatic, and, in most instances, routine for the private sector to step in, preferably in collaboration with governments.

Private education is a reality that cannot be ignored.

Private schools are a critical part of the education landscape.

The view that public funding of private education is either dysfunctional or illegal misses the essential and productive role of private sector education—filling gaps left by the public sector.

Some global CSOs and AGEs claimed that the only appropriate role for IFC investment in private education (if any) is during the transition to more accessible, available, and quality public education.

Although some local CSOs alluded to IFC’s investment in Bridge International Academies, they are not as quick to use that case as a reason not to find ways to invest creatively and responsibly.

Government schools also charge various fees other than tuition, so charging (some) fees is not by definition a reason to reject the concept of private sector involvement in basic education.

Focusing on the education of middle- and upper-income students does not fit into SDG 4.1, but private education is welcome if it serves all children, regardless of income or whether fees are charged.

Scholarships or lower fees for poorer, rural, isolated, and marginalized children are welcome, but even lower-income families that place a high value on education are likely (and often able) to shift resources to pay a small (by definition, manageable) fee to secure a higher-quality education in private schools than they think their children can receive in the public system. This calculus is well known among local CSOs.

Global CSOs Are More Likely to Resist Private Education Investment

Focusing on the education of middle- and upper-income students does not fit into SDG 4.1, but private education is welcome if it serves all children regardless of income level.

Scholarships or subsidies for very low-income children are not only welcome but necessary.

Issues such as inadequate teacher training, sexual assault, and other forms of failure to protect children arise in public and private education and have been serious issues in “chain” educational enterprises that are not carefully designed, regulated, and evaluated.

Definitions and Disparate Contexts Create Confusion

SDG 4 of the 2030 Agenda calls for “free and quality” K–12 education. All respondent types define *free* as tuition free (at minimum), but for some global CSOs, all costs should be covered for marginalized children.

Most respondent types believe that all children have the right to access the highest level of excellence in basic education, but that basic education must also be affordable for all families—that is, inclusive of all families, with full representation of lower economic segments.

Although all see that as a laudable goal, local CSOs, AGEs, and World Bank education experts argued that the realities of developing country economics mean that governments cannot provide this on their own.

Many local CSOs argued that public systems are not free, in any case, because families are often expected to pay for supplies, uniforms, transportation, lunch, and other hidden costs that are not obtained through taxation (another cost to many parents).

Local CSOs noted that families are willing to shift their resources around to pay a small fee to keep girls and younger children close to home if the public system requires them to walk too far, on dangerous roads, or through dangerous areas. The calculus of securing safety and some schooling outweighs the concept of having totally “free” schooling.

Confusion Exists Regarding IFC and the International Bank for Reconstruction and Development Mandates

Some global CSOs seemed to confuse IFC’s financial structure (that a “return on investment” is expected) with the notion that IFC is a profit-making entity that returns gains to individual investors, members of the agency, or otherwise benefits individuals rather than meets its obligations

to serve low-income countries. Statements such as “Our development of the Operating Principles for Impact Management is helping forge a common standard for investments that target measurable positive social, economic or environmental impact alongside financial returns” may contribute to this understanding.

A few respondents in each segment appeared to confuse the mandates of IFC and the International Bank for Reconstruction and Development. Some assumed that projects such as Bridge International Academies were supported by the International Bank for Reconstruction and Development.

This finding may explain some of the more stringent opposition to IFC financing of private education in developing countries (that is, the locus of return for investment is assumed to be IFC, not the client, and is intended to feather IFC’s nest rather than to provide agency sustainability).

Concern for Vulnerable and Marginalized Populations Is Shared among Respondents

All respondent types expressed special concern for the most vulnerable and marginalized children, especially girls, children living in extreme poverty, and children living with disabilities. No one believes that these populations are being well served either by private or public sector education in their countries and regions, but local CSOs think that public systems do accommodate the needs of children with disabilities.

Many local CSO respondents feel that ending support for private K–12 education because of issues with safety and security (for students and staff) is not warranted because the same issues exist in public systems. Private schools are more likely to make the incidents public (which means they appear to be more frequent), while public schools often mask these issues.

Potential Negative Impacts of Private Education Are Concerning

All respondents (but especially global CSOs) expressed some concern that private investment in private (rather than public) education runs the risk of several potentially negative (though unintended) consequences:

- » Drawing international organizations such as IFC or others away from investing in public education
- » Shifting public investment in K–12 education into other sectors
- » Skimming off the best teachers and students into the private education sector, thus creating an elite population
- » Denying children from low-income, marginalized, and vulnerable populations equitable access to quality and “free” education, thus creating an elite population

Agreement Exists on the Need for Better Regulation of Private K–12 Education

Most respondent types believe that if private investment in private education is to occur, then regulation and oversight of education provision must be conducted with a national vision and mission, rather than being viewed as a way for government not to educate the children in the country or region.

Privately funded schools must be regulated by the government through adequate policies, regulations, assessment, and oversight that includes the following:

- » Careful review of existing regulations of private education
- » Strong assessment tools that go beyond grade completion, performance on national and other standardized tests, and progress to next levels of education

Mistakes made by existing or previous private education efforts could be rectified or avoided in the future with better design, planning, and collaboration among governments, private sector investors, and other stakeholders (for example, teachers, unions, parents, communities, donors, and so on).

Private education that complements public education should be invited by a government that wants to enable choice for families.

Governments are responsible for working with all stakeholders, including teachers, parents, unions, communities, private investors, and others to establish principles for creating constructive private education as a complementary or supplementary adjunct to public education.

Issues such as inadequate teacher training, sexual assault, and other forms of failure to protect children arise in public and private education and must be addressed in both sectors for all children and school staff.

The lofty ideal that private schools will serve as inspiring innovators that lead public education into higher levels of quality is more hope than reality:

- » Improved strategic collaboration and cooperation between private sector and public sector schools will help ensure that potential “spillover” from private innovations in teaching and learning will happen intentionally, not accidentally.
- » Unexpected and unintended consequences are inevitable with any public or private investment in any sector.

Teacher Training, Strong Materials, and Relevant Technologies Are Requisites to Achieve SDG 4

All respondent types underscored that inadequate teacher training, unsatisfactory or rote-method teaching, and lack of appropriate educational materials and technologies hamper achievement of quality education, whether private or public.

Improved and more extensive teacher training at all levels is essential to achieve global goals.

Many respondents offered that the provision of up-to-date books and materials and relevant technologies for quality education could be a logical and useful place for IFC investments.

A Tentative Theory of Change

Private Investment in Private Education Is Not the Real Issue

For most respondents across types, the existence of private investment in private K–12 education per se is not the most significant policy issue. Public funding could support a privately run education network if the

circumstances ensure that challenges are being overcome, safeguards are in place, government regulation is fully in place, and preferably no fees are being charged (or at least fees are not more than the equivalent fees charged by public systems).

Private investment in private K–12 education makes sense to most respondents—and, for local CSOs, is considered essential to meet SDG 4 and other related education goals—if the following criteria are met:

- » Investment in private education is not solely to assist clients in making a profit or meant to develop markets where they do not exist. (A “return for investment” is acceptable if it allows clients to meet operating costs and invest in future planning and infrastructure to improve their education provision.)
- » Private schools complement public systems in countries that have repeatedly failed to deliver quality public education.
- » The private sector is doing well and is reaching underserved populations more effectively than the public sector, or where there are observable quality benefits, and the private system:
 - » Adheres to the principle of nondiscrimination (religion, ethnicity, race, disability, and so on);
 - » Does not use admission screening tests that exclude low-income groups;
 - » Is in full compliance with national laws and education standards;
 - » Remains compatible or complementary with public mandates for quality;
 - » Includes national standards for certification of teachers and curriculum standards (if not in compliance, private education clients should not be funded or lose funding);
 - » Is nondetrimental to public schools (for example, does not poach teachers and students); and
 - » Does not *undermine* quality.
- » Stakeholders (governments, parents, teachers, communities, unions, and others immediately involved in providing quality K–12 education) are included in

a collaborative decision-making and planning process in advance of supporting investment in private education projects.

- » Private schools charge no fees of any kind for K–12 education (some believe this is a direct contravention of the SDGs and human rights laws), or if fees are charged for private education students, they are not higher than the cost of typical government-supported K–12 school fees (including all fees for tuition, uniforms, books, materials, and so on).
- » Public sector (government) regulation of private education is robust.
- » Regulation, planning, assessment, and evaluation take into account the ability of private schools to offer equitable access (especially regarding cost), quality teaching and teacher training, relevant and up-to-date books and materials, and the safety and security of all students, including lower-income students, marginalized students, vulnerable students, girls, and children with disabilities.

Implications

From the point of view of the most ardent respondents, private investment in private basic education should:

- » Be an emergency or a temporary stopgap, and
- » Rely on an exit strategy for schooling to be handed back to the government as soon as possible, especially for those who work in education “on the ground,” although the respondents agree that private education should ultimately give way to excellent, free, and quality education.

Private investment in private education in developing countries makes sense and is appropriate.

Given these contrasting and sometimes contradictory perspectives, what is IFC’s role, if not to directly fund the provision of education in the private sector? Some global CSOs and most local CSOs, AGEs, and World Bank education experts suggest that funding private companies to build more efficient, safe, and technologically advanced learning environments for children who are underserved would be an appropriate and constructive role for IFC

to play. IFC has a potential role in building schools in impoverished inner cities of mega-metropolises where the poorest children lack access to education because public schools tend to be built in middle- and upper-income neighborhoods.

IFC financing could appropriately be used to invest in clients that can provide locally appropriate, gender-sensitive textbooks, hardware, and software as long as these clients support quality in the public system, present no adverse systemic impacts to the right to education, do not create socioeconomic stratification that is inherently negative to those who need education but whose families cannot afford access, and pay taxes as appropriate.

Appendix H. Highlights of the Structured Literature Review

This appendix is based on the structured literature review (SLR) background paper prepared for this evaluation.

Introduction

The SLR was designed to answer three evaluation research questions related to the theoretical arguments for and against private provision of education in developing countries; the evidence on private schools' impact on increasing access, improving education quality, and increasing financial sustainability; and what the theory and evidence suggests regarding the impact of private schools on equity and equality in access and student achievement.

The purpose of the SLR was to identify the type and manner of private sector engagement in K–12 education (including private K–12 schools) and synthesize available evidence on the impact of private sector interventions on educational outcomes, in various contexts. The objective was to provide a synthesis of what worked in those contexts and why and to use the findings to examine the extent to which IFC's strategies and investments aligned with available evidence. The findings from the review were used to triangulate the findings from other evidence sources.

The SLR is a companion to the statistical data analysis (appendix J). Together they are intended to guide IFC when considering investment potential in a given country. Specifically, the two research products support guidance about effective private school features and practices, and the assessment of countries' education systems and the potential impact of a private K–12 school on these systems.

Private schools are a response to limited government capacity to fund and manage its education system. In developing countries, the low quality of public schools drove demand for medium- and high-fee private education among families with more income. The lack of public schools and the low

quality of public education also led to rapid expansion in the number of low-cost private schools, most often on the margins of the governments' systems (Verger et al. 2018, citing Walford 2015).

More recently, low-fee private schools (LFPS) have been actively promoted by international actors, such as international organizations, aid agencies, transnational corporations, private foundations, or international policy entrepreneurs. Support for LFPS is based on the argument that in the face of state failure, private alternatives are the most straightforward way to reach global development goals on education (Verger et al. 2018).

The literature on private sector engagement in K–12 education tends to focus on various forms of public-private partnerships. Intuitively, this makes sense, free-market accountability is effective, all else being equal. The growing literature on LFPS, subsidized LFPS, and private school voucher programs does not distinguish between private schools that receive public subsidies and those that do not. Therefore, the effects of private schools on access or on learning, for example, are often based on a sample of very different types of private schools and students. As Richardson (2018) notes, interpreting and synthesizing the findings from this literature is complicated. Attempts to correct for these limitations have been tried but remain imperfect (Chudgar and Quin 2012). The review's findings were interpreted with care to avoid overgeneralizing or oversimplifying the findings.

Evidence Suggests Government-Funded Private Education Increased Access

Private schools, combined with government financing, have had a positive impact on access to education. The highest-quality literature reviewed suggests that enrollment rates have increased (Romero et al. 2020; Barrera-Osorio and Raju 2010; Adelman and Holland 2015; Snilstveit et al. 2015; and Bravo et al. 2010). Most evidence to support this claim comes from analyses and evaluations of public-private partnerships, such as government-financed schools (per-student subsidies) in Foundation Assisted Schools, Programme de Subvention, and Partnership for Schools in Liberia or government-funded students (through vouchers, for example).

Evidence suggests that public-private partnerships increase other access indicators as well. Positive effects of public-private partnerships have been reported on attendance rates, repetition rates, dropout rates, and progression to secondary education (Andrabi et al. 2020; Shanker et al. 2015; Snilstveit et al. 2015; Ganimian and Murnane 2014; Calvès et al. 2013). For example, students attending private primary and secondary private schools in Burkina Faso stayed in school longer than their counterparts in public school (Calvès et al. 2013). In another example, in Uruguay, the same effects were found for disadvantaged students attending private middle schools (financed by charitable donations). Students also reported significantly greater confidence of completing college than their public school peers (Balsa and Cid 2016).

There is limited evidence to suggest LFPS are reaching out-of-school children. When the public system is constrained, private schools provide more educational opportunities and choices for families. Therefore, under the right circumstances, private schools reduce the number of out-of-school children (Shanker et al. 2015; Chaturvedi 2017). However, private schools are incentivized to manipulate class size regulations for their own economic gain if not properly regulated (Ganimian and Murnane 2014). Larger class size is correlated with a weaker learning environment.

In some contexts, access may shift but not increase. It remains unclear, in some cases, whether increases in private school enrollment reflect students moving from public schools to private schools. For example, both vouchers and subsidies resulted in public to private school movement in Colombia, India, and Chile (Walford 2013; Angrist et al. 2006; Hsieh and Urquiola 2006).

Private schools have been found to have potential to contribute to mainstreaming out-of-school students to government schools (Shanker et al. 2015). Abolishing private school fees in Haiti and introducing parent-teacher associations in newly established private schools in India resulted in new enrollment of out-of-school children, such as girls and low-caste children who would not have enrolled otherwise, since attending the existing school would require costly travel (Adelman and Holland 2015; Johnson and Bowles 2010).

Evidence Is Mixed on the Impact of Access Equity and Equality

Despite their name, LFPS, at least in some contexts, are not accessible for the poorest social groups and tend to attract those families among the impoverished that have higher levels of education and greater expectations for their children, that is, the most advantaged among the disadvantaged (Verger et al. 2018). The abolition of fees in Liberia, where some providers enforced class size caps, pushed excess pupils into other government schools or completely out of the system (Romero et al. 2020). Girls, especially the most disadvantaged girls, face significant barriers to enrolling in school, for example in India where targeted interventions will be required to increase girls' access (Maitra et al. 2016; Sahoo 2017). However, even targeted interventions, such as using local associations, were effective in urban areas but not in rural areas.

Evidence Suggests Improving Quality and Learning Is Specific to Both Intervention and Context

Rigorous evidence supports improvements in quality and learning among various public-private partnership schools. Evidence from a systematic review indicates that overall outcomes were better for children attending public-private partnership schools. However, caution is advised in interpreting the results because (i) the small magnitude of the average effects, (ii) the large between-study variability in outcomes measures, and (iii) the inability to explain why such partnerships work in some contexts but not others (Snilstveit et al. 2015).

Individual impact evaluations not included in the systematic review found positive but cautious evidence for quality improvements (Brandt 2018; Santibañez et al. 2018; Wamalwa and Burns 2018; Balsa and Cid 2016; Adelman and Holland 2015). In many other impact evaluations, no quality effects were attributable to private school or quasi-private school interventions (Romero

et al. 2020; Bodovski et al. 2017; Choi and Hwang 2017; Balsa and Cid 2016; Muralidharan and Sundararaman 2015).

For example:

- » In Punjab, Pakistan, evidence suggests that low-fee private school students outperform their government school counterparts. The explanation offered was greater teacher effort. The finding comes with two important caveats. First, student learning may have been higher, but it was still below basic proficiency. Second, the findings must be interpreted with caution—the poorest and most disadvantaged (by village and settlements within villages) did not have access to private education at the time of the study, pointing to inequity and inequality of learning outcomes (Andrabi et al. 2008). Other studies suggest that the positive effects of low-cost private schools on educational outcomes are driven by “teaching to the test” and cite limited problem-solving abilities among students as evidence (Kumar 2018; Johnson and Bowles 2010).
- » In Kenya, Tanzania, and Uganda, private schooling improves a child’s chances of learning basic reading and writing. Although the quality is flawed, even for wealthy students (Alcott and Rose 2016).
- » In Liberia, evidence suggests significant between-provider variation in school quality making it difficult to draw general conclusions about learning effects (Romero et al. 2020).
- » In India, private schools are associated with greater effectiveness (i) at double cost compared with the public schools (Santibañez et al. 2018) or (ii) over few outcomes, for example, better performance in English, which is not taught in public schools; or (iii) in specific contexts, for example, higher scores on math and Telugu tests for older students (age 15) in rural areas only (Singh 2015).
- » In the United Kingdom, public-private partnership schools were associated with significant improvements in infrastructure, which has been linked to enhancing attendance, teacher performance, and learning. However, these investments exceeded schools’ contractual obligations (they were made to improve the schools’ image), introducing a degree of doubt regarding the long-term sustainability of the public-private partnership model (Cadima et al. 2014).

Improvements in student learning are associated with autonomy and accountability. Aslam et al. (n.d.) found small but significant improvements in test scores and suggest that improvements are linked to decentralized decision-making, including hiring and firing of teachers; transparent accountability mechanisms; clear standards; the authority to generate and manage resources, including administrative resources; nonmonetary incentives for teachers, including training; and the ability to create a school culture that empowers staff, students, and parents.

Incentives may not be sufficient to produce continuous improvements. Evidence from Punjab, Pakistan, suggests improved test scores for students enrolled in Foundation Assisted Schools. The effect was measured at the time the school entered the program. However, there was no evidence of continued or sustained improvement (Barrera-Osorio and Raju 2010).

Market forces can play a role in improving student outcomes. In yet another experimental study in Punjab, Pakistan, low-cost private schools made different investment choices if (i) all private schools in a village were given a grant or (ii) only one school in a village was given a grant. Providing all private schools with additional money (market saturation), the schools responded by investing in quality improvements to differentiate their school from others. In this scenario, student test scores increased, but the schools raised their fees as well, quite possibly pricing out more disadvantaged students (Andrabi et al. 2020).

- » In Chile, the voucher program did not improve gains in academic achievement. The lack of improved learning outcomes was linked to (i) little incentive for public schools to compete with private schools, (ii) limited information for parents to make informed choices, and (iii) increased sorting because private “voucher schools” screened and rejected students and used elite school symbols to actively attract students. The schools did not increase their productivity; the aggregate outcome (nationally, across school types) was null (Hsieh and Urquiola 2006). Similar evidence was reported from Korea’s school choice program. The observed increase in private school test scores was driven by sorting, resulting in no improvements in overall average test scores in Korea and an increase in the public-private school test score gap (Choi and Hwang 2017).

Several studies show that controlling for household, regional, and socio-economic school environment factors significantly reduces, or even eliminates, the gap between private and public schools (Hsieh and Urquiola 2006; Drago and Paredes 2011; Klees 2018; Wamalwa and Burns 2017; Formichella 2011; Brandt 2018; Thapa 2015; Chudgar and Quin 2012; Azam et al. 2016; Singh 2015). In Nepal, Thapa (2015) shows that differences in endowments account for almost two-thirds of the performance gap between students in private schools compared with those in public school. Interestingly, effects on math scores appear to persist even at relatively high values, while those on language disappear (Wamalwa and Burns 2018). In India, Singh (2015) finds that raw differences in test scores between children in private and government schools are driven by greater home investment and socioeconomic background. Differences in demographic characteristics are reported to drive differences in performance between public and private schools also in high-income countries (Cadima et al. 2014).

Evidence Suggests Private Schools Are Associated with Quality and Learning Inequity and Inequality

Strong empirical evidence suggests social stratification may drive improvements in learning. Evidence from the literature suggests that positive gains are associated with systematically selecting students who are already better prepared to learn. Voucher programs produced two types of selection biases: students' self-sorting and schools' "cream skimming" (Richardson 2018; Moschetti 2018; Hsieh and Urquiola 2006; Aslam et al. n.d.). This can be because of school location or program design, among other factors.

- » In Chile, private voucher schools were able to charge top-up fees and establish their own admission and expulsion policies (Aslam et al. n.d.; Hsieh and Urquiola 2006). Hsieh and Urquiola (2006) show that sorting is likely to occur when private schools can choose their student body, as it is easier to select better students instead of investing in quality to show improved academic outcomes.

- » In Argentina, sorting was an established strategy among LFPS (despite being explicitly forbidden) for maximizing subsidy and facility use, without jeopardizing academic outcomes. Selecting the most academically able allowed private schools not only to have large numbers of students per class, while maintaining performance, but also to further increase enrollment by reinforcing their image as higher-quality schools compared with public schools (Moschetti 2018).

The evidence suggests peer effects drive higher achievement and increase the learning gap between urban and rural students. Peer effects are the positive influence of higher achieving or more motivated peers on their fellow students. It is linked to sorting and is also reported to be an extremely influential determinant of scholastic performance (Formichella 2011; Izaguirre and Di Capua 2020; Anand et al. 2009). Izaguirre and Di Capua (2020) show that endogenous peer effects are greater for urban private schools compared with urban and rural public schools, indicating that sorting can be a large social multiplier, with larger positive effects for students in urban private schools, and possibly smaller negative effects for students in public schools.

Not-for-profit private schools targeting disadvantaged children, while engaging the local community, appear to be the exception regarding inequality effects, for example, Fe y Alegría schools in Latin America (Allcott and Ortega 2006; Aslam et al. n.d.).

Policies aiming to reduce inequality need to explicitly target disadvantage children. Studies show that when this occurs, private schooling has positive effects on low-income students' performance and potentially reduces inequality (Mizala and Torche 2017; Ganimian and Murnane 2014; Anand et al. 2009; Barrera-Osorio 2006). Additionally, programs need to address the inequalities in the school environment and the home and community inequalities of the students (Alcott and Rose 2016; Johnson and Bowles 2010). Nuances on how different subgroups of children are affected by inequalities should also be considered (Sahoo 2017; Gallego et al. 2008). For example, in India, gender and caste inequalities in enrollment in private schools could be addressed with legislation that would require private schools to admit girl students and students from lower castes (Johnson and Bowles 2010).

Evidence Clearly Shows That Context Matters

The mixed and inconclusive evidence on quality and learning suggests that context matters, including the type of private school, quality of public system, state regulation, and country- and region-specific socioeconomic and demographic characteristics, among others, and even the extent of fragility (Bodovski et al. 2017; Snilstveit et al. 2015). Based on Haiti’s public-private partnership experience, Adelman and Holland (2015) argue that in contexts of instability with costly inefficiencies in the public system, public financing of private primary education may be more cost-effective and quicker than expanding public supply. But Richardson (2018) warns against public-private partnership in the context of extremely weak states (where a government may have very limited capacity to govern an education system), since the meaningful engagement of a public counterpart (state or citizens) is essential in an arrangement premised on “partnership.”

Heterogeneity in private schools suggests that the private sector should not be treated as a single, homogenous type of schooling experience (Chudgar and Quin 2012). Nevertheless, many studies do not make distinctions among school types and approaches in their analysis.

Several studies show variance in private school performance among districts of the same country (Asadullah and Maliki 2018; Azam et al. 2016), which suggests that differences between rural and urban areas, and region-specific socioeconomic and cultural characteristics can significantly affect the access to, and quality of, private schools.

Practical Rationale for IFC Engagement in K–12 Education

Attention to government policies is critical for IFC’s reputation. For example, some governments abolished public school fees, attempting to make education more accessible for all. The evidence suggests that doing so undermined public school quality. A large influx of students from disadvantaged backgrounds entered the education system, causing more children from more advantaged homes to leave the public school system and enroll

in private schools. This suggests strong excess demand for education but also an increase in sorting and potentially in inequality (Johnes and Virmani 2020; Ganimian and Murnane 2014; Manda and Mwakubo 2013; Lucas and Mbiti 2012).

Private sector schools require a strong state partner. The state should regulate, monitor, and set minimum standards to maintain and improve quality and equity (Verger et al. 2018; Shakeel et al. 2016; Shanker et al. 2015). Advisory services may provide an avenue for IFC’s engagement in K–12 education. The proliferation of private actors providing education requires a strong policy and legal framework including eligibility, standards, and accountability. Advisory services can help build client capacity, support coordination among private investors (and the government), and facilitate knowledge sharing among stakeholders (Richardson 2018).

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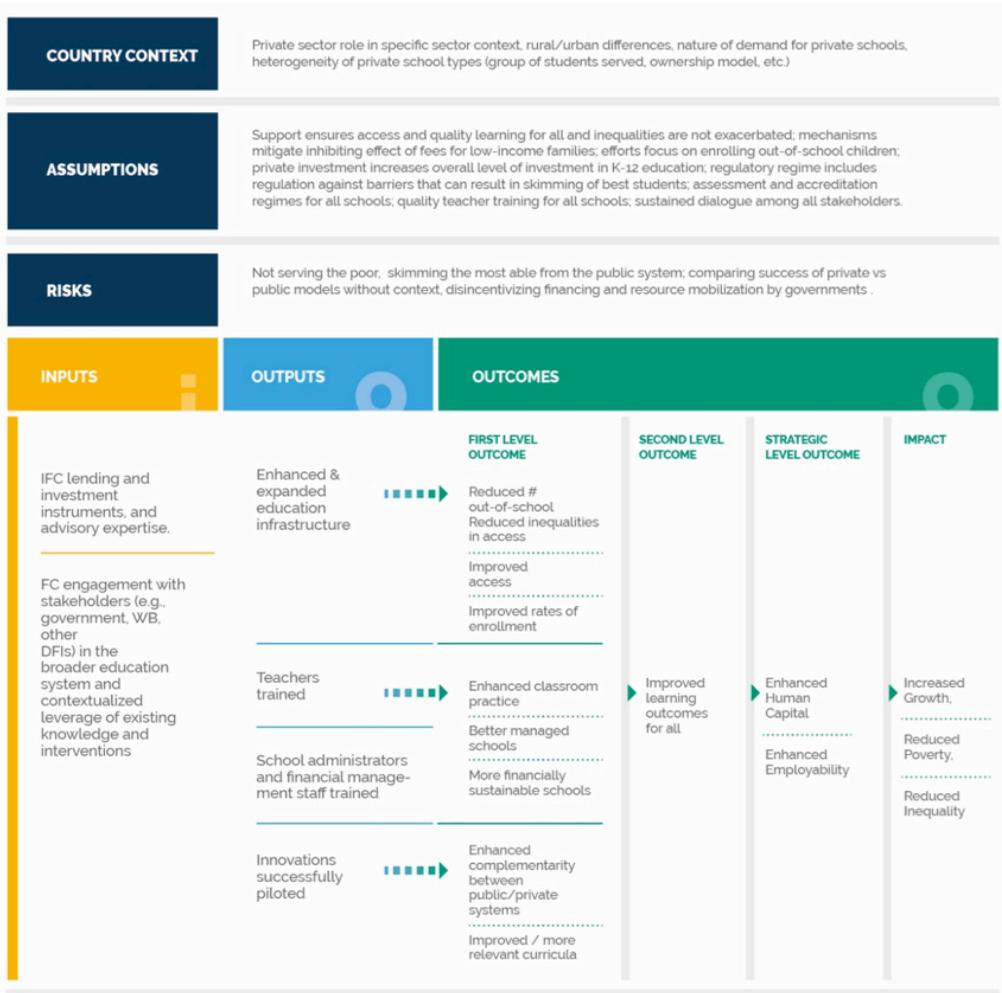
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Appendix I. Illustrative Theory of Change for Future International Finance Corporation Investments in K–12 Private Schools

The Independent Evaluation Group developed an illustrative theory of change based on the evidence gathered by the evaluation. This is only one of many possible such frameworks that might suit International Finance Corporation investment in the subsector. Any such framework needs to consider the context and include well-reasoned assumptions that take account of the risks involved within that context. This example is offered as a starting point for management discussion rather than a finished product.

Figure I.1. Illustrative Theory of Change



Source: Independent Evaluation Group.

Note: DFI = development finance institution; IFC = International Finance Corporation; K-12 = kindergarten through grade 12.

Appendix J. Highlights of Secondary Data Analysis

This appendix is based on the secondary data analysis background paper prepared for this evaluation.

Introduction

The secondary data analysis used regional and international data to analyze private school characteristics and performance across a range of countries. The analysis helped identify factors associated with especially effective private schools. With that information it is possible to answer two related research questions: Are private schools more effective at raising student achievement levels when controlling for differences in family background? And what kinds of teacher, classroom, and school variables distinguish especially effective private schools within the private school segment itself (that is, comparing private schools to private schools)?

The country-level analysis was used to develop typologies of countries based on coverage (private share of total enrollment) and equity (socioeconomic makeup of the private school student body) of the private school segment. The typology is necessary given the significant variation in private school profiles, which potentially complicates the search for a “universal” set of core features of effective private schools. For example, private primary education schools in Mexico are populated almost entirely with children from the highest socioeconomic status (SES) quintiles, and enrollment makes up a very small share of the national total. This contrasts with countries such as Chile and Zimbabwe where most primary students are in private schools, and children from a range of socioeconomic backgrounds are enrolled.

The country-level analysis also reviewed indicators in countries where the International Finance Corporation (IFC) has invested in K–12 private schools. These data provided additional context for evaluating the efficacy of investments.

The results of the statistical analysis have forward- and backward-looking purposes: to assess previous IFC investments while also providing guidance for future investments in private school providers in developing countries. In technical terms, the agenda is ambitious, beginning with the inherent difficulty in identifying teacher and school characteristics that are directly (“causally”) related to student achievement using cross-sectional data. There is also the potential mismatch between the results generated from analyses of national samples of private schools and the kinds of private school providers that are supported by IFC. This limitation is partially addressed through the typology classification and, when possible, by focusing the statistical analysis on private schools that enroll significant numbers of lower-SES children.

The statistical analysis is in two sections. The first section examines the private-public school achievement gap to establish the degree to which private schools have higher achievement than their public school counterparts, and to consider how this gap is affected by student and family background. This is a useful departure point for the statistical analysis because support for private school funding initiatives is based, to some degree, on expectations that private schools are more effective. The relative effectiveness of private schools cannot be addressed definitively here, but it is possible to get a sense of how private schools are performing relative to public schools.

The private-public school achievement gap provides a useful segue into the second part of the analysis, which focuses on characteristics of effective private schools. This analysis is based on samples that include all schools, public and private; private schools only; and private schools that are enrolling children from lower- and middle-SES households. Flexibility is required since it is important to identify features of effective private schools with relatively high enrollment rates among lower-SES children. This approach also helps provide the most relevant guidance for assessing private school investment initiatives.

Private Sector Schools in Context

Global trends for private enrollments vary considerably by region and level of schooling. Private primary school enrollments steadily increased worldwide over the past 20 years. The highest shares (more than 20 percent) are in

South Asian countries and Latin America and the Caribbean, with relatively lower shares of private enrollment (less than 10 percent) in North African and East Asian countries.

The regional variation for secondary education is similar, with relatively high rates of private enrollment in South Asia and lower rates in North Africa and East Asia. However, the share of private schooling has expanded relatively little in recent years.

The number of students in private schools at primary and secondary levels has grown considerably in the South Asia and Sub-Saharan Africa Regions. Meanwhile, the numbers in Latin America and the Caribbean have been relatively constant, while Southeast Asia and North Africa have experienced slight increases. Private enrollment in East Asia has declined.

Although private schooling has grown at the primary level in most regions and countries, private school enrollments at the secondary level, though higher than for primary, have remained relatively steady. These trends need to be evaluated against changes in the population and overall enrollment rates at these levels. The growth in private schooling at the primary level is happening as many countries are reaching universal participation, and families are having fewer children, which may be driving demand for better quality schools. At the secondary level, many countries are still catching up in terms of increasing the supply of (public) schools, which may effectively limit expansion of private schools. Nevertheless, the relatively high share of secondary-level private enrollment in many countries shows the potential for this sector, especially as countries continue to consolidate gains at the primary level and reach goals of universal secondary enrollment.

Private Schooling in Countries Where IFC Invested

Forty-four IFC initiatives included in this review target primary and secondary education (Turkey also has a higher education investment), spread across 20 countries plus four regional (Middle East and North Africa and East Asia) and two global programs. Almost all countries report nearly universal enrollment at the primary level (as of the latest data period 2014–20), and

10 of the 13 countries with data on lower secondary have a net enrollment rate higher than 80 percent. Most countries have also experienced growth in primary and lower secondary private education enrollment (as a share of total enrollment), although the countries with the largest percentage increase tend to have fairly small private school sectors. The combination of an increasing private share, increasing educational participation and, in some countries, growing population means that the overall numbers of private school students have increased in most countries. In raw numbers, the largest changes are in China and Indonesia.

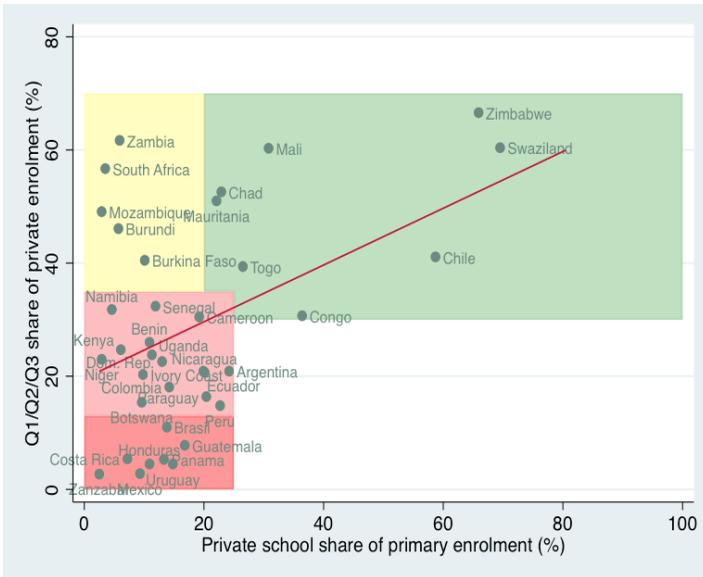
Private School Sector Typologies

In each of the three regional assessments used (covering 40 countries from Southern and Eastern Africa; the Southern and Eastern Africa Consortium for Monitoring Educational Quality [SACMEQ], Francophone Africa [Programme d'Analyse des Systèmes Educatifs de la CONFEMEN; PASEC], and Latin America [Third Regional Comparative and Explanatory Study; TERCE]), the participating countries sampled public and private schools. However, the degree to which the samples are representative of the full population of private schools is not known, and in some countries the private school samples make up fewer than 15 schools.

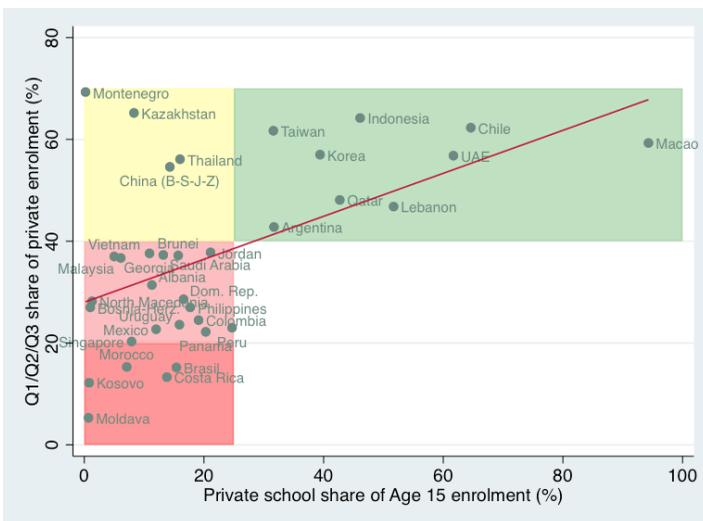
The country typology was developed using coverage and equity data from the regional assessments and is shown in figure K.1. Coverage is measured by the private school share of total primary enrollment between 0 and 100 percent (x-axis). Equity is measured by the overall percentage of private school students who come from SES quintile 1, 2, or 3 families (y-axis). The SES quintiles were derived using student- or parent-provided information on home resources and family background in each assessment. At the primary level, Mexico is at one extreme, where private schools make up 9 percent of total enrollment, and children from Q1/Q2/Q3 families only account for 3 percent of private school enrollment. Zimbabwe, at the other extreme, has a large private sector in primary (65.9 percent of total primary enrollment) and the low- and middle-range quintile children make up nearly 70 percent of enrollment in private schools.

Figure J.1. Typologies of Individual Country Private School Sectors Based on Coverage and Equity

a. Primary school level



b. Secondary school level (15-year-olds)



Sources: SACMEQ 2010; PASEC 2014; TERCE 2014; PISA 2018.

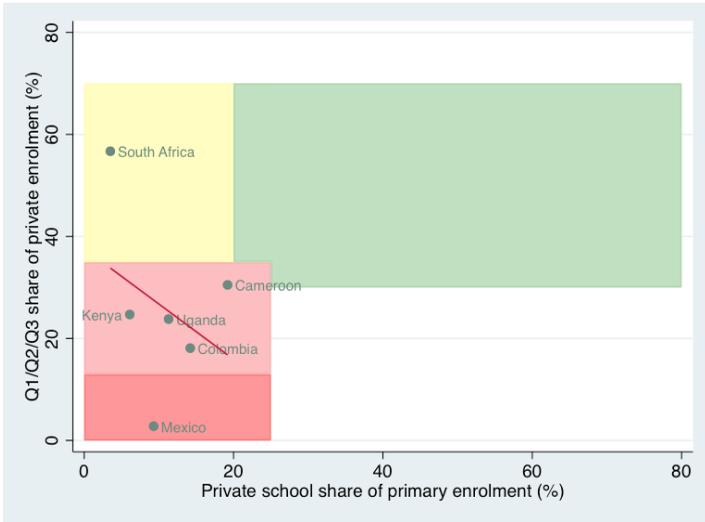
Note: PASEC = Programme d'Analyse des Systèmes Educatifs de la Confemem; PISA = Program for International Student Assessment; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

Figure K.2 shows the six IFC-supported countries for which the assessment databases have data. The results show some divergence by school level. IFC-supported countries with assessment data are concentrated in the pink and red categories, which are small private sectors that have low inclusivity

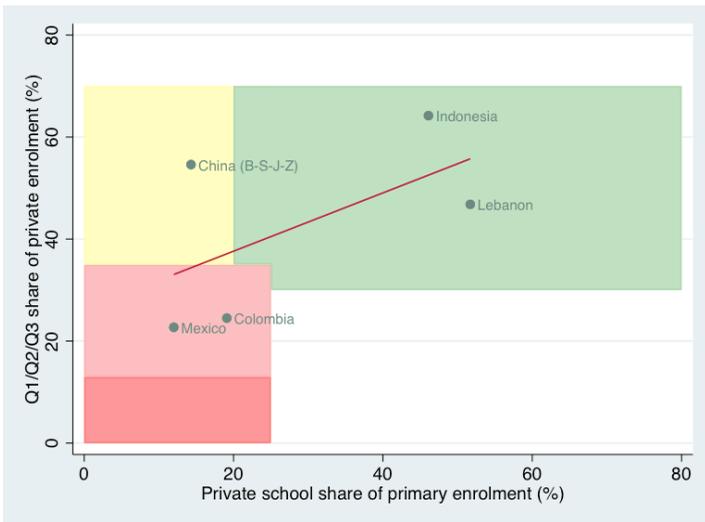
(figure K.2a). By contrast, at the secondary level, the five IFC-supported countries have larger and more inclusive private school sectors (figure K.2b).

Figure J.2. Typologies of Individual Country Private School Sectors Based on Coverage and Equity at the Primary and Secondary Levels, IFC-Supported Countries

a. Primary school level



b. Secondary school level (15-year-olds)



Sources: SACMEQ 2010; PASEC 2014; TERCE 2014; PISA 2018.

Note: IFC = International Finance Corporation; PASEC = Programme d'Analyse des Systèmes Educatifs de la CONFEMEN; PISA = Program for International Student Assessment; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

The typology also provides an organizing framework for the statistical analysis of private school effectiveness. A core assumption of this work is

initiatives that support private schools should target providers that enroll significant numbers of low- and middle-income children and avoid providers that rely on high-fee structures that are prohibitive for almost all families in the country.

Private School Makeup by Socioeconomic Status

The high-coverage–high-equity countries have a large proportion of schools with quintile 1–3 student enrollments that are 40 percent or higher of the total enrollment. For example, in Zimbabwe, over 75 percent of private schools in the SACMEQ sample have enrollments with at least 40 percent quintile 1–3 children. A large proportion of schools have high levels of equity in the yellow-shaded countries from figure K.1a. However, in some high-equity countries, the private school samples are small, especially when restricted to schools that are enrolling significant numbers of lower- and middle-income children.

Only a handful of schools in the low-coverage–low-equity countries have enrolled significant numbers of lower- and middle-income children; these countries likely provide limited guidance for potential private school investments. The pink-shaded countries in figure K.1a, have schools that generally are enrolling small numbers of quintile 1–3 children. Nevertheless, individual schools in almost all these countries have relatively equitable socioeconomic makeups that can potentially provide guidance about the characteristics of effective private schools.

Public-Private School Achievement Gap

The public-private school achievement gap analysis is based on a “stepwise” regression model that begins with a baseline estimation that includes only the Yes-No indicator for whether the student is enrolled in a private school (equation [1]) and then adds in a block of student and family background variables (equation [2]).

$$Y_{in} = \beta_{private} + \varepsilon_i \quad (1)$$

$$Y_{in} = \beta_{private} + B_x X_i + \varepsilon_i \quad (2)$$

The first estimation provides the raw difference between the average public and private school student on achievement test Y (for student i in school n), while the second estimation provides an “adjusted” difference when controlling student and family background features (captured by the X vector of variables; see background paper for more on methodology). This adjusted difference parameter is a naive estimation of the causal effect of private school participation on student achievement (compared with public schools). The estimate is not definitive because of uncertainties related to student self-selection and the larger omitted variable bias problem that is potentially consequential for cross-sectional data analysis.

Equations (1) and (2) were estimated separately within each country. The results of the analysis (presented in the full paper) offer two main take-aways. First, in roughly half of the countries, there is a substantial (standard deviation 0.25 or higher) residual private school achievement advantage, even when controlling student background. This is true in both primary and secondary levels.

Second, private schools are not always outperforming public schools—or the advantage is small (standard deviation < 0.10)—especially after taking into account student and family background. This is not surprising given the evidence from the literature review, and in most cases is applicable to countries in Sub-Saharan Africa (primary schools) or Asia (secondary schools). Nevertheless, it is important to note that a private school advantage should not be assumed in every context.

In the remaining analyses, the focus is on the private school segment alone, with limited reference to public schools and how they compare.

Characteristics of Effective Private Schools

The main data analysis identifies teacher and school characteristics that predict higher test scores among private school students. These features can then be used to evaluate IFC investments in private schooling. The statistical analysis extends the approach in the preceding section by adding school and teacher characteristics to the estimation that already controls student and family background:

$$Y_{in} = \beta_x' X_i + B_2' S_n + \varepsilon_i \quad (3)$$

where the S vector in equation (3) includes a very large set of teacher and school characteristics that are available across the four assessment surveys (PISA, PASEC, SACMEQ, and TERCE). Despite the vector notation in equation (3), these variables are analyzed one-by-one and not as a group. This requires individual regressions for each teacher and school characteristic (together with the student-family background controls), by test subject (language or maths) and country. The majority of the results are generated by individual regression models that are estimated with four samples:

- » The full sample including private and public (with a control for private schools, as in equations [1] and [2])
- » Private schools only
- » Private schools that have 20 percent or higher enrollment of Q1–Q3 students, and
- » Private schools with 40 percent or higher Q1–Q3 enrollment

Some additional results are then generated for individual IFC countries and, in the PASEC sample, for different types of private schools.

There are 30–40 teacher and school variables “of interest” in each of the four assessment surveys, although these combine to form roughly 80 unique variables. This is a comprehensive approach to identifying features of effective private schools, but the variable-by-variable regression work across nearly 70 countries with two test subjects and four samples generates enormous output: over 12,000 regressions. This presents some significant challenges for collation and presentation. The solution is to filter the results and employ a summary strategy based on significance and direction (positive or negative), and not on the actual coefficient (see full report for more on the data presentation).

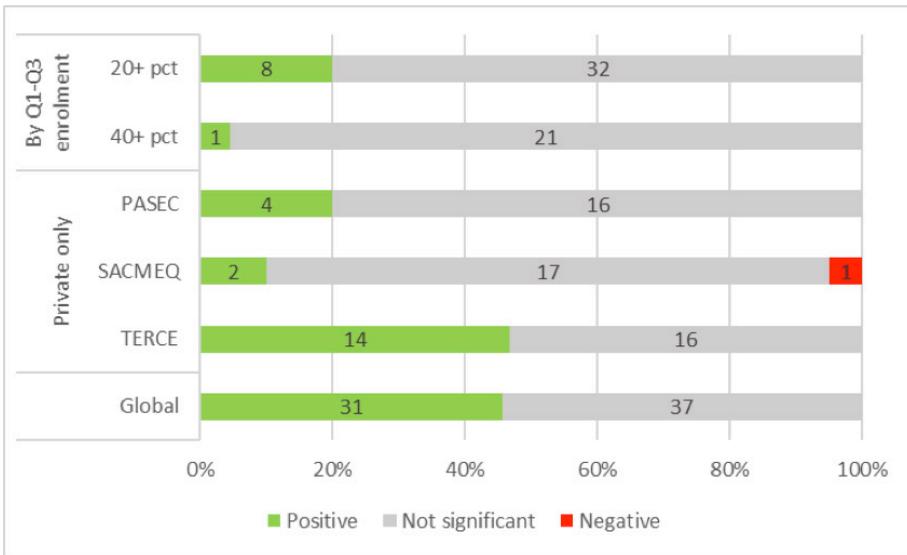
The overarching goal is to identify variables that are consistently significant, but this does not rule out summarizing variables that are consistently insignificant, especially when there is an expectation that the variable is important.

School Management Processes

The school management indicators are divided into three groups: school hours and opportunity to learn, accountability, and teacher support and evaluation (regression tables are available in the background report). The first group includes measures of teacher attendance, work hours reported by teachers and schools, student tutoring, and extra (remedial) classes. Figure K.3 summarizes the regression results for teacher attendance, which is self-reported in SACMEQ and PASEC, and reported by students in TERCE (indicator based on school average). Thirty-four countries have this indicator for two test subjects (maths and language), which generates a “global” total of 68 individual regressions. Of these, teacher attendance is positive and significant (at the $p \leq 0.05$ level) in nearly half (31/68, bottom row of figure K.3).

In the subsamples restricted to private schools, the teacher attendance measure is most consistently significant in the TERCE countries (14/30), whereas in PASEC and SACMEQ, the teacher-reported measure is less consistently significant. The same is true when restricting the sample to private schools that have 20+ or 40+ percent Q1–Q3 enrollments: there is no evidence that teacher attendance is especially significant in these more equitable private schools.

Figure J.3. Summary of Teacher Attendance Indicator in Student Achievement Regressions, by Survey and Subsample



Sources: PASEC 2014; SACMEQ 2010; TERCE 2014.

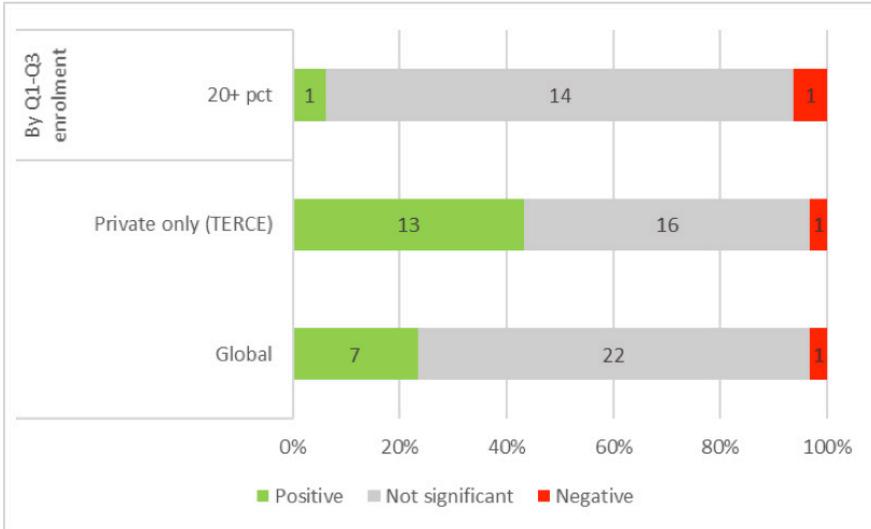
Note: PASEC = Programme d'Analyse des Systèmes Educatifs de la CONFEMEN; pct = percent; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

In addition to summarizing an important variable, the results in figure K.3 introduce the presentation strategy used. The global regression results (bottom line) are a reference point for how important each variable is in full samples that include public and private schools. The private-only results then provide a more specific take on the variable importance, and by dividing these results by survey, it also allows for variation in how the indicator is measured (as for teacher attendance). Finally, the restricted private samples based on Q1–Q3 student enrollment offer even more specific guidance. In most cases, the variables are more frequently significant in the global summary, but when the indicator is more frequently significant in the private school subsamples, it may indicate that this is an especially important feature of private schooling.

The remaining variables in the school hours and opportunity to learn block are insignificant, even in the global summary line. At the primary level, a partial exception is total hours of class per week reported by school directors, which is available only in TERCE. The summary in figure K.4 shows that this variable is much more consistently (positive) significant in the private school samples in TERCE countries than in the global summary, although it is still only significant in about half of the estimations (13/29). However, there is no evidence that student achievement in more equitable private schools in TERCE is especially affected by weekly hours of class.

The PISA surveys asked school directors about extra classes. The results show that peer tutoring is positively associated with achievement in 10 of 60 regressions “globally” (with public and private schools), but this percentage is lower in the private-only samples. The same is also true for tracking: this has a positive and significant effect in about 25 percent of the countries when including public and private, but it is less frequently significant in the private-only samples.

Figure J.4. Summary of School Work Hours Indicator in Student Achievement Regressions, by Survey and Subsample



Source: TERCE 2014.

Note: pct = percent; TERCE = Third Regional Comparative and Explanatory Study.

The second block of school management variables is related to autonomy and accountability. These indicators are mainly available in TERCE, which limits the guidance they provide. The most interesting result is for the level of school decision-making autonomy reported by school directors. A frequently cited advantage of private schooling is the ability to make decisions “locally,” with less “top down” decision-making (for example, from a district office). The results show that decision-making autonomy has mixed effects in the global summary, but for private schools it is more consistently significant and positive (in 9/30 estimations). But when the samples are restricted to schools with 20+ percent Q1–Q3 students, the effect of autonomy is very mixed, with equal numbers of positive and negative associations. This may be related to capacity, which is a critical intervening variable in autonomy and decentralized management. The schools (in TERCE) that are enrolling more lower- and middle-income students may have less capable school managers, so having higher levels of autonomy is not necessarily a positive feature.

There is no evidence in the regressions that student achievement levels are higher when school directors are evaluated based on standardized test

results, although participation in external testing is associated with higher test scores.

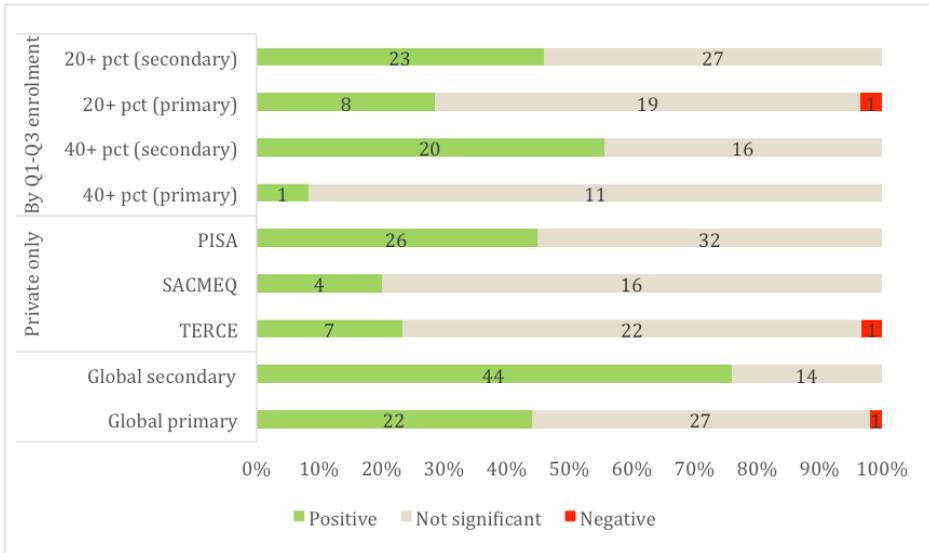
PISA provides information on school selectivity and quality assurance processes. In both cases the indicator is positively associated with achievement in a substantial number of countries when restricted to the private school sample. However, when the samples are further restricted to more equitable private schools, these variables are not consistently positive and are negatively associated with achievement in some regressions.

Finally, the results for teacher-reported benefits and salary levels (from PASEC) merit attention. For both indicators, the global (public and private combined) guidance shows few significant estimations. But when restricted to private schools—especially more equitable private schools—the indicators are more frequently significant (and positive). The implied argument in this result is that higher levels of teacher benefits (including pay) lead to better outcomes in private schools, and this effect may be stronger in private schools that are working with more diverse student bodies.

School Climate

A handful of school climate indicators are available in three of the four assessment surveys (PASEC does not measure this variable). Figure K.5 summarizes the results for the general school climate indicator according to students, which in TERCE and SACMEQ measures how they get along with others at school, while in PISA refers to the classroom disciplinary climate. For the global summary, the indicator is a significantly positive predictor of student achievement in 22/50 estimations in the primary level samples, and 44/58 estimations in PISA secondary countries. But in the private-only samples, the proportion of significant results is smaller; there is no evidence that school climate is especially important in more equitable private schools (20+ percent and 40+ percent rows). This is true for both primary and secondary levels. The PISA data also include indicators of student and teacher behavior problems according to school directors. Student behavior issues are consistently negative predictors of student achievement, but again, the proportion of significant effects declines when the samples are restricted to private and more equitable private schools.

Figure J.5. Summary of School Climate Indicator in Student Achievement Regressions, by Survey and Subsample



Sources: SACMEQ 2010; TERCE 2014.

Note: pct = percent; PISA = Program for International Student Assessment; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

The other climate indicator, from TERCE, is based on the school director’s review of the neighborhood situation in terms of crime and other factors. Not surprisingly, test scores are higher in schools where the neighborhood offers a more positive climate; this result is somewhat more consistent for the more equitable private schools.

Other climate indicators are insignificant or do not vary much from the overall indicator according to students in figure K.5.

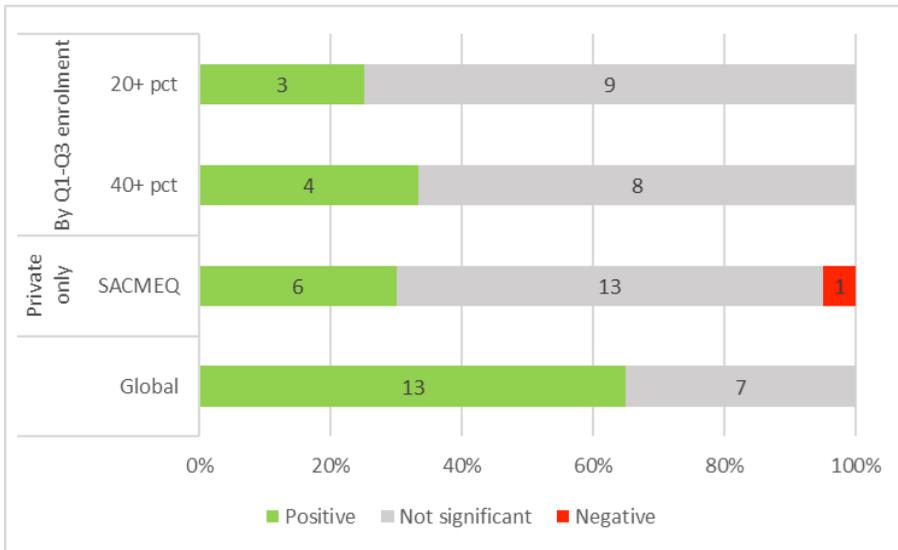
Classroom Teaching and Learning Processes

One of the hardest schooling aspects to capture in large-sample surveys is the teaching and learning environment. At the primary level, the results show relatively few indicators are consistently significant, and in some cases, there is considerable variation by subsample. The frequency of homework, which is available only in SACMEQ, is an exception. In the global summary, this measure is significant and positive in 13/20 regressions (figure K.6).

However, for the private school samples homework is not as consistent.

The TERCE assessment asked students about a range of teacher activities in the classroom, which were then captured in a factor measuring teacher methodology. In the global summary (TERCE only), this teaching methods factor is positive and significant in 9/30 estimations. However, in the private-only estimations, it is negative (and significant) in six estimations, compared with only two positives. This kind of inconsistency is hard to explain and highlights the difficulty of capturing processes.

Figure J.6. Summary of Homework Frequency in Student Achievement Regressions, by Survey and Subsample



Source: SACMEQ 2010.

Note: pct = percent; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality.

Other process indicators are insignificant. Two partial exceptions are for curriculum coverage and the number of exercises done in class, both of which are available in PASEC. Both indicators are insignificant in the global regressions with public and private schools combined, but for the private-only samples, there is more evidence that these factors are associated with more effective private schools. The relationship is not very strong since the indicators are significant in less than half of the estimations.

At the secondary level (PISA data), the results for classroom methods are more consistently significant than in the primary assessment databases. All the indicators are based on student responses that are averaged at the

classroom level to provide a more certain indicator of teaching methodology. The indicators for teacher support provided to students, teacher interest in students, teacher adaptation to student needs, and teacher stimulation of reading are positive and significant in more than half of the countries for the global estimations (public and private). But again, the proportion of significant results declines substantially in the private-only subsamples.

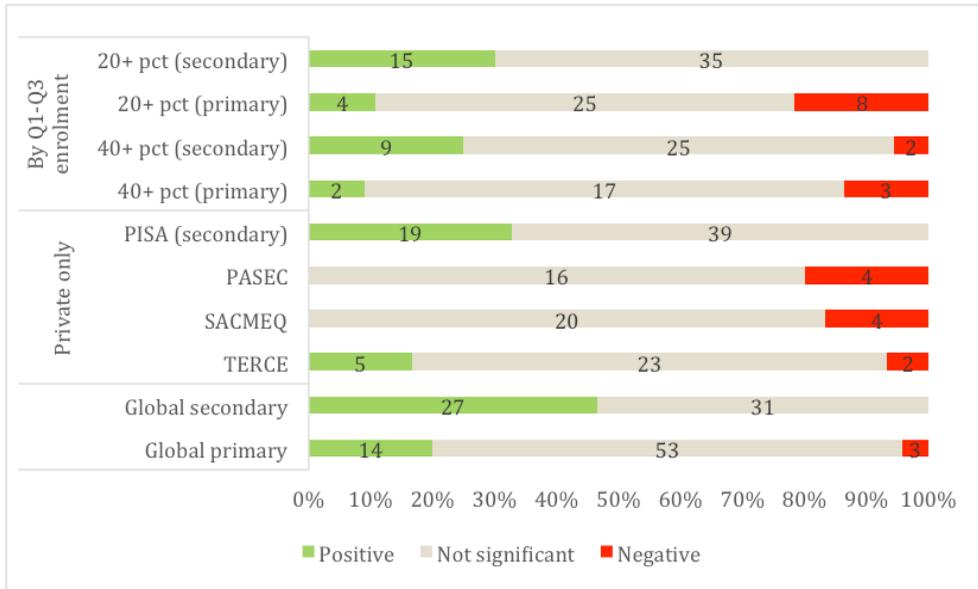
Teacher Characteristics

Two basic teacher characteristics (education and experience) have mixed (and surprising) results. For example, in the global summary at the primary level, teacher education is positively associated with test scores in 14 of the regressions and is negative in only three (figure K.7). But in the private and (especially) the 20+ and 40+ percent Q1–Q3 schools, the opposite is true: education is more often a negative predictor of test scores. The same is true, to a lesser degree, for experience.

At the secondary level, the results are more in line with expectations: the percentage of teachers with master’s degrees (the measure used in the PISA data) is positively associated with student achievement in nearly half of the countries for the global summary, and then is positively associated with achievement—though less frequently—in the private-only subsamples (figure K.7).

A distinguishing feature of the SACMEQ assessment is the availability of teacher test score results. As expected, this is positively associated with student test scores, although for the global summary the point estimate is significant in only 7 of 20 regressions. There is no evidence that content knowledge is especially important in the private schools in SACMEQ, as this variable is significant only in a handful of estimations.

Figure J.7. Summary of Teacher Education in Student Achievement Regressions, by Survey and Subsample



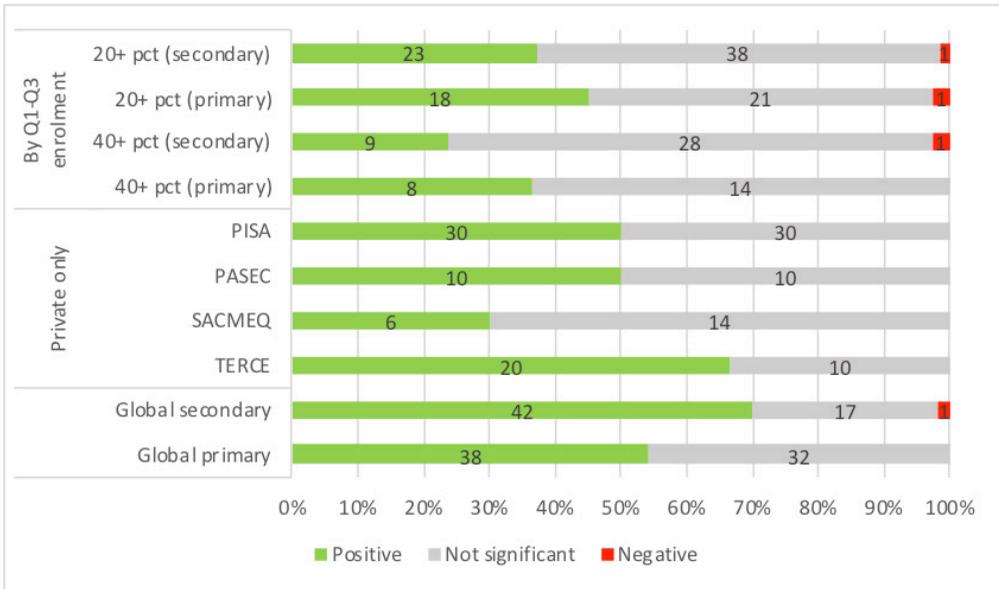
Sources: PASEC 2014; SACMEQ 2010; TERCE 2014.

Note: pct = percent; PASEC = Programme d'Analyse des Systèmes Educatifs de la CONFEMEN; PISA = Program for International Student Assessment; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

School Infrastructure, Learning Materials, and Other Resources

Among the regression results for variables related to resources, the association between test scores and infrastructure stands out. The infrastructure measure varies across the four surveys; for example, in PISA it has a focus on information and communication technology components, whereas in the primary-level surveys, it tends to focus on more general school endowments (electricity, director office, and others). Nevertheless, it is statistically significant and positive in 38/70 regressions at the primary level, and 42/59 in secondary (figure K.8). The infrastructure measure was consistently positive and significant in TERCE countries (20/30 estimations), but less so in PASEC and (especially) SACMEQ. In more equitable private schools, the infrastructure measure is not more frequently significant.

Figure J.8. Summary of School Infrastructure Association with Average Student Achievement, by Survey and Subsample



Sources: PASEC 2014; SACMEQ 2010; TERCE 2014.

Note: pct = percent; PASEC = Programme d'Analyse des Systèmes Educatifs de la CONFEMEN; PISA = Program for International Student Assessment; SACMEQ = Southern and Eastern Africa Consortium for Monitoring Educational Quality; TERCE = Third Regional Comparative and Explanatory Study.

The regression results support other resource-related measures, including support services (TERCE), computers per pupil, and classroom materials. But the proportion of significant estimations for these resource indicators is lower than the overall infrastructure measure. One minor exception is the “creative” extracurricular activities indicator that is available in PISA. This measure is positive and significant in more than half of the estimations at the global level. It then declines in consistency in the private-only sample, although in especially equitable private schools (40+ percent from Q1–Q3) the indicator is positive and significant in nearly half of the estimations.

Class size measures (available in PASEC, SACMEQ, and PISA) are negatively associated with student test scores in 15 of the 40 regressions (and positive in 2) at the primary level; in secondary it is negative and significant in 15/58, with 8 positive coefficients. The results diverge considerably between PASEC and SACMEQ, with consistently negative effects in the latter. In more equitable private schools, the class size measure is negative (and significant)

in about 20 percent of the estimations in primary schools, and is a mix of positive and negative in secondary schools.

Finally, the multigrade school indicator is associated with lower test scores in more than half of the estimations in private schools in PASEC and in a substantial proportion of the more equitable private schools. Many potential negative factors are related to multigrade teaching, in addition to the obvious demands placed on teachers to work with multiple grades. These results, at a minimum, suggest some caution in supporting private school initiatives that include multigrade teaching.

Community Engagement

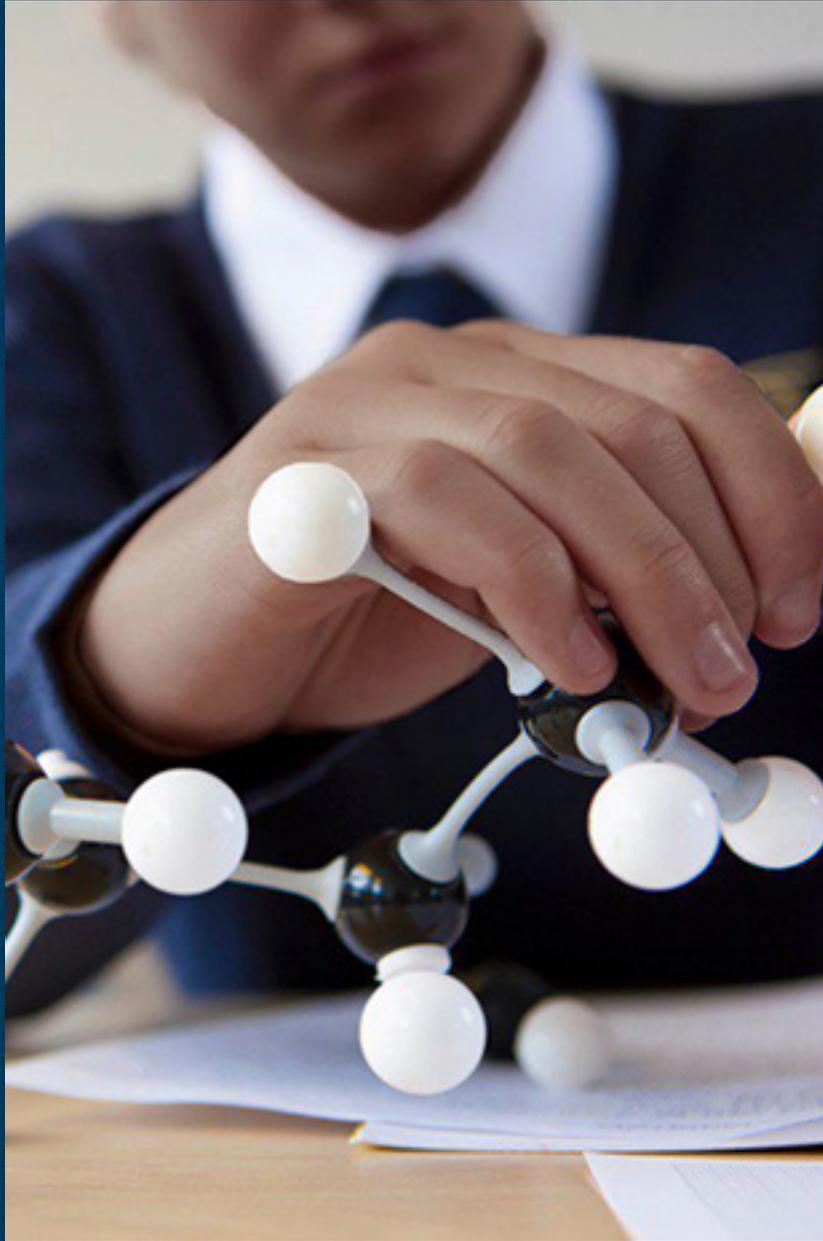
The final set of variables is related to community engagement. The most consistently significant indicator is the measure of community engagement and support in PASEC and SACMEQ, but even this measure is only significant (and positive) in 7 of 40 regressions. Furthermore, for all the community engagement measures, the results for private and more equitable private subsamples are very mixed, with several negative regression results.

IFC Countries and Private School Subsamples

This section reviews the variables associated with student achievement in two sets of subsamples. This begins with the results for the variable-by-variable predictors of student language scores across the four types of private schools in the PASEC assessment. The PASEC assessment is the only data set that identifies the specific category of private school (community or local initiative; religious; nonreligious (secular); and a combined category of “conventional” and “nonconventional”). The four categories have different profiles in terms of student SES. Children from Q1–Q3 make up 80 percent of the community school enrollment, compared with just 20 percent of the secular private school category enrollment. Religious private schools have 50 percent Q1–Q3 enrollment, compared with 25 percent for the conventional/nonconventional category. There are limited degrees of freedom to look at this variation within each PASEC country, so instead the country data are pooled across all countries and the individual regression estimations include country

controls. The same procedure is used, with each of the relevant school and teacher variables added to a baseline regression specification that includes student, family, and community controls. The results are unconventional since the independent variables are presented together as if estimated in a single model (by column). But the results are not from a single estimation, each coefficient is obtained separately by adding that individual variable to the baseline model.

The results of the regressions are consistent with the earlier summaries for the country-by-country analysis for the entire private school sample (or equitable private schools), but with fewer significant predictors. Almost all the variables are insignificant across the four separate private school categories. There are some individual exceptions—and variation across the four categories—but in terms of consistent results, the main predictors are related to school resources (infrastructure, classroom conditions and materials, and multigrade school). Teacher-reported harassment is also significant (and negative) in two categories.



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