

May 2011

DEG's portfolio in the education sector

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Education enables and improves people's ability to find and remain in employment, secures a living and forms the basis for people's participation in social life. Availability of qualified labour increases competitiveness of companies, industrial sectors and countries. Availability of qualified human resources is a location factor influencing investment decisions and the setting up of companies.

In the course of globalisation also the education sector has experienced significant changes during the last decades. The following three phenomena have to be differentiated:

- The internationalisation is particularly relevant in higher education and is reflected in an increasing mobility of students and teachers, in a closer international cooperation at institutional level and in a development of international academic standards.
- Liberalisation describes the redefinition of the government responsibility for the education sector. Whereas traditionally the state was at least predominantly the provider of educational facilities, in a liberalised system this role is more and more entrusted to private providers. The responsibility of the state is that of securing basic education and besides that to supervise and regulate the market.
- The phenomenon of economisation of the education system includes on the one hand the substantial rise on worldwide level of profit-oriented trade with educational services. On the other hand it also refers to the trend towards introducing market mechanisms into non-commercial systems.

The question of which impacts these trends are having on developing countries is still a matter of controversial discussion. Whereas supporters refer to an increased economic efficiency of services, critics are expressing concerns from a democratic perspective and warn against social incompatibility particularly in view of the targeted poverty reduction.

Direct involvement of foreign capital is not common for basic education in developing countries and also not too common in the sector of academic education and advanced training. Nevertheless, the share of local private providers in their national educational offerings is generally higher than it is in industrialised countries. According to a study conducted by UNESCO in 2005, the share of private institutions in developing countries totals to an average of almost 15 % in both sectors together. This share is more than twice as high as it is in industrialised countries.

This is attributable, among other things, to a rationalisation policy in many developing countries. Due to the debt situation, public authorities have less room for educational expenditure which leads to a budgetary gap.

Within the scope of the international initiative "education for all", developing countries are recommended not only to increase public spending on primary school education but also to provide it free of charge. The reason for this is that public education institutions are considered to play a decisive role when it comes to guarantee a comprehensive supply.

At the same time debt relief and loan offers by international financial institutions often include conditions which chart a course of rationalisation also in the education sector, which leads to a general decrease in public spending on education in developing countries.

It is for this reason that the World Bank recommends private sector participation for all sections of the education systems in order to close this gap. Further reasons for promotion of privatisation are low quality and efficiency of the public

systems due to lack of competition. In addition, public funds could be saved which then could be used specifically to foster basic education of socially underprivileged population groups (e.g. by voucher systems).

Commitment of DEG

Against this background, DEG is also involved in the education sector. The yet new portfolio covers five education projects:

- two private universities (Brazil and Philippines)
- one language school (Mexico)
- one vocational academy (Philippines)
- one finance institution related to funding of education (South Africa)

In addition to size-related developmental effects such as public revenue, value added and employment, the projects in DEG's portfolio in the education sector are characterised most notably by a gender equality which is above average, by a vocational training and advanced training market and by structural and broad social effects.

Employment is not only generated through labour requirements of the educational facilities, but often students are offered higher quality jobs at home and abroad through mediation by the training institutions. The vocational academy in the Philippines, for instance, has numerous ties within the tourism sector and the food industry and cooperates with partner institutes abroad which help the students to find a higher qualified job.

Not only the educational and upskilling effects but also market and structural effects turn out to be above-average. Often the number of courses of study, for instance, is increased or training is offered in structurally underdeveloped regions where the government cannot provide it itself.

In addition, the above-average social commitment of the educational facilities contributes to more permeability and to

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achieving full potential on the part of the students. The university in the Philippines, for instance, supports specifically low-income families and students with outstanding results. The vocational academy in the Philippines runs a charitable foundation which trains unemployed youths. The university in Brazil reached more than 520,000 people with its Community Programme, which included, among others, open courses for senior citizens, literary events, free medical examinations for children, free sporting activities and legal aid free of charge.

Although the projects of the portfolio in the education sector already generate above-average effects in many areas, it is not possible to grasp the developmental contribution of the projects in its totality. Indicators which genuinely consider growth effects of human capital building, among others, have not been developed yet. Indicators for human capital building by investing in the private education sector could be: number of successfully passed examinations, training efficiency or demand-oriented education opportunities through a greater school and university autonomy.

Outlook on the sector

After education was pushed into the background in the field of development policy, the topic has been enjoying a renaissance on the international development agenda for some time. The vocational training sector is regarded more and more as an integral element of business and employment promotion. The growing pluralism of demand, offer and providers in the cooperation countries, however, requires a diversification of intervention strategies and the involvement of private parties in addition to the often dominating public sector. These developments can also be used to explain the high importance of education as a globally traded service, which has grown rapidly during the last years, especially in the vocational training and higher education subsector. The World Bank estimates the total volume of the global education market to reach US\$ 2 trillion.

Also against the background of the increasing economisation of the education sector and of the setting of clear priorities on the part of the Federal Ministry for Economic Cooperation and Development (BMZ), DEG commits itself to operate on a dynamically growing market and to make developmental contributions by increasing investments in education.

More and more dynamic developments on national, regional and international (labour) markets and the resulting requirements concerning flexibility and mobility of skilled personnel call for flexible reactions and solutions of the training systems. In the international debate topics such as climate change and sustainable management are becoming more important.

The conclusion from this development is that there are also new requirements for vocational training in partner countries. This is reflected, for instance, in initiatives such as the "UN Decade of Education for Sustainable Development" under the leadership of UNESCO or the "Green Job Initiative" by ILO. This generated a worldwide increased interest in new training and post graduated courses (e.g. solar or water supply/ waste water treatment technology, energy consulting) and in topics such as resource efficiency and environmental protection as integral part of existing training courses.

Due to its worldwide leading role, German industry is an important partner when it comes to the necessity of technology and know-how transfer. In addition to the existing strategy, DEG now has the opportunity to involve itself further in fostering the adjustment or redevelopment of concepts for vocational training or its implementation in these fields.

Summary

DEG promotes different private education initiatives, which up to now only account for a relatively small share in DEG's portfolio. Future opportunities to make above-average developmental contributions in the private education sector by replicating successful invest-

ment strategies are just as diverse and varied.

The existing projects justify expectations of achieving good or very good developmental effects in the ex-ante GPR appraisal. The actual growth-stimulating contribution of the portfolio could even be higher as the full growth effect of human capital building is difficult to quantify.

Generally DEG intends to benefit from its existing know-how in strategic business fields in order to respond also in the future as investor in the private education sector more effectively to new dynamic developments and to the growing demand for flexible and non-governmental training.

DEG's previous commitments in the private sector already form an important base for tapping all available developmental potentials of the education sector.

Sources: OECD (2009), UNESCO (2009), ILO (2004), World Bank (2005), ZEP (2004), BMZ (2010).