



BERTHA CENTRE



INVESTMENT THEME: ACCESS TO EDUCATION

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ACCESS TO EDUCATION

Overview

Education is the most powerful weapon you can use to change the world.” Nelson Mandela, 2003.

Education is an investment which can reduce poverty, eliminate gender inequality and foster peace for a sustainable society. Access to quality primary education is considered a basic human right and, according to UNESCO, “essential for the exercise of all other human rights.”ⁱ

The issues in providing universal access to education are diverse and include lack of access and utilisation, such as low enrolment rates, high dropout rates, and gender disparities, as well as school quality issues, such as lack of infrastructure and resources and quality of teachers. Socio-economic issues also contribute to educational outcomes, including inadequate nutrition, poor health and poverty that prevent uptake of education opportunities.

Due to high birth-rates, Sub Saharan Africa has exhibited the world’s highest growth rate in the primary school-age population, with an increase from 110 million to 148 million between 2000 and 2012.ⁱⁱ Due to the size of this increase, the building of schools by government and aid organizations has been insufficient to meet the surge in demand. Also of concern is that the progress made in the number of children who attend school has not been equitable for the poorest of the poor and young girls.

Sub Saharan Africa’s upward trajectory in population growth continues into the age group 10-19 years. In 2010, this age group made up 23% of the total population in the region.ⁱⁱⁱ For this population group, access to education is limited, and only one third of this group is enrolled for secondary school, with a completion rate of less than 40%. Given these statistics, it is little surprise that 47 million out of a global 127 million illiterate youth (aged 15–24) live in Sub Saharan Africa.

Beyond the access issues, challenges in the quality of education stem from large class sizes, limited access to educational resources and poor infrastructure. In most Sub Saharan African countries, there are more than 50 pupils per class for Grade 1, rising to between 80–100 pupils per class in many areas.^{iv} A UNESCO presentation on school resources and learning environments in Africa estimates that schools have an average of one reading textbook per approximately two pupils and one mathematics textbook per approximately three pupils. Additionally, one in three primary schools do not have sanitation facilities, one in two do not have access to drinking water, and three in four schools do not have electricity.

The scope and magnitude of these issues means that substantial investments throughout the education value chain, and innovative interventions around access and quality, are required from both public and private sources.

EDUCATION IN SUB SAHARAN AFRICA

Number of children out of school, primary:

33 million (out of 58 million globally)

Number of children out of school, lower secondary:

32 million (out of 63 million globally)

Primary school dropout rate:

42%

Secondary dropout rates:

50% (lower secondary); 68% (upper secondary)

Average Grade 1 class size:

50+ students in most countries (where data is available)

Textbook availability:

1 reading textbook per 2 students; 1 mathematics textbook per 3 students

Adult illiteracy rates:

41% (equates to 187 million adults)

Sources: UNESCO

Investment Opportunity

Traditionally, universal education has been seen as a public good that should be provided by government institutions. However, despite concerted effort on the part of low-income countries and the global development community, there is still a lack of resources and capacity to meet the growing need for education. Furthermore, entrenched interests unique to the public education sector make innovation and wholesale change to the existing system very difficult.

The opportunity, therefore, exists for private capital to act as a catalyst for increases in educational capacity and innovation. As noted in a recent working paper, “Education impact investing could mobilize new funding, enable private sector engagement in both public and private education service delivery, and introduce and scale approaches or tools to improve efficiency of service delivery, promote innovation in teaching and learning methods, and monitor outcomes and systemic effectiveness.”^v

Globally, the annual funding gap needed to provide basic education is estimated at US\$26 billion (US\$38 billion is needed if lower secondary education is also included).^{vi} Approximately \$2.5 trillion is spent annually on education globally and 80% of this funding comes from government sources.^{vii} However, public spending only tells half the story in education: particularly in low-income countries where public education systems are limited, parents have shown themselves willing to invest a significant percentage of their disposable income on education. Household expenditure on education in Africa, although very difficult to quantify, could be as much as half of public expenditure.^{viii}

Investment opportunities for private investors include investments in service provision (schools and school infrastructure), human capital (teacher and management training), technology and services (software, curriculum and back-office support) and the eco-system itself (accreditation and standards-setting bodies). Innovations which aim to achieve educational opportunity at scale, such as low-cost private schools and classroom technology solutions, are currently attracting investment with larger deal sizes and greater promise of financial return.

Multiple channels exist for education investments, such as direct investments into companies with innovative business models, or investments through intermediaries who support education providers. In the last few years, structured financial products have also opened opportunities for participation from smaller investors. Investment intermediaries can include banks which provide school loan portfolios, education holding companies that offer a range of education services, and investment fund managers with specialised funds in the education sector.

Investing in education does present challenges. Deal sizes are small relative to other impact investing sectors and, despite some consolidation, opportunities remain fragmented. Education, as with other sectors, requires ongoing knowledge of the local market, including standards and regulations that are continuously changing. Despite the challenges, private investment in education has captured the attention of investors. As Dalberg describes, “Education impact investing has exciting potential to mobilize new sources of funding and develop innovative approaches to education. In the long run, it could become a valuable tool in the effort to broaden access to quality education for all.”^{ix}

INDUSTRY SEGMENTS & KEY PLAYERS

Education providers and institutions

Private schools, public schools and providers of higher, informal and open source education, contact, distance and blended learning

Support products and services

Distributors of textbooks, instructional aids, stationary, school uniforms, providers of technology and software

Training

Teacher training and upskilling; Management training

Technology

Software, curriculum, back-office support

Education financing

Bursary providers, finance institutions providing student loans

Financiers

Governments, NGOs, international donors

Policymakers and “eco-system”

Accreditation bodies, standards setting and quality assurance

CASE: BRIDGE INTERNATIONAL ACADEMIES



Overview

Bridge International Academies (BIA) is a chain of nursery and primary schools which aims to deliver high-quality education at a price point of approximately US\$5 per month. BIA uses a “school-in-a-box” approach to apply standardisation across the entire lifecycle of education delivery, including school infrastructure, teacher selection and training, lesson delivery and monitoring and evaluation. BIA’s first school opened in Nairobi’s Mukuru slum in 2009. Today, BIA operates nearly 400 schools and is expanding at a rate of one school every 2.5 days across Africa and Asia, with the goal of educating 10 million children by 2025.

Business and Impact Model

The BIA business model is premised on leveraging its extensive economies of scale to centralise functions that would normally reside at the school level. Teachers are given rigorous training and, through centrally-synched tablet applications, provided scripted lesson plans that deliver world-class curriculum. All non-instructional activities, such as billing, payments, payroll, and admissions, are automated through technology applications. Each school requires only one managerial employee, who focuses exclusively on classroom instruction and parent and community relationships. BIA’s students outperform peers in neighbourhood schools with 37-205% higher reading comprehension and fluency, and 24-42% higher math performance.

Investment

LGT Venture Philanthropy invested US\$200,000 in BIA in the series A funding round in 2009. This investment was part of the initial scaling exercise for BIA to grow from two to ten schools and was a critical milestone for BIA’s further growth.

COMPANY PROFILE

Company: Bridge International Academies

Website: www.bridgeinternationalacademies.com

Legal structure/ownership: For-profit company, franchise-like model

Industry segment: Pre-primary and primary education

Business model: Fee-based, “school-in-a-box” approach, which is cost-effective and highly efficient, to achieve economies of scales for financial sustainability

Countries: Kenya, Nigeria and Uganda

Customers: Over 100,000 students in Kenya with a total of 359 academies

INVESTOR PROFILE

Investor: LGT Venture Philanthropy, an impact investor which invests in both for-profit companies and non-profit organisations improving the quality of life of less advantaged people around the globe

Website: www.lgtvp.com

Investment type: Equity

Investment size: US\$200,000 in Series A funding round

Investment date: 2009

Investment return: Aimed for an annualized rate of return of 20%

CASE: SPARK SCHOOLS



Overview

eAdvance, operating under the brand name “SPARK Schools,” operates a network of affordable private schools using a blended learning model for primary school students. SPARK combines a rigorous academic model with a sustainable financial model, lowering the cost structure of a traditional private school while still providing a high quality education. The aim is to provide affordable access to quality education for underserved communities, and replicate the model across South Africa and Africa. Annual tuition is approximately ZAR 16,000 per year (US\$1,400 per year at current exchange rates). SPARK launched its first school in Ferndale, Johannesburg in 2013, and will grow to 8 schools in two South African provinces, serving 2,900 children by 2016.

Business and Impact Model

The SPARK business model promotes a lighter administrative structure at the school level and a blend of classroom-based instruction and computer-aided learning to customise the educational experience for each student. Both of these elements create cost savings that allows the schools to operate with greater efficiency, ensuring the financial stability of the network. The lighter administrative costs are achieved through centralisation of key functions, such as procurement, financial management, curriculum development and teacher training. The blended learning model combines classroom teaching with online lessons that can match the pace and abilities of individual students. Students spend 75% of their time learning in a classroom setting and 25% of their time in the computer-aided Learning Lab.

Investment

Pearson Affordable Learning Fund (PALF) invested US\$2.7 million in 2014 as its initial foray into primary and secondary school private education in the South African market. SPARK intends to use the investment to scale its operations, building eight low-cost schools by 2016.

COMPANY PROFILE

Company: SPARK Schools and eAdvance Group

Website: www.sparkschools.co.za and www.eadvance.co.za

Legal structure/ownership: For-profit company

Industry segment: Primary education

Business model: Provide access to low-cost, high-quality education for underserved communities through innovative learning models and centralised business functions

Countries: South Africa

Customers: By 2016, SPARK will operate 8 schools with approximately 2,900 students

INVESTOR PROFILE

Investor: Pearson Affordable Learning Fund (PALF), an investment fund established to support early-stage high-quality education enterprises serving low-income groups

Website: www.affordable-learning.com

Investment type: Equity

Investment size: US\$2.7 million

Investment date: 2014

Investment return: Undisclosed

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ENDNOTES

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