

Learning pays

DIVIDENDS

Africans spend more than \$8 billion a year on private education.

Tom Minney assesses a growing investment opportunity

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There is one resource in Africa that it is increasing its supply fast, where African productivity is double the rest of the world and far outstrips developed countries – young people. There are already a billion Africans, and another billion are expected to join the throng by 2050. An estimated 422 million Africans are under 15 years old. In 2011, 33 million babies are expected, who will eventually need education, and numbers keep growing as births outstrip deaths and net migration

threefold. The world's youngest population also represents one of the biggest global business opportunities – which combines profits and social returns – although only a few pioneers have started to invest.

Africa's private education market is vast and grows every year. Following trends in countries such as India, private schooling no longer means elite schools but is also for lower- and middle-income families. In many areas, even slums in Kenya and Nigeria, more than half the children go to private schools.

The International Finance Corporation (IFC), a member of the World Bank group, has estimated private schooling at between 10-40% of primary and secondary schooling in Africa, and towards 40% for Kenya, Nigeria, Ghana and some other countries. On very conservative assumptions, the market already represents turnover of US \$8.4 billion a year, growing exponentially.

Skills lag

Africa is home to seven of the top ten fastest-growing major economies for

the coming five years and urgently needs skills and trained human resources to drive this growth. "Education is Africa's most powerful antidote to poverty," UNESCO Director-General Irina Bokova told a summit last year. The World Bank, the biggest funder of education worldwide, speaks of the need to transform a generation and start creating the human resources and skills to fuel Africa's fast-paced growth for coming years.

Most big institutions focus on helping governments to provide education. For instance, the African Development Bank Group in 2009 invested \$299m into education, including higher education, science and technology, sector reform, teacher training, construction and rehabilitation of schools. The second of the UN's eight Millennium Development Goals is to achieve universal primary education by 2015. Governments cannot meet the enormous needs alone, even when they get aid to offer free primary schooling. More than one in three adult Africans are illiterate. UNESCO says 32 million African children are not in primary schools and, even if present improvements continue, the gap by 2015 will still be 23 million. There are huge inequalities based on gender, language and location. The agency reports that global aid to basic education in sub-Saharan Africa was \$1.65bn in 2008, down from \$1.72bn in 2007 and far short of the \$11bn estimated as needed each year for Africa's low-income countries to reach the target of education for all.

Africans at all levels put a high premium on education and are already paying for it. Education costs per student range from ZAR 140,000 (\$19,300) a year at top South African boarding schools or \$16,900 at American day schools, to \$7,400-\$8,900 a year for east African scholarship programmes down to \$45-\$60 a year at the basic schools being rolled out by social entrepreneurs and others in eastern and western Africa.

Finding profits

Returns on investment in education can be identified at different levels. At a personal level, the investment cost is how much a student or her family spends on fees for school and further education, plus the opportunity cost of not starting work. The return on investment is how much more she expects to earn in her

lifetime. Many studies show this is one of the top investments any family can make in the future.

At the national level, human capital

Following trends in countries such as India, private schooling no longer means elite schools

theory says social investments into education by the government and the private sector boost future productivity and improve living standards. Returns

are highest at lower levels of schooling, especially primary schooling, and also higher in less-developed countries. There are also benefits for a locality such as a farming district as general education levels increase.

An economy needs to be supported in other ways to keep growing and produce enough jobs for those who have been educated. Hundreds of thousands of unemployed graduates in Tunisia and Egypt in recent weeks show what happens if the economy does not keep up with its potential. Investors hope democracy and governance reforms will unleash the potential of educated Arab youth and boost the economies.

Low-cost education models

The poor are willing to pay for education because of the low quality of government schools. "Private schools for the poor have emerged in huge numbers in some of the most impoverished slums and villages in Africa," says Professor James Tooley of Newcastle University. "They cater for a majority of poor children and outperform government schools, for a fraction of the cost."

He said that in poor areas of Nigeria and Ghana, 70% of students are in private schools, more than half in schools unregistered on official statistics. In Makoko, where many live in houses built on stilts sunk into the Lagos lagoon, Tooley's researchers found 32 private schools serving 4,500 children of impoverished fishermen and fish traders, achieving 14% better grades in maths than children in government schools. In Nairobi's Kibera slums his team found 76 private schools, enrolling more than 12,000 students compared to five government schools for 8,500 children.

Tooley and Ken and Lisa Donkoh set up Omega Schools in 2008 and already have seven low-cost private schools in Ghana's Greater Accra and Central Regions. "Ghana is a terrific country to invest in," says Tooley. For \$60,000, Omega buys land, builds, furnishes and opens a 12-classroom Omega School with kitchen, office and toilets, computer lab with 11 computers, and solar panel as well as accounting and payment packages, stationery and

textbooks. Schools are normally full a week after opening. The model includes a no-hidden-cost daily fee payment to avoid high upfront costs, micro-insurance so the student can complete schooling if the parent should die or become disabled; nutritious hot lunches and even de-worming. They also use innovative teaching methods to achieve constantly improving results and the model is ready to be rolled out more widely.

Bridge International Academies is another low-cost school model. Developed in east Africa, and opening its low-cost for-profit primary schools in 2009, it delivers high-quality education for less than \$4 per child per month. Payments are made by mobile phone so individual schools do not handle cash and funds are available centrally. Omidyar Network, a philanthropic investment firm created by eBay founder Pierre Omidyar and his wife Pam to create opportunity for people to improve their lives, invested \$1.8m of not-for-profit funds in Bridge International in 2009 and participated equity into a second round of funding in 2010 to help the company scale in size and impact. Within two years of founding, there were 12 Bridge International schools. The network aims to expand into new sub-Saharan Africa countries and to establish 1,800 schools by 2015, which will create jobs for 15,000 education workers in local communities.

For investors, returns are measured as the dividends and capital gains they can realise from their investment. Two critical shortages prevent the explosive growth in quantity and quality of education as another booming African consumer services business: sources of finance and school managers' skills, including in finance, management, administration and operating efficiency.

Stuck at the blackboard?

The potential for equity investment into education in Africa is huge, as other regions have proved. International investors are reviewing prospectuses for funds such as Kaizen, which describes itself as the "first private equity fund focused on India's \$86bn education sector". There are 600 million Indians under 30 years and government spending of \$30bn is outstripped by private spending of \$43bn, while spending on education abroad is another \$13bn. Investors say it is too early to get clear information on returns.

In Latin America, the IFC and UK's CDC Group invested via fund manager Patria, which manages education fund Fundo de Educação para o Brasil as well as other private equity funds, into Anhanguera Educacional SA, a \$1.8bn Brazilian college network and educational services provider that has 250,000 students at 54 campuses, 450 centres of distance learning and 650 vocational centres. After private equity investment, the firm listed in 2006.

African educators and investors are hardly out of the starting blocks. Some Middle East and African funds say education investments will be part of their portfolios. Tuninvest Fund in Tunisia reports good returns from backing an entrepreneur who turned Esprit into the country's top private engineering school with 1,200 students. Hakim Khelifa of Tuninvest manages the \$175m AfricInvest Fund II, focusing on equity investments in small and medium enterprises in north and sub-Saharan Africa, and has invested equity and quasi-equity into private schools in Kenya and Tunisia, although he says it is too early to measure returns.

"The sector has very great prospects, especially in a country like Nigeria or Kenya where it is clear that the private sector has to take over because the needs



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are so great and the public sector can't cope alone," Khelifa told *Africa investor*. "If you provide the right quality, you can succeed." He says that in Tunisia and Morocco, governments have supported investors in education.

"Primary and second education are relatively low-risk businesses because the business model is fairly straightforward and capital intensity

People only cut education expenditure in tough times if they really have to

in the infrastructure is comparatively low," says Scott Featherston, Senior Investment Officer at IFC. "Tertiary education, particularly involving courses such as medicine, engineering, and science, cannot really be provided on a commercially sustainable basis because of the capital intensity of the infrastructure required," he said, adding that liberal arts, law, nursing, and similar courses can, however, be provided on a commercially sustainable basis. He says returns on education are likely to be similar to other capital-intensive sectors such as health and infrastructure, but may be less volatile than many

businesses. "People only cut education expenditure in tough times if they really have to," he says.

Philanthropic backing

Much investment in education concentrates more on social than business returns. Ghana's Ashesi University, an internationally-acclaimed independent not-for-profit institution set up by Patrick Awuah, has grown from 30 students in 2002 to 464. Start-up funding was \$10.5m in philanthropic funding, and by 2009 the university says it is covering its operational costs but needs more philanthropic funds for further developments. The IFC gave \$2.5m in debt to finance establishing a permanent campus at Berekuso, north of Accra.

Ashesi University takes pride in creating African leaders with strong ethics and problem-solving skills and 100% career placement within six months of graduation. However, it does not aim for profits and has given \$2m in financial aid, currently assisting 40% of students, of which 20% come from extreme poverty. Awuah says he concentrated on philanthropic funding as Ashesi would not offer a competitive return on investment to for-profit investors.

The US Government's Overseas Private Investment Corporation provides debt financing and insurance support for American enterprises among others. Its

current portfolio includes lending to not-for-profit schools: \$13.5m to Citibank to develop and construct a new high school facility at the American International School Lagos; \$6.8m to expand and build a new campus for the American International School of Bamako; and \$1.6m to renovate and expand the American International School of Monrovia. In the past it has supported the for-profit International Community School Ltd in Kumasi, Ghana.

The Aga Khan Fund for Economic Development, operated by the 49th hereditary Imam of Shia Ismaili Muslims, runs successful private equity funds, but its 50-year track record in African education is through Aga Khan Development Network. Aga Khan Education Services operates 19 high-quality schools in Kenya, Tanzania and Uganda, catering to 9,100 students and employing 600 teachers. The Aga Khan University Hospital in Nairobi, which became a teaching hospital in 2005 and celebrated its 50th anniversary in 2008,

focuses on high-quality care, research and postgraduate medical education in major clinical specialties. Financial performance is not indicated.

Investment fund Swedfund supports eCap east Africa, set up by diaspora Kenyans Eva and Anne Kagiri to export MKFC Stockholm College e-learning courses to Kenya. Online courses offered include environment and sustainable development, alternative energy, economics, hygiene, tourism, IT and management. Although it is early days for education as a for-profit investment, leading countries such as South Africa offer indications of how profitable investing in African education could be.

Listed investment vehicles

Investors and education developers seeking benchmarks often look to listed companies for standards of financial and social returns. South Africa's JSE-listed ADvTECH Group is ranked 11th in the local Sunday Times newspaper's top 100 companies, achieves good returns

for equity investors and is included in the JSE's SRI (Socially Responsible Investment) Index. In the latest results to June 2010, ADvTECH's education division contributed 86% to group revenue and revenue was up 9% to ZAR 635m (\$88m). Operating profit declined by 2% to ZAR 105m (\$14.8m) due to recessionary conditions for discretionary spending on tertiary education and delays in rolling over and awarding adult basic education tenders. At the current price of 570c it offers a 3.8% dividend yield, a trailing PE of 14.47 times and return on equity of 28.6%, according to Bloomberg.

As expertise grows in running schools and colleges and as demand for skilled African human resources continues to grow, growth in African education could be explosive. It is up to entrepreneurs, including social entrepreneurs, to provide the investment opportunities as gateways into what could be a giant investment trend. **A**

IFC education investments

Curro Schools, South Africa:

In June 2010, IFC committed ZAR 72.7m (\$9.8m) to Curro Holdings to expand its network to eight schools. Curro provides affordable, high-quality private education from kindergarten to the final year of secondary school in South Africa, and already has four schools in the Western Cape and Gauteng. Expanding operations in the two provinces and into Mpumalanga will boost enrolment from 1,600 to 6,400 pupils by 2017.

Braeburn Schools, Kenya:

In December 2010, IFC committed \$4m to Braeburn Schools, which has 13 schools across seven campuses in Kenya and Tanzania, serving more than 2,500 students. It will use IFC financing to expand its student body by 50% by 2020 and to set quality benchmarks for primary and secondary education, including technical and vocational training. IFC will also provide technical expertise to help design new green campuses and enhance environmental and social standards of new school buildings.

Ashesi University College, Ghana:

In April 2009, IFC committed \$2.5m to Ashesi, a liberal arts college operating in Accra since 2002, which offers courses in computer science, management information systems and business administration. It will use IFC's loan to build a permanent campus in Berekuso, a village 15 miles north of Accra, and permit Ashesi to double its number of students to 800.

Ghana Schools Programme:

This is a longer-established programme in which the IFC has worked with Ghana's The Trust Bank Limited (TTB) to set up a \$2.1m risk-sharing facility disbursed in local currency to support lending to private schools for construction and educational materials. IFC also gave advisory services to help TTB better process and monitor loans and for schools to strengthen financial and managerial capacities. The programme was successful enough for a repeat investment in May 2007 and the programme stands at 66bn cedis (\$7m). TTB loans are now on three- to five-year terms (compared to six to 12 months

before the IFC involvement) and range from \$20,000-\$50,000. TTB has so far disbursed the equivalent of \$3.7m to 25 schools, with 32,000 students enrolled at participating schools. Another 53 additional schools join the training programmes, and IFC has replicated this in Kenya and Rwanda.

Student Loans, Kenya:

IFC is partnering with Commercial Bank of Africa Ltd and Kenya's Strathmore University to introduce student loans to cut the financial burden on students, including those from lower- and middle-income families eligible to attend but unable to pay the entire tuition costs upfront. Demand for tertiary education is growing fast and the number of private universities climbed from three in 1985 to 21 in 2008. Loans are offered at 12%, with repayments in monthly instalments over 12 months. There are plans to defer payments until a student gets a job and to increase the current KSh280m (\$4.5m) portfolio by rolling out to other universities and expanding to KSh1.1bn (\$13m).