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OPPORTUNITIES FOR IMPACT INVESTMENT IN EDUCATION

This is the final installment of a 3-part series on impact investing in the education sector. Read Part I: **Why the Education Sector Urgently Needs Impact Capital (http://maximpactblog.com/why-the-education-sector-urgently-needs-impact-capital/)**. Read Part II: **What's Keeping Impact Investors Away from Education? (http://maximpactblog.com/whats-keeping-impact-investors-away-from-education/)**

(http://maximpactblog.com/wp-content/uploads/2014/12/Nottingham-trent-grads-II-copy.jpg) By Marta Maretich, Chief Editor **@maximpactdotcom (https://twitter.com/maximpactdotcom)**

Impact investors are in prime position to put capital behind solutions to the global education crisis. But where are the opportunities for impact in a changing global sector?

Scaling successful models

Impact's involvement with education has so far been limited, but some success stories have emerged and these can be scaled using further injections of impact finance. One outstanding example is **Bridge International Academies (http://www.bridgeinternationalacademies.com/)**, a for-profit whose standardized "academy-in-a-box" model has been highly successful in delivering quality education to poor communities in **Kenya (http://www.opic.gov/blog/impact-investing/schwab-foundation-names-bridge-international-academies-one-of-2014s-top-social-entrepreneurs)**.

To date, Bridge has enrolled 95,216 pupils, and counting, with high rates of attainment when compared to traditional forms of schooling. With continued growth in Kenya and plans to extend its reach to other African countries, Bridge shows that it's possible to come up with scalable models for education delivery.

Bridge represents a new breed of company taking a new approach to education. Cross-sector collaboration has been part of its fabric from the beginning and continues to be central to its development. The company was founded on the partnership between **Jay Kimmelman (http://www.huffingtonpost.com/jay-kimmelman/)**, the entrepreneur behind successful software company Edusoft, and **Shannon May (http://www.theguardian.com/media-network/omidyar-network-partner-zone/democratising-education-shannon-may-bridge)**, a development specialist. It was established using capital from a wide range of investors including aid agencies like OPIC and DFID, venture capital investors like **LearnCapital (http://learncapital.com/)** and **Rethink Education (http://rteducation.com/)** and impact investors like **Omidyar Network (http://www.omidyar.com/)** and **CDC (http://cdcgroup.com/)**.

This co-investment approach shows the range of players in the arena and the potential for fruitful collaboration, a theme evident across the whole education investment sector. By using such techniques, it will be possible to generate the capital necessary to bring other promising models to scale, rolling them out across more regions and adapting them to answer local needs.

Exploring the potential of edtech

Impact investors already love cleantech and greentech, but edtech, the new buzzword for education technology, is still largely unexplored ground for the impact sector.

But what is edtech? Edtech involves using information technology—including tablets, smartphones and computers—and working through various media, including social media, to deliver instruction. Its practice involves enhanced learning through computers as well as remote learning and massive online courses, or MOOCs. "Edtechers" in schools, universities and businesses design and produce online classes, tutorials, training programs and exams and then deliver them to students using technology.

Edtech is widely considered to be the new frontier in global education and the momentum behind it is growing. The UK government, long a leader in the development of socially beneficial areas of enterprise, has established an **edtech (http://www.edtechincubator.com/)** incubator. Meanwhile, mainstream markets and venture capitalists are beginning to get excited about the potential of edtech, with some pundits making bullish **predictions (%20http://news.heartland.org/newspaper-article/2014/06/26/video-can-edtech-companies-get-big-google)** about its future The edtech market is projected to grow to $220 billion by 2017, with the US market growing by 47 percent and the EMEA countries (Europe, Middle East and Africa) **projected growth (http://www.datafox.co/blog/educational-technology-industry-analysis-key-players-future-trends/)** standing at around 25 percent.

For impact investors, the rise of edtech, with its potential for delivering returns at both market and below-market rates as well as non-financial benefits, represents another possible entry point into the education marketplace. Education, like clean water, is popularly considered to be a good thing per se and this makes edtech an uncontroversial investment, which in turn should make it attractive to a number of different kinds of socially motivated investors. It's no coincidence that Bridge founder Jay Kimmelmann was an edtech entrepreneur before he became CEO of Bridge International Academies, a mission-driven education delivery business.

This crossover is important when it comes to financial arrangements, too. Two of Bridge Academies' major investors, **LearnCapital (http://learncapital.com/why-now/#more-115)** and **Rethink Education (http://rteducation.com/why-every-venture-capitalist-should-focus-on-social-impact-2/)** are venture capital funds that focus on edtech investing. In another example of collaborative investing, last year they joined forces with the **NewSchools Venture Fund (http://www.newschools.org/)**, a venture philanthropy organization, to capitalize **Britebytes (http://techcrunch.com/2014/03/13/with-10k-schools-on-board-brightbytes-lands-15m-to-help-measure-the-real-impact-of-technology-in-education/)**, a platform that helps educators manage their learning technology.
While none of the three organizations in this deal call themselves impact investors, all are pursuing investment strategies that blend business and social benefit through investing in education.

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This deal gives us a glimpse of the investing landscape that surrounds edtech. It's one that draws investors equally from mainstream finance, philanthropy and government, creating a potentially dynamic market for developing education solutions. Impact investors should take note, since the chances are good that more of these collaborative deals will be coming their way in the near future. By being prepared to work with a range of different co-investors with a range of motives and a variety of appetites for both reward and risk, impact investors can play their part in a growing marketplace.

Getting deeper into student finance

Demand for student finance is exploding in developing countries with growing middle classes and increased demand for higher education, such as Vietnam, South Africa, Brazil, Morocco, and India.

At the same time, in the developed world costs for higher education continue to **rise uncontrollably (http://www.washingtonpost.com/blogs/wonkblog/wp/2013/08/26/introducing-the-tuition-is-too-damn-high/%20)** in the face of government cutbacks, leading some students to take on **unsustainable levels of debt (http://americanprogress.org/issues/higher-education/report/2012/10/25/42905/the-student-debt-crisis/)** while others have been priced out of the education market altogether. Default rates for student loans, already high, are rising and despite a growth in student numbers the gap between **educational attainment rates (http://www.nber.org/papers/w17633)** for rich versus poor students is widening, notably in the US. At the same time, the value of a degree in real terms has **never been higher (http://www.brookings.edu/blogs/the-avenue/posts/2013/11/12-economic-education-rothwell%20http://www.hamiltonproject.org/papers/Regardless_of_the_Cost_College_Still_Matt** the demand for highly skilled workers, driven by the growth in technology businesses, is rising, a trend described in a recent book by Harvard economists Claudia Goldin and Lawrence Katz: "The Race Between Education and Technology".

For all these reasons, student finance is now being hailed as the "**new frontier in impact investing (http://www.ssireview.org/blog/entry/student_finance_a_new_frontier_for_impact_investing)**." It makes sense: impact investing has a **track record (http://maximpactblog.com/why-finance-is-and-always-has-been-an-important-sector-for-impact-investors/)** of success both in providing finance directly and backing institutions who do. Recent studies show there are already some workable models being used by non-banking financial institutions (NBFIs) in the developing world some of which are backed by impact investors: South Africa's Eduloan and Trustco Finance in Namibia, for instance are using methods including social bonds to raise money to loan to students. Other groups are collaborating with universities or governments, negotiating terms, such as discounts and subsidies, that make the programs more sustainable and secure profits for investors. Still others provide finance directly to educational institutions. There is scope for expanding some of the more successful models globally.

In the developed world, there's also room for growth. Despite the presence of mainstream lenders, solutions are needed in higher education finance, especially for poorer students. As the cost of higher education continues to rise above the rate of inflation, there are calls for new approaches including using privately-financed Social Impact Bonds, which would raise capital for student loans with repayment tied to performance, and Income Share Agreements (ISAs). In an ISA **scheme (http://www.forbes.com/sites/akelly/2014/04/30/creative-solutions-to-higher-education-finance-part-2-using-private-money-to-promote-the-public-good/)** investors pay the cost of college attendance in return for a percentage of the student's income after graduation. Higher-earning students pay more, but those who earn less pay less to investors.

These are just some ideas for how impact capital could support access to education for all students. With luck there should be many more such innovative approaches mooted in the years to come—and many opportunities for impact investors to get behind the wave of change. As the demand for global education continues to increase and the urgency of the funding crisis becomes more acute, governments, philanthropies, international aid agencies and the public will ramp up the search for solutions. And, in a new era of openness to market-based approaches, impact investors should be ready to do their part.

By establishing a focus on education as an investable sector—and learning how to work collaboratively with a range of other investors—impact investors can help turn the tide in the global education crisis through supporting sustainable, business-based solutions.

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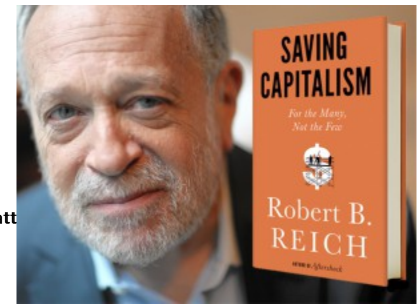

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