THE BUSINESS OF EDUCATION IN AFRICA

EXECUTIVE SUMMARY

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REPORT SCOPE AND APPROACH

This report was developed in two phases. Phase 1, completed in August 2016, entailed a literature review, desktop research, a limited number of expert interviews, and analysis. This phase drew on available research, primarily from the 15 largest countries in sub-Saharan Africa (SSA) by population, to build a picture of the current landscape for private education in SSA. The Phase 1 report (which was limited in circulation) was completed, in most part, to provide input into "The Learning Generation" report published by the International Commission on Financing Global Education Opportunity.

This report builds from this first phase. It involved detailed, on-the-ground research in six countries between July 2016 and February 2017: Kenya, Nigeria, and South Africa (larger and relatively more established Anglophone markets), Ethiopia (a fast-emerging economy to watch), Senegal (a promising Francophone market), and Liberia (a post-conflict, resource-constrained smaller country).

The research has involved nearly 260 interviews and consultations with SSA and global education sector leaders representing donors, private providers, investors, and government officials; covered more than 135 private not-for-profit and for-profit education case studies; and assessed the regulatory context for education.

EXECUTIVE SUMMARY

Whether or not we live in Africa, all of our futures will be affected by the success or failure of education on the continent.

THIS REPORT AIMS TO SHINE A LIGHT ON OPPORTUNITIES IN EDUCATION FOR INVESTORS AND THE OPPORTUNITIES FOR POLICYMAKERS TO LEVERAGE THE PRIVATE SECTOR IN THEIR EDUCATION SYSTEMS.

Progress has been made, but not enough. The private sector can help address Africa's daunting educational challenges, but both investors and policymakers must seize opportunities if it is to do so. This report aims to describe these opportunities in a tangible and actionable way.

This new research finds that 21% of African children and young people are already being educated in the private sector, with this percentage likely to rise to one in four by 2021. It identifies an investment need in private sector education in the region of \$16–\$18 billion over the next five years, of which ~\$1.5–\$2.0 billion is expected to be in the formal sector.

The private education sector will continue to play a complementary role in educating Africa's children, young people, and working adults. The future of education in emerging markets, within Africa and beyond, will be hybrid systems — not a monopoly of public financing and public provision of education services, but mixed public and private. This is being driven by consumer demand, by the market stimulating innovations in supply, and by the fiscal realities of governments that are increasingly engaging private sector capital and delivery solutions to provide services and products for rapidly growing populations. These governments are also increasingly seeking support in establishing enabling environments and public-private partnership (PPP) frameworks that can harness and regulate private actors, while focusing keenly on equity and the needs of the poorest.

This report aims to shine a light on opportunities in education in sub-Saharan Africa (SSA) for investors and the opportunities for policymakers in the region to leverage the private sector in their education systems.

MEETING THE CHALLENGE: LEVERAGING ALL RESOURCES

SSA has had the best record of improvement in primary education of any region since the Millennium Development Goals (MDGs) were established.[1] However, daunting challenges remain and the region's education systems now confront **three key challenges: access to, quality of, and relevance of education.** SSA still has 30 million children who are not receiving any form of schooling, and tertiary education is capacity constrained. SSA is also the worst-performing region globally for educational quality and learning outcomes, with up to 40% of children not meeting basic learning outcomes in literacy and numeracy.[2] Moreover, by 2035, the number of Africans joining the workforce (15–64) will exceed that of the rest of the world combined,[3] but SSA's education systems are not meeting workforce needs.

1. United Nations, 2015, The Millennium Development Goals Report.
2. UNICEF Eastern and Southern Africa Regional Office, 2016, Improving Quality Education and Children's Learning Outcomes.
3. International Monetary Fund, 2015, Regional Economic Outlook, Sub-Saharan Africa - Navigating Headwinds.

Public demand for education at all levels will only increase with larger, urban-dwelling middle-class populations, while growing economies and technology can surely provide resources and inputs to support education transformation. But, even with increases in resources, the public sector lacks and will continue to lack sufficient capital or capacity to operate alone. Complementary solutions from the private sector, both for-profit and not-for-profit, can help to fill the gap.

THE CURRENT ROLE AND OUTLOOK FOR THE PRIVATE SECTOR

The private sector is already making a significant contribution to education delivery and services. "Private" in this context means services and financing outside of public sector provision and includes for-profit, charitable, non-governmental, faith-based, and community provision. "Education" includes **core delivery** — comprising the student life cycle from pre-primary, to K-12 (primary and secondary), to higher education, and technical and vocational education and training (TVET), as well as **ancillary services,** which include teacher training, supplementary education (after-school tutoring, language learning, and test preparation), education technology, student finance, institutional finance, and publishing.

Publicly reported data indicates that the private sector enrolls 13.5% of pupils in SSA, but this figure fails to take account of non-formal education. When accounted for, this number could be as high as one in five pupils. Unsurprisingly, the private sector proportion of provision varies considerably (from 10%–30%) across countries and segments of education. Not only does the private sector already comprise a significant share of education provision, its rapid growth outstrips public sector growth in most segments. This report estimates that by 2021, one in four, or approximately 66 million students will be enrolled in the private sector.

A vibrant private sector, particularly when operating in an engaged, flexible, and concordant relationship with government, can help drive **access, quality, relevance, and innovation**. Private offerings may complement the public sector by helping to increase access to segments poorly covered by government provision. It can also reduce the burden on government, creating the fiscal space for government to create access for those in greater need. In terms of innovation, the private sector has flexibility to rapidly trial and scale new approaches, models, and learning methods. Where this delivers better quality at the same cost, this can improve public provision and the education system as a whole. Finally, private providers often have a greater focus on relevant education, particularly if students are looking to move immediately into employment after graduation.

However, it is important to recognize that engaging with the private sector brings limitations and consequences too. The private sector can reinforce inequities in provision, as it is out of reach for most Africans. At the same time, there are emerging, low-cost models that provide access to education – sometimes high-quality education – for children who otherwise would not have it. To be sure, private provision can be of variable quality (like public provision), and effective regulation and licensing are vital. Private education can also compete with government, for example for teachers and high-performing students. This can be a source of tension. Finally, the private sector has certain kinds of financial risk not present in the public sector. On balance, this report argues that the benefits of private education far outweigh the potential challenges.

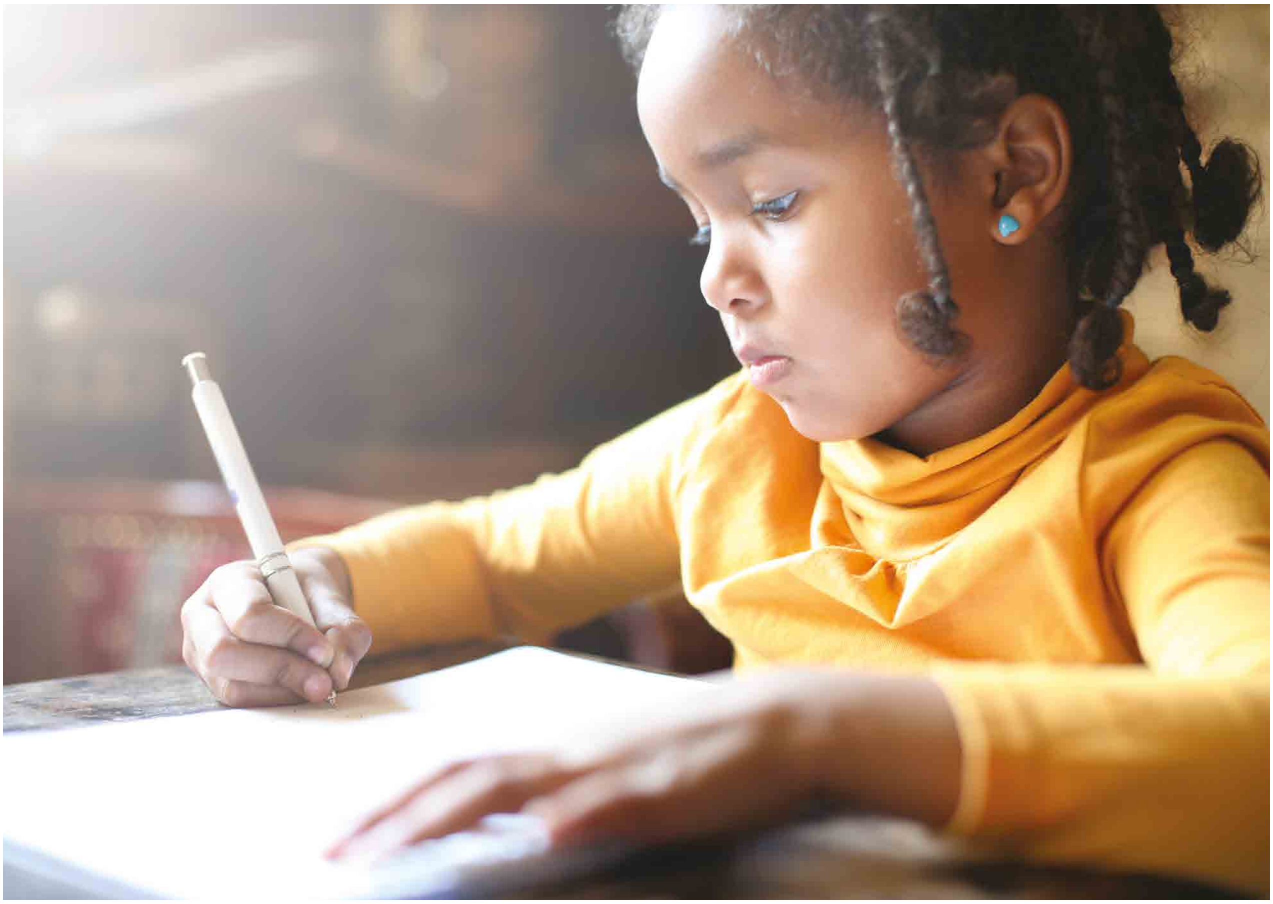
MAXIMIZING THE CONTRIBUTION OF PRIVATE EDUCATION

Governments face a fundamental choice when considering private education provision. They can either proactively engage it, with the aim of maximizing its contribution to the education system, or they can ignore or actively act against it and so limit the contribution it might make. Currently, in much of SSA, the contributions of the private sector are too often stymied because of poor policy environments, limiting both the effectiveness of current provision and the scope for expansion.

Governments perform three key roles in relation to educational systems: steward, enabler, and partner, and policymakers have a range of tools at their disposal if they want to encourage and regulate private sector participation in education.

As stewards of education systems, governments can improve broader ecosystems for doing business; streamline education governance, including reducing fragmentation and improving data collection and transparency; set and enforce standards, particularly quality standards; and establish frameworks to accommodate and encourage education actors, such as low-cost schools, social enterprises, and TVET providers.

As enablers, governments shape licensing, operations, and investment regulations that create environments that encourage socially beneficial private provision. In licensing, governments can consider modifying infrastructure requirements for private providers; streamlining, accelerating, and depersonalizing processes; and facilitating expansion within and between countries. In



operations, they can establish policy frameworks to reduce transaction costs and introduce concessions and incentives for private operators. And in finance and investment, policymakers can remove restrictions on private provision, allow FDI and profit repatriation, and improve availability of finance.

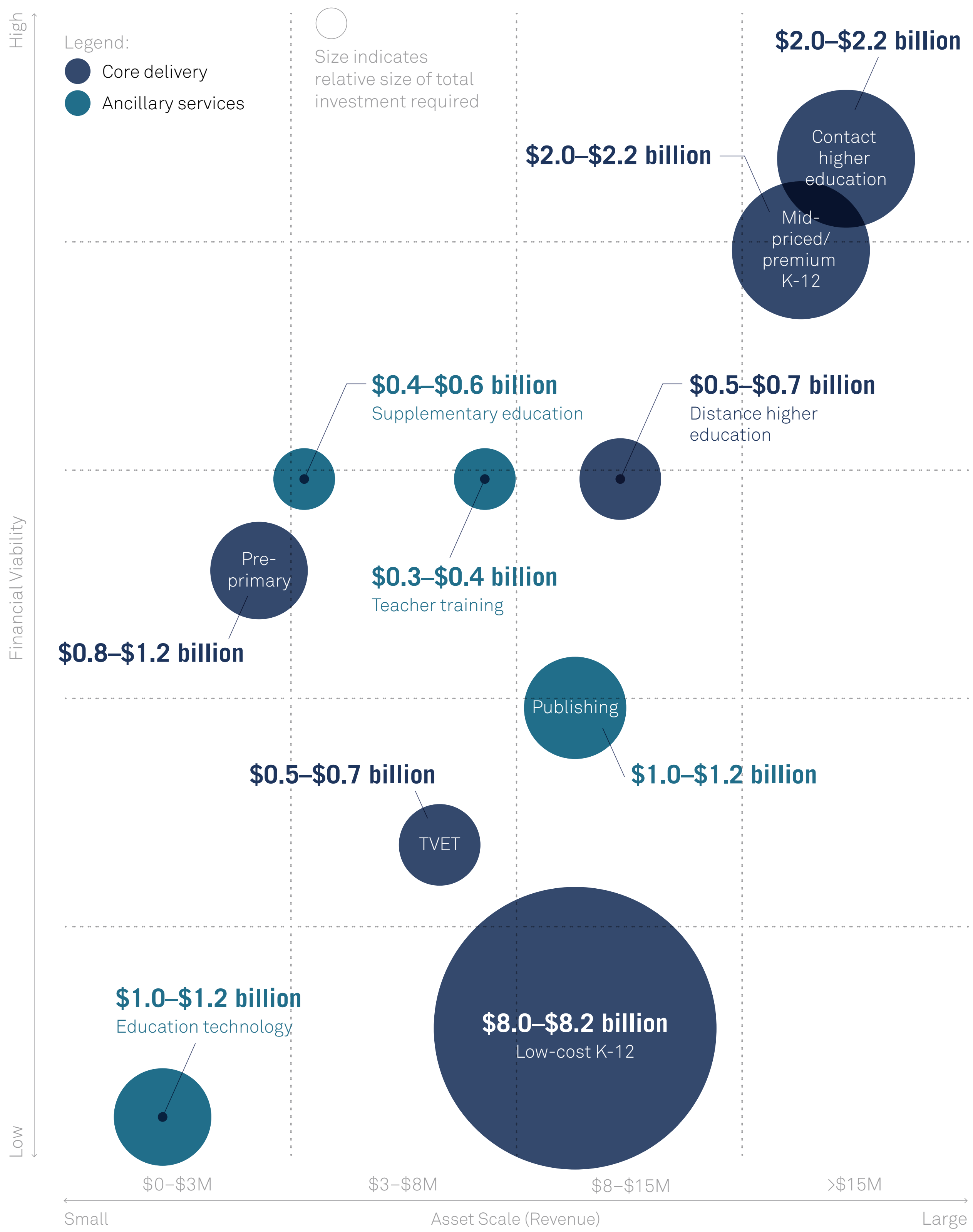
As partners, governments have significant potential to expand access and improve quality and relevance through public-private partnerships (PPPs), broadly defined. These can be for education delivery, for example, in school management or funding; developing infrastructure, such as building or managing education facilities; and procuring services, such as teacher training services, edtech, and data systems.

It is both important and probable that the coming years will see closer partnership between governments and the private sector in SSA as they jointly address the challenges of improving quality, access, and relevance of education.

OPPORTUNITIES FOR INVESTING IN PRIVATE EDUCATION IN SSA

The recent growth of private education and investment in education in SSA are characteristic of the global education sector as a whole: emerging markets education investments increased more than 5,000% between 2001 and 2015. **Education businesses have five key attributes** that make them attractive for investors: 1) demand is usually greater than supply; 2) prices grow faster than inflation; 3) they have long-term revenue visibility; 4) there is access to negative working capital; and 5) barriers to entry are high. However, despite strong business fundamentals and investor attractiveness, there are challenges specific to investing in the education sector: regulatory complexity and uncertainty; long gestation periods; high levels of fragmentation; lack of corporatization; and a skills shortage (i.e., in qualified teachers). Different investment opportunities are suited for different kinds of investors and SSA has opportunities for investors of varying risk appetites, return expectations, investment capabilities, and social impact objectives. These include early-stage commercial investors, commercial and strategic investors, impact investors, and donors and foundations.

FIGURE 2: FIVE-YEAR INVESTMENT OPPORTUNITY IN PRIVATE EDUCATION IN SUB-SAHARAN AFRICA



As noted, the private investment requirement for the next five years in various education sectors is estimated to be **$16–18 billion** (see figure 2). It is important to note that the non-formal sector makes up a large share of private provision, and that the formal sector comprises a diverse set of providers. Only 10%–20% of these have a revenue scale large enough to merit attention from institutional investors. This translates into a more realistic investment requirement of ~**$1.5–$2.0 billion** over the next five years in the formal sector.

The **total opportunity in core delivery is estimated to be $14–$15 billion** ($1.3–$1.5 billion in the formal sector) across pre-primary, low-cost K-12, mid-priced/premium K-12, contact higher education, distance higher education, and TVET. The **total opportunity in the ancillary services segment is estimated to be $2.0–$3.0 billion** ($0.2–$0.4 billion in the formal sector) across teacher training, supplementary education (after-school tutoring, test preparation, and English language tutoring), education technology, and publishing.

Within core education, the largest opportunity for investment is in low-cost K-12, with an estimated $8.0–$8.5 billion in investment required over the coming five years. Contact higher education and mid-priced/premium K-12 are both significant opportunities at $2.0–$2.5 billion. Pre-primary, distance higher education, and TVET are all in the $1.0 billion range in terms of opportunity size.

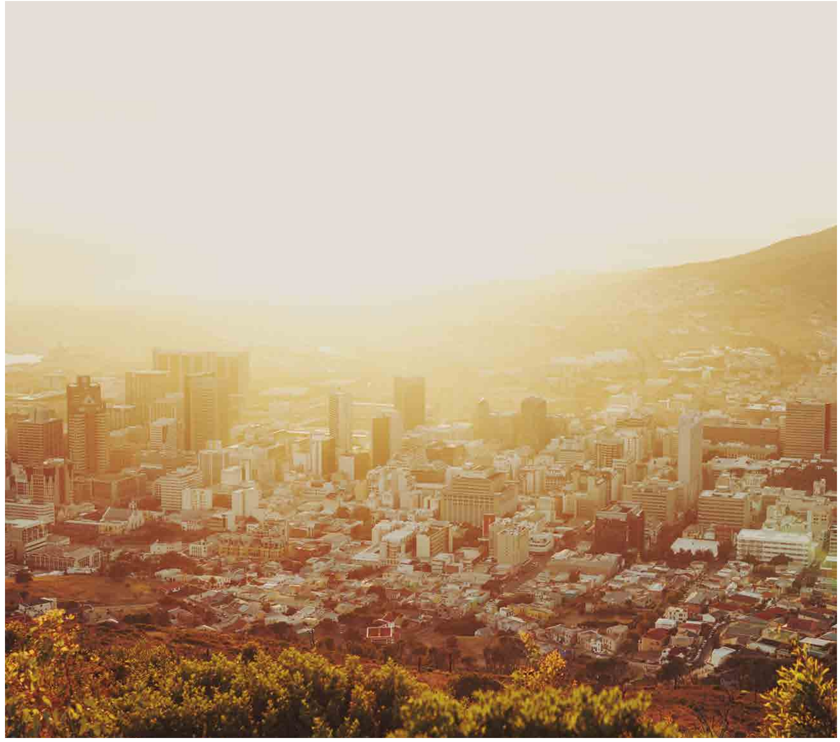
Within core education, for commercial investors, the most promising opportunities are greenfield and consolidation possibilities within mid-priced/premium K-12, and contact and distance higher education, given the high margin potential (20%–30%) in these segments and the rapid pace of market growth. For impact investors and donors in core education, pre-primary education, low-cost K-12, and TVET have significant potential to deliver impact and to deliver sustainable business models. Donors will have a particular opportunity to leverage private grants to drive equity of access in education. Impact investors also have a compelling opportunity in greenfield contact higher education.

Within ancillary services, opportunities are smaller scale but growing rapidly. The opportunity size is $1.0–$1.2 billion in both edtech and publishing, and it is under $0.5 billion in teacher training and supplementary education.

The opportunities for investment in ancillary education will appeal to different investor types.

HARNESSING THE CONTINENT'S ENORMOUS POTENTIAL, WHILE ADDRESSING SOME OF ITS KEY ISSUES, IS THE GREATEST CHALLENGE AHEAD FOR THOSE ENGAGED IN THE REGION.

For commercial and strategic investors, there are opportunities across ancillary education, with particular potential in services that benefit most from expansion of core education, such as teacher training, supplementary education, student finance, and publishing. For early-stage commercial investors, the most compelling opportunities will be in edtech, given the proliferation of models that are improving quality and driving access across segments. For impact investors and donors, there is a significant role to play in supporting PPPs in teacher training, promoting innovations in edtech, and experimenting with newer student and institutional finance models that have the potential to transform the sector.



LOOKING AHEAD

In conclusion, we take a wider lens on the region with **five observations**.

1. **Policy challenges are present, but they don't change fundamentals — the outlook for investors is very strong.**

2. **A window exists for proven global education providers to enter the African education market, with the proviso that they must contextualize their approach to Africa.**

3. **There is significant potential for local conglomerates to become education providers, and this type of diversification is observed in other emerging markets.**

4. **Africa serves as an innovation platform and can be leveraged to develop solutions for global replication.** SSA's unique market challenges have already produced many globally relevant and applicable innovations, within education as well as other sectors.

5. **Setting national learning goals would refocus the public versus private debate for policymakers.** Change is much needed but too often hindered by ideological concerns. Strong results in the private sector in line with learning goals could be more quickly and widely disseminated, potentially through PPP models.

These five observations are a reflection both of the challenge and the opportunity for education in SSA. Harnessing the continent's enormous potential, while addressing some of the key issues that are hindering its growth and development, is the greatest challenge ahead for the governments, investors, companies, donors, not-for-profits, and individuals engaged in the region. The potential for investment and the potential for impact have rarely been greater.

THE POTENTIAL FOR INVESTMENT AND THE POTENTIAL FOR IMPACT HAVE RARELY BEEN GREATER.

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