Driving Grades, Driving Growth: How Private Capital in Education is Increasing Access, Inspiring Innovation and Improving Outcomes

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Parthenon-EY

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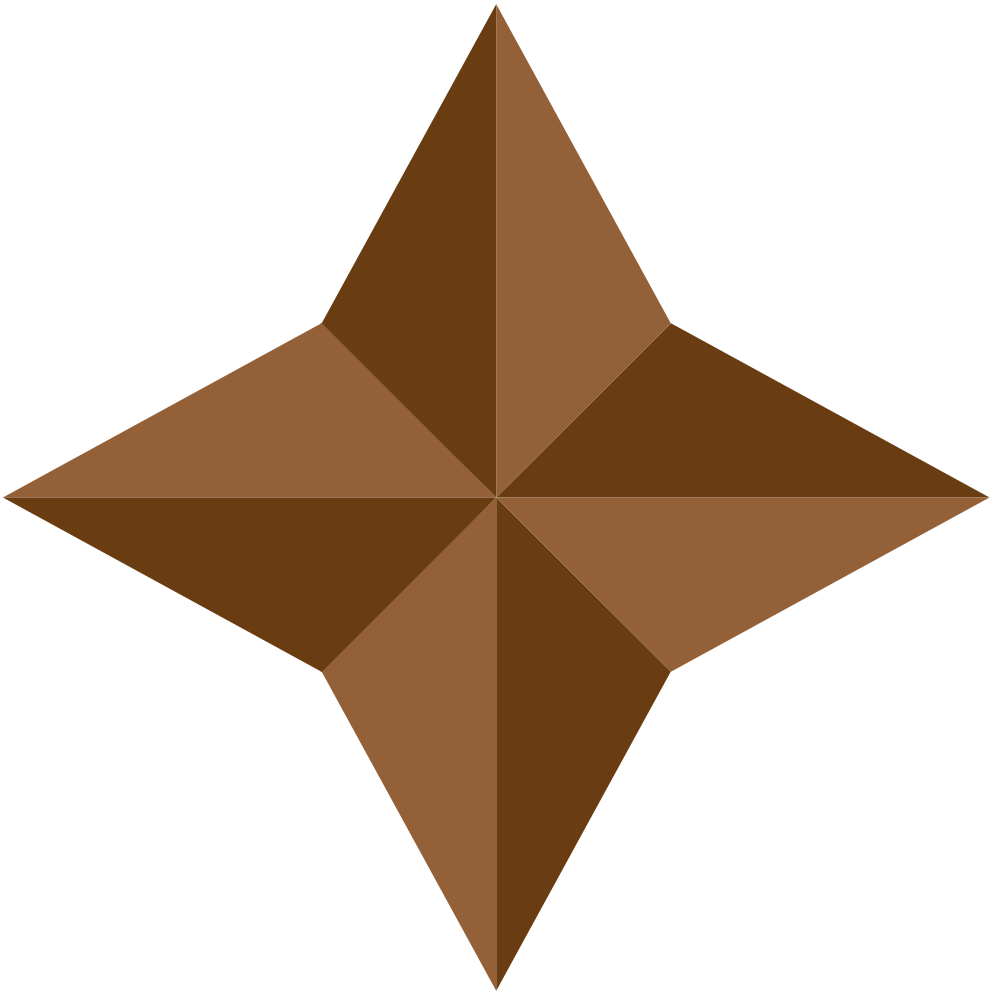

PARTHENON EY

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FOREWORD

Economic growth and quality education are strongly correlated. Economic growth leads to increased demand for quality education, which in turn contributes to higher levels of economic growth and so on. And yet for a large number of developing countries this virtuous cycle is under threat. Public education systems are over burdened and often lack the human and financial resources and capacities to deal with rapid increases in demand for more and better education. Private and philanthropic capital has stepped in to fill the void and as this report argues, these interventions should be largely welcomed and harnessed to improve education systems across the board. As the case studies presented reveal, privately funded education organizations have shown themselves to be more willing to take risks, are quicker to innovate and expand, and are more focused on outcomes. In this regard they have in general done a much better job in fulfilling the educational aspirations of the growing middle classes across emerging markets.

While the report is supportive of private investment in education, it is also acutely aware of the risks involved when "private capital engages with public goods." Among the acknowledged risks is the danger that profits take precedence over societal impact and that private investment in education will exacerbate inequality. To address these and other challenges the report offers guidance to policymakers who are encouraged to: adopt transparent, robust and consistent regulatory frameworks track and report relevant data; and provide incentives to encourage private sector participation to address unmet needs.

Private sector investment in education looks set to grow particularly in emerging markets but also in some segments of the developed world such as higher education where learners of all stripes are looking for more efficient and cost-effective ways to acquire marketable knowledge and skills. It is therefore in the interests of all concerned—governments, investors, educators, and society at large—that we do everything we can to encourage the right kind of investment and manage the potential risks.

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EXECUTIVE SUMMARY

Education is a vital driver of personal and national prosperity and one of the most critical levers to sustain and propel a nation's economic growth. However, that growth is far from assured for many nations, where increasing demand for high-quality education has led to overburdened and overcrowded public sector education systems. Against this backdrop, private capital is increasingly being deployed to finance education, particularly in emerging markets. The report highlights case studies of high-growth organizations in different education sectors to illustrate this growing trend.
We investigate both private investment in the education sector and public and philanthropic investment in private education organizations. The report is intended as a primer on the role of private capital in education and its intended audiences include government actors looking to harness the private sector in delivery, for-profit and non-profit operators seeking to understand best practice and models, and investors seeking to understand opportunities. Findings are rooted in sector experience, observation of trends, and expert opinion.
A summary of key themes from each section of the report is outlined below.

PART 1: CONTEXT

Context provides a concise introduction to the issues that have led to the growth of private capital in education. The population boom of the last one hundred years, coupled with the rising economic wealth of nations, has contributed to an increase in enrollments across education levels. This unprecedented rise presents challenges for governments, which have struggled to develop the necessary capacity to enroll all students, particularly against the backdrop of the global economic crisis. Moreover, **across emerging markets, middle classes are growing, and with this growth comes aspiration for high-quality education and willingness to invest in education.** While governments have made significant investment and impressive strides in quantity and quality, dramatically increased demand for high-quality education has driven a need for private sector involvement in the education sector. Given the competing priorities for government investment, an infusion of private capital has been able to support growth and innovation in education, thus filling the gap created by the rapid increase in demand for education.

PART 2: THE ROLE OF PRIVATE CAPITAL

The role of private capital digs deeper into the opportunities and challenges presented by private capital, while expounding on the various types of private capital present in education.

Opportunity: Private capital has been "game changing,"[1] creating a virtuous cycle between capital availability, innovation, scale, and returns within the world of education. The involvement of private capital in the education sector is important because it plays a vital role in enabling **expansion and innovation of education provision as well as a focus on outcomes.**

Expansion: Private financing can enable education institutions and services to scale within and across geographies, supporting access to education for more individuals as it seeks to maximize profits through broadened service provision.

Innovation: Given its profit motives, private capital also has strong incentives to compete and innovate. Therefore, new financing of education supports research and development that drives more effective provision. Several of the case study organizations noted that they had a "try-fast, fail-fast" mentality, and most had significantly evolved their business models over time.

Outcomes: Private investors also introduce a strong focus on outcomes into the education sector. Tracking and pursuit of outcomes provides a bedrock for the efficient deployment of capital.

Challenges: Education is a sector where private capital engages with public goods. This can present challenges, but these should not deter stakeholders from leveraging private capital; awareness can support more effective and mindful decision-making by governments and operators. The challenges include a tension between profit and impact, a risk that private capital drives increased inequality, the potential for a narrow focus on measurable outcomes, and other important risks. In Part 4, we examine at how stakeholders like government can create regulatory frameworks that mitigate these risks.

Types of Private Capital in Education

The various types of private capital observed in education include:

	Established	Emerging
Institutional	Grant funding and donations Government funds Low interest financing Market-rate loans Development finance investment Education holding company Funding Corporate funding Sovereign wealth funding Private equity Venture capital	Social impact bonds (SIBs) Development impact bonds (DIBs) Debenture Asset-backed securities (ABS)
Individual	Individual entrepreneurs and families Angel funding	Crowdfunding Peer-to-peer loans Human capital financing

We also explore **impact investing**, given that this philosophy inspires many education investors who seek to achieve both social and financial returns. Impact investing aims to achieve sustainable market-based solutions that deliver social impact.

PART 3: CASE STUDIES

It exhibits a selection of exemplary organizations where investment returns are healthy and social impact is potentially transformative.

Type of Private Capital	Organization Name	Geography	Description
Development Impact Bonds	Educate Girls	India	Educate Girls works to tackle the root causes of gender inequality by achieving higher enrollment and attendance for girls. Educate Girls is pioneering the use of a Development Impact Bond in education in partnership with a foundation and an investor —the first of its kind in education and in the developing world.
Venture Capital, Development Finance Investment, Government Funds	Coursera	Global	Coursera, a provider of massive open online courses (MOOCs), provides free online courses from top universities. Coursera has a range of investors representing education companies, venture capital, and development finance.
Development Finance Investment, Venture Capital, Angel Funding, Low Interest Financing	Bridge International Academies	Kenya, Uganda, Nigeria, India	Bridge International Academies, a network of low-cost private schools, is the largest school network in the world serving families earning less than $2 USD a day, with 125,000 students. Bridge has secured investment from a range of sources including venture capital and development finance.
Asset-Backed Security (ABS)	Ideal Invest	Brazil	Ideal Invest is a non-banking financial institution in Brazil that specializes in providing loans to students for study at private universities. In 2002, Ideal Invest launched its first asset-backed security vehicle in Brazil that underwrites its loan capital.

Type of Private Capital	Organization Name	Geography	Description
Individual Entrepreneurs and Families, Market Rate Loans, Private Equity	GEMS	13 countries	GEMS is the world's largest K-12 company, with 71 schools worldwide catering to families across a wide range of socio-economic segments. Through investments and private entrepreneurship from the Varkey family, alongside private equity funding, GEMS has grown its business in the Middle East and is now expanding globally.
Peer-to-Peer Loans	Student Funder	United Kingdom, with international borrowers	StudentFunder is an early-stage UK-based social business that provides loans to students matriculating in Masters and professional courses. StudentFunder operates as a Peer-to-peer lending platform, securing investment from individuals and institutional investors.
Government Funds, Corporate Funding	Qatar Outstanding Schools Program	Qatar	A 2007 initiative by Her Highness Sheikha Moza bint Nasser to bring exceptional schools from around the world to Qatar. To date, six schools have entered Qatar in this public-private partnership, and more are set to come in partnership with local businesses within the next year.

PART 4: LESSONS FROM EXPERIENCE

The overarching lesson from the case studies is **the importance of incentives that align for all stakeholders.** Furthermore, we draw on the case studies and Parthenon-EY's experience to address the following questions:

- **How can governments support the effective deployment of private capital in education?**

Design transparent, consistent and supportive regulations:
A climate that attracts investors and operators alike is one with easily

comprehensible, consistent, and supportive policies, ideally developed in dialogue with operators and revised on an ongoing basis to reflect evolving needs.

Track and report data:
Robust data is vital for a) problem identification and targeting resources; and b) supporting education providers to more effectively address education needs.

Drive access to education:
Governments can enhance private sector willingness to provide education services in areas of unmet need by providing incentives for their participation, e.g, tax concessions and support in operational costs.

- **How can education operators leverage private capital most effectively?**

Design a robust business model:
Robust business models should be influenced by a) consumer insight; b) local contextualization; c) scalability; and d) adaptability.

Define the desired role for investors:
Education operators should consider a) desired social impact; b) desired governance control post-investment; c) desired investment horizon; and d) desired investor capabilities and support.

Focus on quantifying outcomes:
Quantifying outcomes assists education operators to ensure successful performance and attract potential investors. It allows operators to identify and align their goals with their operations and to measure their impact and progress over time.

Emphasize the social impact:
The potential to have an impact in education can be a powerful pull to make investments and to retain education operators in a portfolio.

- **How can investors succeed in education investments?**

Lead with profitability:
All investors, including impact-focused investors, should lead with profitability, seeking investments that can provide financial returns alongside healthy social impact.

Realize education is a long-term business:
The majority of education businesses require investment over a longer time horizon than other sectors, and education success in the long-term requires an investment in quality.

Look for category definers:
Successful education companies will often crack the code on the status quo.

PART 5: CONCLUSION

It is an exciting time to work in education. For Parthenon-EY, this research has underscored some exciting trends that we believe will profoundly shape the sector in the near term: marquee financial returns and public listings, disruption driven by technology, and novel investment vehicles and intermediary organizations.

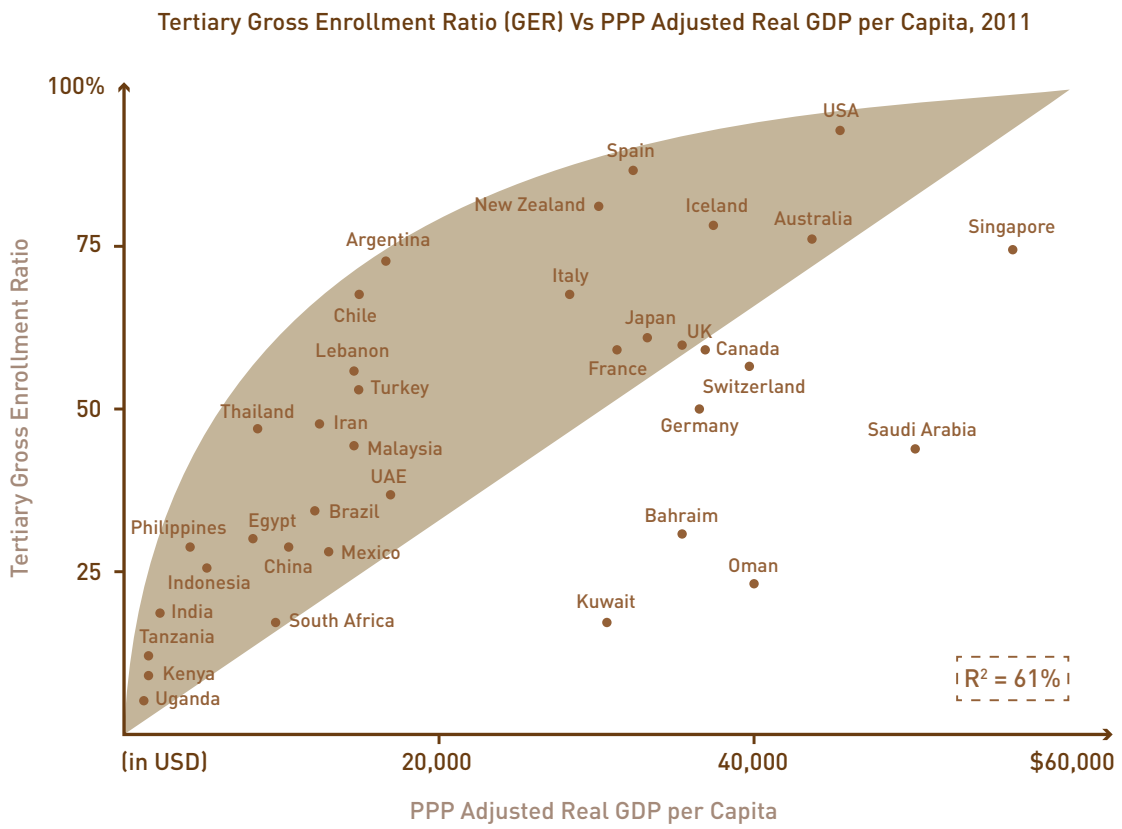
#1
CONTEXT

#1 CONTEXT

IMPACT OF EDUCATION

Education is a vital driver of personal and national prosperity. Data shows us that education is not only important for individuals but also inextricably tied to a country's economic potential as one of the most critical levers to sustain and propel a nation's economic growth. Some studies have found that no other development lever is as tightly correlated with a country's economic growth as the population's post-secondary education attainment.[2] There is a very strong correlation between educational attainment and economic performance.[3] Figure 1 demonstrates that about 60 percent of a country's economic performance (measured by inflation-adjusted GDP per capita) can be explained with reference to its post-secondary education level (demonstrated through its tertiary enrollment ratio[4]). UNESCO notes that education is a "wise investment — for every $1 USD spent on education, as much as $10 to $15 (USD) can be generated in economic growth."[5]

Figure 1: Tertiary enrollment ratio is strongly linked to economic growth



This is a virtuous relationship:[6] education attainment drives economic growth, which in turn drives further demand for education. Economic returns to schooling benefit individuals and communities. One extra year of primary school boosts a girl's future wage 10-20 percent and an extra year of secondary school increases that earning potential by 15-25 percent.[7] Further, education delivers benefits beyond economic attainment. It dramatically improves quality of life, particularly for the most vulnerable populations.

IF NATIONS, PARTICULARLY EMERGING ECONOMIES, ARE UNABLE TO ENSURE ACCESS TO QUALITY EDUCATION, THEY WILL FAIL TO ACHIEVE THEIR FULL POTENTIAL.

For example, women's educational attainment has a direct impact on personal and family health: better-educated women marry later and have fewer, healthier children; maternal deaths would be cut by two-thirds if all women had a primary education.[8] If nations, particularly emerging economies, are unable to ensure access to quality education, they will fail to achieve their full potential. Yet, education is one of many sectors competing for the finite resources available to governments already stretched thin by the economic crisis.

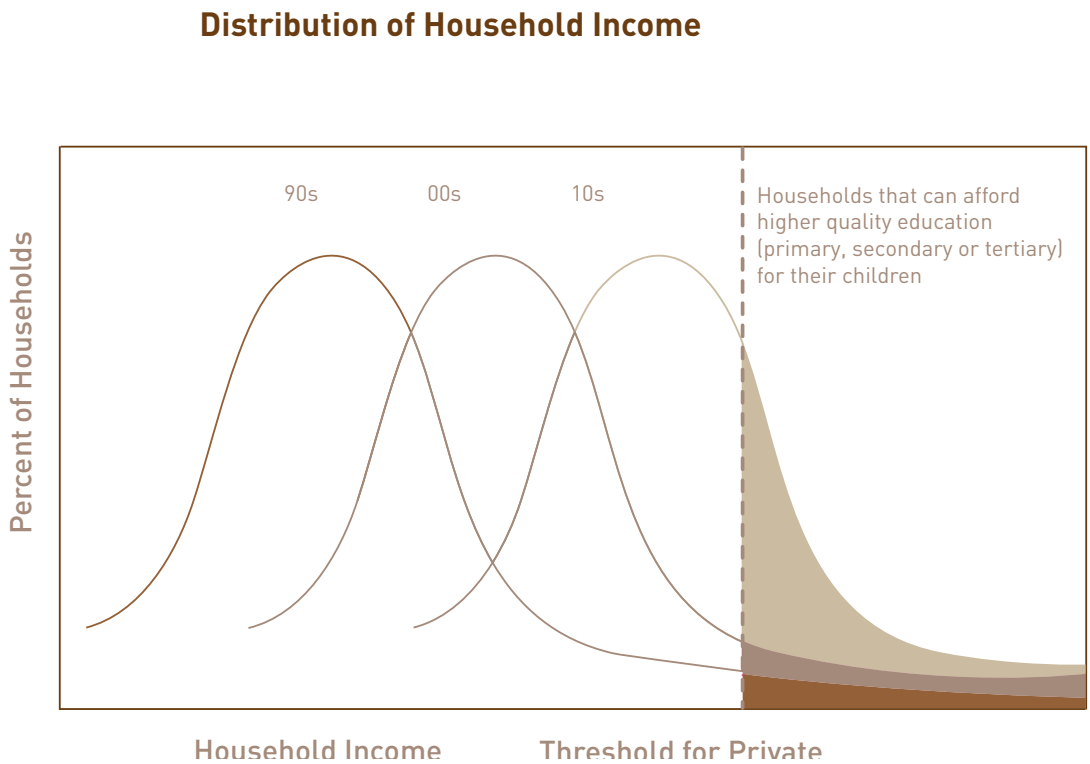
RAPID INCREASE IN ENROLLMENTS

The population boom of the past hundred years,[9] coupled with the rising economic wealth of nations,[10] has contributed to an increase in enrollments across education levels: primary school enrollments in developing countries have nearly doubled over the course of 30 years and secondary enrollments have increased more than four times in the same period. Additionally, the global resolution to increase primary school participation rates, cemented through the Millennium Development Goals (MDGs), has further contributed to dramatic recent enrollment increases: the primary school enrollment ratio increased from 82 percent in 1999 to 92 percent in 2012,[11] while the secondary school enrollment ratio rocketed from 59 percent in 1999 to 74 percent in 2012.[12] This has also led to a greater increase in demand for university seats. This unprecedented rise in enrollments presents challenges for governments, which have struggled to develop the necessary capacity to enroll all students, particularly against the backdrop of the global economic crisis. For example, in many countries, public higher

education institutions are frequently oversubscribed with demand 20-50 percent higher than available capacity.[13] In many cases, public systems simply cannot keep pace with rising demand for education.

Moreover, across emerging markets, middle classes are growing, and with this growth comes aspiration for high-quality education and willingness to invest in education. Overall, average wealth has increased around the world, and this increase has created both a significant rise in the number of families able to afford to allocate income to education (as illustrated in Figure 2). Indeed, as *The Economist* reported in a 2015 cover story on low-cost private education, "the growth of private schools is a manifestation of the healthiest of instincts: parents' desire to do the best for their children."[14]

Figure 2: Average Income Growth Increases Percentage of Families Who Can Spend on Education[15]



While governments have made significant investment and impressive strides in quantity and quality, dramatically increased demand for high-quality education has driven a need for private sector involvement in the education sector; "governments should therefore be asking not how to discourage private education, but how to boost it."[16]

Governments vary widely in their approaches to private education. Many face constituencies that may disagree with the need for private involvement in the sector, or they may have previously faced regulatory issues with unscrupulous operators who have damaged the perception of private education. However, many governments, particularly those where populations have already greatly turned to private provision, have harnessed private providers not only to provide alternatives to public provision but also to allow governments to more selectively focus and invest in areas of education that need it most. Supportive governments have designed regulation to ensure easier access by private operators. There is room for many governments to further design policies to ensure they best leverage the opportunities that private capital affords. This is a virtuous relationship: education attainment drives economic.

GROWTH OF PRIVATE PROVISION

The private sector has been able to fill a gap in provision across geographies and education segments. Private K-12 and higher education enrollment growth outpaces the public sector across many emerging education markets, as demonstrated in Table 1.

Table 1: Enrollment Growth in Selected Emerging Markets, 2011-2014[20]

	K-12		Higher Education	
	Public	Private	Public	Private
Brazil	-2%	5%	5%	4%
India[17]	1%	6%	6%	16%
Malaysia	0%	6%	4%	6%
Morocco[18]	1%	7%	7%	7%
Oman[19]	1%	14%	-7%	21%
Philippines	1%	2%	10%	7%
Qatar	7%	11%	23%	7%
Saudi Arabia	2%	2%	14%	17%
Singapore	-2%	7%	-21%	20%
UAE	4%	8%	3%	8%

Private sector provision, both profit and non-profit, has proven to be a successful supplement to the public sector, providing seats in oversubscribed segments. Private operators have experienced rapid growth across developed and emerging markets, levels of education, and segments as both individuals and countries realize the role of the private sector ability to supplement public provision. While many consider private education a luxury option for the rich, in many countries, middle and low-cost private provision has driven the increase in enrollments.

Private Education Provision Can Fuel Economic Growth — China Case Study
China faced a large shortfall of places in higher education in the 1990s, with over 20 million applicants for only a half million spots in public universities. Facing increased quality concerns as public universities filled alongside existing capacity constraints, China deregulated its higher education sector and allowed for-profit higher education providers to begin operations in 2001. In the ensuing 10 years, enrollments increased four times, from one to five million.[23]

For example, in India, high-cost private provision makes up less than 10 percent of all private enrollments.[21] Traditional investors have noticed the tremendous success and growth potential of private education; mergers and acquistions (M&A) activity in the sector in emerging education markets increased by over six times since 2000.[22] To sustain economic growth, countries must ensure they develop a capable, educated workforce that can sustain future growth and development. This will require better education provision throughout systems, with expanded pre-primary provision, and improved quality and access at the primary and secondary levels, and corresponding improvements in a range of supporting areas including infrastructure, teacher training, and use of technology.

Given the competing priorities for government investment, an infusion of private capital can support growth and innovation in education. In the next section, we examine the role of private capital in education and types of private capital available.

In this report, we investigate both private investment in the education sector and public and philanthropic investment in private education organizations.

#2

THE ROLE OF PRIVATE CAPITAL

#2 THE ROLE OF PRIVATE CAPITAL

Against a backdrop of increasing demand for quality education at all levels, private capital can fulfill objectives that public or philanthropic capital may not be able to achieve. All three players are vital to the healthy functioning of education systems, and each brings distinctive capabilities and limitations:

As recently as the late 2000s, the involvement of private capital in education was still contentious,[24] but with increases in private participation, there is increasing acceptance that the private sector has an important role to play in education provision. Although debates continue as to the appropriate role of private capital in the education sector and the norms it should adopt, the sector is now crowded with private players.[25] Further, trends do not suggest that countries are substituting private capital for public capital; private and public investment in higher education, for example, both increased over the period 2000 to 2009.[26]

WHAT IS THE OPPORTUNITY?

Private capital has been "game-changing"[28] within the world of education, creating a positive flow of financing available to education institutions, businesses, ventures, and services. Michael Staton,

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"A VIRTUOUS RELATIONSHIP BETWEEN CAPITAL AVAILABILITY, INNOVATION, SCALE, AND RETURNS."

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a partner at Learn Capital, a venture capital investor in two of the case study organizations profiled in this report, describes this positive flow as "a virtuous relationship between capital availability, innovation, scale, and returns."[29] Investors can invest, generate returns, and then reinvest the same pool of capital. Moreover, the demonstration of successful investment returns in education further attracts more

"Governments play a critical role in setting standards, ensuring quality, and protecting the rights of vulnerable populations. Foundations can take a long-term view, take significant innovation risk, and serve charitable ends but, in the non-profit world, scale often means larger headaches with few additional rewards. Companies can aggregate private capital, develop innovative offerings, and develop efficiencies at scale. In the private sector, managers have incentives including stock and performance compensation that encourage quality, performance, and growth."[27]

investors (and capital) to the industry, thus perpetuating the virtuous cycle. Private capital, particularly in the form of loans, can be recycled time and time again, as opposed to grant funds. This potential means that even traditional grant funders are experimenting with impact investing (covered later in this section), seeking modest returns on their investment in order to maximize the social benefits of their available funding.

The involvement of private capital in the education sector is important because it plays a vital role in enabling **expansion and innovation of education provision as well as a focus on outcomes.**

Expansion: Private financing can enable education institutions and services to scale within and across geographies, supporting access to education for more individuals; private funding seeks to maximize profits and therefore maximize service provision that generates those profits. Private institutions and services also have a faster speed to market, given they typically operate in a more flexible regulatory context than public systems, without requirements to navigate large bureaucracies; they also have greater incentives than social impact sector organizations and individual non-profit institutions. As such, private providers can more quickly recognize a market opportunity and invest.

Innovation: Given its profit motives, private capital also has strong incentives to compete and innovate. Therefore, involvement of private capital in education supports research and development that drives more effective education provision and student outreach. Several of the case study organizations interviewed for this report noted that they had a "try-fast, fail-fast" mentality, and most had significantly evolved their business models over time. Though some social innovators within government and the social sector seek to drive a risk-taking and iteration-oriented model of policy, failure is not typically accepted within education institutions,[30] by donors, or within the policy community. As one observer wrote: "It is rare to find a donor or government department... innovation-minded enough to invest in more than three tries, let alone three hundred, to develop a better model for schooling, a market for clean water, or a new conception of the university."[31] Moreover, private sector innovation is also enabled by its relative freedom from regulatory and political constraints. As Svava Bjarnason, Principal Education Specialist at the International Finance Corporation notes, "The private sector can innovate much more easily and quickly, which is often a function of not having to negotiate with [education stakeholders]."[32]

Outcomes: Private investors also introduce a strong focus on outcomes into the education sector. Bridge International Academies, which

is profiled later in this report, has a rigorous focus on data and outcomes that is linked both to its social mission of providing "quality education for every child," but that is also linked to its business viability. Bridge's Co-Founder Shannon May notes: "Parents are in control... Bridge will only make a return if we provide radically better education, since parents are freely able to choose and will hold us accountable."[33] Other investment vehicles also drive a focus on outcomes; for example, payment by results or pay for success bonds like social (or development) impact bonds are linked to the achievement of measurable, pre-agreed social outcomes. This can drive "a focus on outcomes rather than simply activities,"[34] notes Safeena Husain, Founder of Educate Girls, which has recently started a development impact bond.

Though private investors are not always focused on educational outcomes and social impact, education institutions and services only survive in the market if they provide value for money since education is a long-term industry in which quality drives financial returns.

AT ITS BEST, PRIVATE CAPITAL INVESTS IN QUALITY.

Therefore, it is in education companies' best interest to focus on education quality. Moreover, public scrutiny, government regulation, and individual passion mean that education investors often look for opportunities to create social value; "At its best, private capital invests in quality, for example teacher development and remuneration,"[35] notes Svava Bjarnason of IFC.

The private sector is involved in a range of education areas, including investing in traditional brick and mortar education operators such as schools and higher education; in education technology companies; and in education, infrastructure, materials, and supplies companies. The private sector also provides auxiliary services in a range of areas such as tutoring, teacher training, and testing preparation, which supplement traditional education. In China and Singapore, both lauded for their high-performing K-12 education systems, a great deal of success is attributed to the intensive tutoring students receive in private paid tuition outside of school hours. While these areas offer opportunties for private capital to innovate, these supplemental sub-segements tend to grow in contexts where basic educational needs are met. Thus, investors in emerging markets have tended to focus on the foundational segements of K-12 and higher education that are best suited for rapid scale and expansion across diverse regions.

WHAT ARE THE CHALLENGES?

Like other industries, such as healthcare and infrastructure, education is a sector where private capital engages with public goods. This can present challenges alongside the opportunities highlighted above. These should not deter stakeholders from leveraging private capital, but awareness can support more effective and mindful decision-making by governments and operators.

Key challenges include:

Challenge	Description
Tension between profit and impact	Private investors, even those with an explicit social mission, will have a mandate to seek investment returns. There is a risk therefore that profit-seeking objectives could erode social impact. For example, a school seeking to make returns for investors could increase student-teacher ratios beyond optimal levels to maximize efficiencies or student lenders could charge exploitative interest rates.
Risk of increased inequality	Private institutions and services can be unaffordable for many. Educational attainment is highly correlated with socioeconomic status, so lack of access to education can drive inequality and class differences. For example, in Britain 35 percent of members of Parliament attended independent schools that educate only 7 percent of the school population.[36]
Potential for narrow focus on measurable outcomes	Institutions funded by private capital may track performance outcomes — in both business and education impact terms — more rigorously, and education system performance can be notoriously challenging to measure outside of hard metrics like test results. Some have expressed concern that private education will skew the focus of education towards hard results like test scores and away from less tangible outcomes such as citizenship.
Risk of harm to social cohesion	Education has long played a role in supporting social integration, given that in public education systems young people from various socioeconomic backgrounds learn together. Private provision risks compromising education's important role in integration.

Challenge	Description
Risk of over-reliance on private education (at the expense of education as a public good)	Governments play "a foundational role in framing delivery parameters [for education] including goals, access, payment, and quality assurance."[37] However, governments are faced with many competing priorities for resources, and private and philanthropic participation in education can erode governments' role in education provision. This can present a range of challenges.
Potential for marginalization of high-needs students	Special needs students, those with behavioral issues, and/or those whose socioeconomic status makes them more challenging to engage are all more costly for education systems to serve[38]. Without appropriate management and incentives, privately funded institutions not specialized in serving these populations could fail to adequately serve these vulnerable populations.
Risk that systems become vulnerable to behavior of private providers	Private systems are responsive to market results, while education is a constant social need; becoming too reliant on private players could open education systems to risks of supply gaps in the short term if private players significantly change strategy or exit markets. Systems may also neglect to focus on important areas of education for social or national development because of market demands.
Risk of biased or fragmented education systems	Regulators that cede too much system control or policy influence to profit-oriented investors can end up with disjointed systems or regulatory policy that unduly favor private operators.

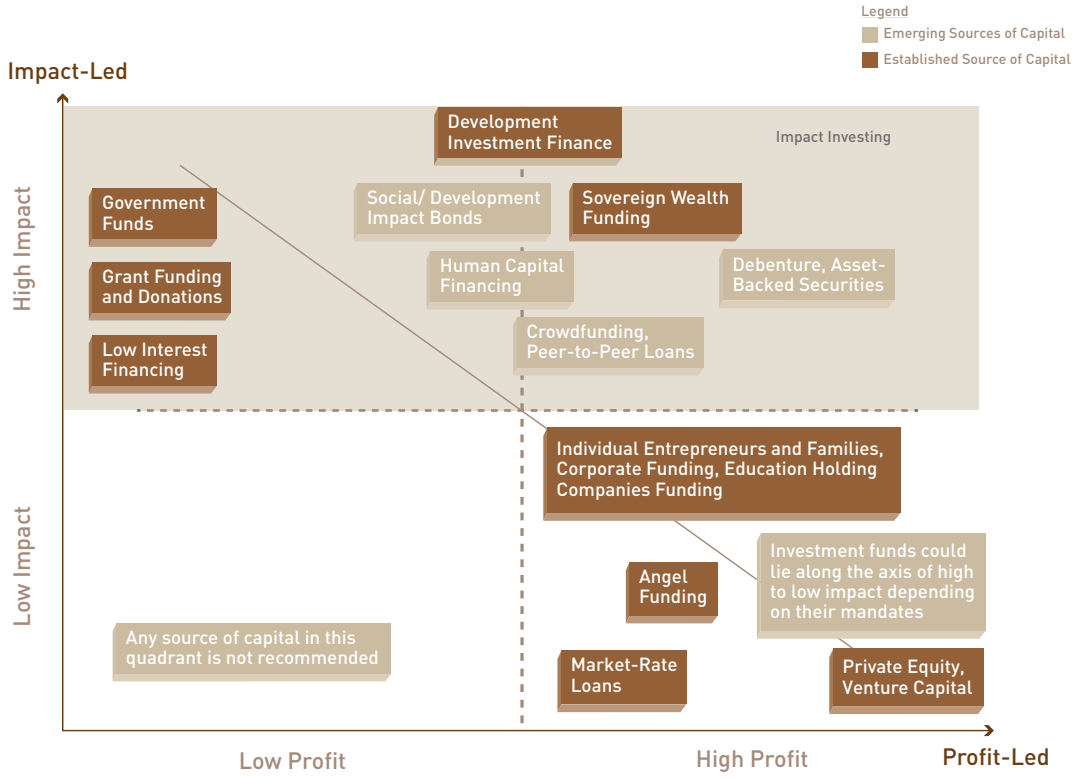
Balancing opportunities and challenges

Private capital can unlock significant opportunity within education. However, private capital is not a panacea that will solve all education access issues. Given the inherent tensions involved in using private capital, effective regulation is vital to ensuring it adequately addresses critical needs for a nation's education system. Section 4 of this report, which highlights recommendations, will showcase how system stakeholders can balance inherent tensions to achieve the benefits of private capital while mitigating the risks.

Types of Capital in Education

Capital in education varies in its investment objectives depending on a range of factors, including the investor's profit and impact focus (see Figure 3). There are also variables such as risk appetite (including political and financial risk) and investment horizon. Given the variety of private capital available in the education sector, this list is not intended to be exhaustive nor are these categories mutually exclusive.

Figure 3: Types of Private Capital in Education —Impact-Led Versus Profit-Led Types of Capital



Established sources of capital include a range of well-developed and widespread types of finance within education.

Established Sources of Capital	
Category	**Description**
Individual Entrepreneurs and Families	• Many private, for-profit education companies, including schools and other ventures, started off as private family endeavors. • They have the advantage of being flexible and adaptable to demands and trends in the marketplace, because autonomy is often centered within the family. • **Case Study: GEMS**
Grant Funding and Donations	• Usually originating with high net worth individuals (HNIs), foundations, development agencies, or philanthropic bodies • Non-repayable • Often fund specific projects for which results are reportable • Sometimes supports education enterprises that are working to develop sustainable business models as market makers[39] • May involve philanthropists who partner with investors because they can mitigate risk by "offering credit enhancements or aggregating demand of market segments that for-profit firms might otherwise find unattractive"[40] • Includes "philanthropic investment," as some organizations now characterize their approach, which may or may not seek a return on capital
Government Funds	• Typically incentive-oriented funding available from government to involve private players in socially beneficial education markets • **Case Study: Qatar Outstanding Schools Program, Coursera**
Low-Interest Financing	• Provided by impact investors who typically aim to support the development of socially beneficial markets • Sometimes characterized as "patient capital" given the long time horizons to realize often low or zero percent returns • Can be explicitly impact-oriented or commercial in nature • **Case Study: Bridge International Academies**
Market-Rate Loans	• Loans provided from banks or other non-banking financial institutions • **Case Study: GEMS**

Challenge	Description
Development Finance Investment	• Debt and equity financing provided by international financial institutions or development finance institutions • Often impact-oriented with an objective of poverty reduction and support to economic growth • Can tolerate a higher political and financial risk than other investors given their explicit social objectives • As a first investor in an education institution, can create confidence and de-risk the investment for other investors • Can comprise both debt and equity investment • **Case Studies: Bridge International Academies, Coursera**
Education Holding Company Funding	• Education holding companies are businesses only operating within education, typically in one sector, such as higher education. • They are platforms for a range of education sub-businesses that can drive scale in the education industry. • Diversity of geographies and asset types (such as different curriculum schools and price points) can diversify and de-risk the companies. • Education holding companies finance their own operations but may also make investments in other assets.
Corporate Funding	• Capital stemming from corporate activities including transactions, including mergers and acquisitions (M&A) and greenfield investments • Also can be driven by investment in research and development (R&D) • May be funded through internal cash flows, debt or through public and private share offerings • Publishing companies are an example of a sector that has shifted from educational products to broader educational services, driving the development of the sector • **Case Studies: Qatar Outstanding Schools Program**
Sovereign Wealth Funding	• Pools of money derived from a country's reserves are set aside for investment purposes that will benefit the country's economy and citizens. • Funding comes from central bank reserves that accumulate as a result of budget and trade surpluses, which include revenue generated from the exports of natural resources. • Types of acceptable investments included in each SWF vary from country to country; countries with liquidity concerns limit investments to only very liquid public debt instruments.

Challenge	Description
Private Equity	• Invest in education companies with high potential for growth; in exchange for investment, will acquire equity in privately held companies • Invest capital and often expertise to maximize returns • Exit after three to seven years by selling their stake to another company or through a listing on the public market • Raise funds for investment in ~10 year cycles from limited partners (LPs) which can include other funds (including pensions), HNIs, and asset managers • **Case Study: GEMS**
Venture capital	• It can be considered a subset of private equity. • It provides valuable early-stage funding to high potential businesses. • Many opportunities are in education technology, due to scalability and growth prospects • Venture capital raises funds from Limited Partners in ~10 year cycles. • Funding is raised in funding rounds or series, each with a letter attached, e.g, A, B, C. • A lead investor in each round prices the shares and is usually contributing the most capital; lead investors typically access board seats. • Investment terms vary according to the rounds of investment. In later rounds, as companies become more established and scaled, the shares became more valuable. • **Case Studies: Bridge International Academies, Coursera**
Angel Funding	• Angel investors are usually HNIs who invest in early stage start-ups with "seed" capital in exchange for ownership equity or convertible debt. • They organize themselves in angel networks to share ideas and aggregate investment capital. • They often have less rigorous commitments, diligence, and requirements than other investors. • **Case Study: Bridge International Academies**

Emerging sources of capital include new ways for private capital to engage in the education sector, many of which have emerged over the past 5 to 10 years. These are not always new financial structures but their use within the education sector is innovative.

Emerging Sources of Capital	
Category	**Description**
Investment Vehicles	
Social Impact Bonds (SIBs)	• First introduced in 2010 in the UK • Also known as "pay for success bonds" • Financial payback to investors dependent on a set of pre-agreed outcomes • Government acts as an outcome payer who pays investment returns to the bond-holder, whose financing enables the activity • Typically implemented in cases where it is easy to identify future government or social cost savings; therefore more challenging to implement in education where outcomes are more diffuse and variable • Often require impartial third-party intermediary agencies to support negotiation of terms • Believed to have high potential, but not yet widely introduced given the challenges of aligning the multiple stakeholders involved
Development Impact Bonds (DIBs)	• DIBs are an equivalent of SIBs within the development context. • Donors act as the outcomes payer rather than government given the challenges of aligning or engaging governments. • **Case Study: Educate Girls**
Debenture	• A debt instrument that is issued by a company to borrow money at interest • Used in the education sector, including by some student finance companies that use debenture educational bonds to fund their loan books[41]
Asset-backed securities (ABS)	• A financial security secured by an underlying asset such as a loan or receivable • ABS securitized by student loans are emerging as a way to provide education finance • **Case Study: Ideal Invest**

Emerging Sources of Capital	
Category	Description
Individual Lending	
Crowdfunding	• Crowdfunding utilizes online platforms to connect individuals and groups to private ventures to achieve a funding goal. • It typically provides seed investment for early-stage ventures or individual projects. • It may take the role of donations, investment in return for in-kind offers, or investment for equity • For-profit online platforms generate revenue on the "closing fee," a small percentage of the overall amount. • Crowdfunding is used for funding student finance capital pools, individual student tuition fees, classroom materials, and other education projects.
Peer-to-Peer Loans	• Peer-to-peer lending is an online-enabled activity wherein individual lenders provide capital directly to individual borrowers via online platforms. • Platforms charge a small "origination fee" for every transaction. • These loans serve borrowers who may not otherwise have access to capital or are looking for better interest rates. • It has become an alternative source of student financing. • Case Study: StudentFunder
Other	
Human Capital Financing	• Also known as income share agreements or income based repayment, human capital financing connects investors with those looking for low risk alternative sources of financing for their academic or entrepreneurial ventures.[42] • It provides capital to entrepreneurs, students or individuals in return for a fixed percentage of their future annual income for a fixed number of years. • It is a emerging source of student finance seen as a positive development because it avoids unduly burdening students with loan debt.

A NOTE ON IMPACT INVESTING

An impact investing philosophy inspires many education investors who seek to achieve both social and financial returns; any of the private capital types detailed above could be used for impact investing.

Impact investing, often referred to using other terms such as social investment or sustainable investment, is defined as "actively placing capital in businesses and funds that generate social and/or environmental good and a range of returns, from principal to above market, to the investor."[43]

IT IS CHALLENGING TO ACHIEVE HIGH SOCIAL IMPACT WHILE ALSO ACHIEVING SIGNIFICANT INVESTMENT RETURNS

By leveraging the private sector, these investments can provide solutions at a scale that purely philanthropic interventions usually cannot reach. Investors in impact investment funds include HNIs, institutional investors, corporations, and foundations who invest in a wide range of asset classes.

Impact investing aims to achieve sustainable market-based solutions that deliver social impact. However, it is well documented in impact investing literature that it is challenging to achieve high social impact —access and quality of education, including for the most deprived populations—while also achieving significant investment returns. One of the reasons for this is the difficulty of reaching individuals at the so-called "bottom of the pyramid"[44] with market-based solutions; markets simply may not yet exist for many socially beneficial products and services. Student finance in emerging markets is one such example of a potential new landscape for impact investing.[45]

#3
CASE STUDIES

#3 CASE STUDIES

**The involvement of private capital and private education organizations in any socially beneficial market results in varying degrees of profit versus social impact.
In what follows, we highlight case study examples where investment returns are healthy and social impact is potentially transformative. We shine a particular light on innovation in investing and on impact investing.**

The case studies include:

Type of Private Capital	Name	URL	Geography
Development Impact Bonds	Educate Girls	http://www.educategirls.in/	India
	Description		
	Educate Girls works to tackle the root causes of gender inequality by achieving higher enrollment and attendance for girls. Educate Girls is pioneering the use of a Development Impact Bond in education in partnership with a foundation and an investor-the first of its kind in education and in the developing world.		
Venture Capital, Development Finance Investment, Government Funds	Coursera	https://www.coursera.org/	Global
	Description		
	Coursera, a provider of massive open online courses (MOOCs), offers free online courses from top universities. Coursera has a range of investors representing education companies, venture capital, and development finance.		

Type of Private Capital	Name	URL	Geography
Development Finance Investment, Venture Capital, Angel Funding, Low Interest Financing	Bridge International Academies	http://www.bridgeinternationalacademies.com	Kenya, Uganda, Nigeria, India
	Description		
	Bridge International Academies, a network of low-cost private schools, is the largest school network in the world serving families earning less than $2 USD a day, with 125,000 students. Bridge has secured investment from a range of sources including venture capital and development finance.		
Asset-Backed Security (ABS)	Ideal Invest	http://www.portalpravaler.com.br/	Brazil
	Description		
	Ideal Invest is a non-banking financial institution in Brazil that specializes in providing loans to students for study at private universities. In 2002, Ideal Invest launched its first asset backed-security vehicle in Brazil that underwrites its loan capital.		
Individual Entrepreneurs and Families, Market Rate Loans, Private Equity	GEMS	http://www.gemseducation.com/	13 Countries
	Description		
	GEMS is the world's largest K-12 company, with 71 schools worldwide catering to a wide range of student segments. Through family investments and private entrepreneurship from the Varkey Foundation, alongside private equity funding, GEMS has grown and is now expanding its business.		

Type of Private Capital	Name	URL	Geography
Peer-to-Peer Loans	StudentFunder	http://www.studentfunder.com/	United Kingdom, with international borrowers
	Description		
	StudentFunder is an early-stage UK-based social business that provides loans to students matriculating in Masters and professional courses. StudentFunder operates as a peer-to-peer lending platform, securing investment from individuals and institutional investors.		
Government Funds, Corporate Funding	Qatar Outstanding Schools Program	http://www.sec.gov.qa/En/SECInstitutes/EducationInstitute/Offices/Pages/OutstandingSchools.aspx	Qatar
	Description		
	The Qatar Outstanding Schools Program is a 2007 initiative by Her Highness Sheikha Moza bint Nasser to bring exceptional schools from around the world to Qatar. To date, six schools have entered Qatar in this public-private partnership and more are set to come in partnership, with local businesses within the next year.		

EDUCATE GIRLS
Development Impact Bond

Educate Girls has helped enroll more than 80,000 girls into schools across six districts in Rajasthan and is piloting a Development Impact Bond to deliver increased enrollment and learning outcomes for a further 18,000 children.

BASIC INFORMATION[46]

Education sector: Primary and Upper-Primary

Description: Educate Girls is an Indian NGO aimed at leveling gender equality in education through increased enrollment and attendance of girls, improved school infrastructure, quality of education, and learning outcomes for all children.

Geographic area: Rajasthan, India

OPERATOR INFORMATION

Mission: To leverage existing community and government resources to ensure that all girls are in school and learning well

History and key activities: Educate Girls was founded in 2007 by Safeena Husain, who moved back to India after a decade in the US, Latin America and South Africa to focus in which girls' education. Educating girls, as explored in Part 1 of this report, can deliver benefits in health and prosperity for individuals and communities. India is the fourth worst country in the world in which to be a woman,[47] and gender inequality is pronounced, with sex-selective abortion, feticide, early marriage practices, dowry customs, and cultural bias creating a cycle of women's disempowerment. Husain decided to begin working in Rajasthan, home to 9 out of the 26 worst gender gap districts in India for education in 2006. The Rajasthan government provided a list of their 50 worst performing schools where Educate Girls targeted its efforts.

Educate Girls works directly with communities to identify girls who are out of school and intervenes at the parent level to get them into school. Educate Girls then works at the school with school management committees to ensure that the school is girl-friendly, has the right infrastructure, and most importantly conducts life-skills training to support retention. Lastly, Educate Girls conducts a 24-week curriculum in the classroom to impart creative learning skills to students.

Educate Girls is present in over 8,500 schools across six districts and 4,500 villages, with a team size of more than 500 full-time employees and 4,500 community volunteers. At the time of writing, Educate Girls has helped enroll more than 80,000 girls and improved learning outcomes for 400,000 children. By 2018, Educate Girl aims to operate in 15 of the worst districts, across 30,000 schools with a team of over 1,400 full-time employees and 15,000 volunteers.

In 2012 Educate Girls identified an opportunity with a development finance investor to create the first development impact bond (DIB). After having fully scoped the opportunity, including partnering with impact bond specialists Instiglio on a comprehensive proposal, Educate Girls learned that its potential partner was not able to participate.

Undeterred, Educate Girls looked for other potential partners for the DIB. The potential to leverage this new type of finance was exciting, notes Safeena Husain, Founder and Director: "You're tracking down to each output [for children], so this was just such a fabulous way of being able to chase outcomes in education space... we were quite excited with having an opportunity to try that."[48] In 2014, Educate Girls

connected with UBS Optimus Foundation and later, the Children's Investment Fund Foundation (CIFF), who together agreed to embark on the project of launching one of the impact bonds either in education or in the developing world. Phyllis Costanza, CEO at UBS Optimus Foundation, was equally excited at the prospect: "We wanted to be able to bring client money to something like this, in order to create an investable opportunity for the bottom of the pyramid... we're constantly talking with clients about the importance of knowing whether or not their initiative actually had a positive outcome."[49] The DIB launched in 2015 after nearly a year of negotiation and agreeing and establishing baselines for outcomes metrics.

FINANCING INFORMATION

Description: On an organizational level, the DIB represents a very small portion of Educate Girls's funding. However, the DIB represents an innovative pilot foray into outcomes-based financing for all three of the stakeholders. Avnish Gungadurdoss, Co-Founder of Instiglio notes: "The DIB is just a stepping stone to something bigger... Educate Girls has such a promising intervention that it was confident that it could approach its funders with the promise of results, hoping it will transition the organization to be more results-driven and ultimately, more impactful at scale."[50]

Total cost of DIB: $1M USD (including legal fees, evaluation, marketing, etc.)

Duration of the DIB: 3 years

Rate of return: Zero percent to 15 percent internal rate of return, depending on success of outcomes

Outcome payer: Children's Investment Fund Foundation

Investor: UBS Optimus Foundation

Implementation: After UBS and CIFF came on board, the parties engaged in a one-year process to negotiate all the outcomes metrics that would trigger payments on the bond. It was a "complex conversation... It's a really new practice for all,"[51] notes Gungadurdoss, especially in a data-poor environment where few robust education metrics are available. During the implementation phase, which began mid-2015, Instiglio has been hired to manage the DIB. Instiglio will train staff, establish systems to track performance, and deal with any potential course corrections.

Impact measurement: The DIB has target impact group of 18,000 children, with a 20 percent weightage on enrollment, and 80 percent

weightage on learning outcomes. For enrollment, each out-of-school girl that gets enrolled will yield a unit payment, while learning outcomes are measured against a control group of schools.

KEY SUCCESS FACTORS

Presence of an intermediary: The presence of Instiglio as an intermediary was vital to solving any deadlocks, continuously educating stakeholders, providing technical assistance in designing key features of the DIB, managing interests of key stakeholders and keeping the negotiation process moving. Avnish Gungadurdoss notes: "Having an interested party, who has a stake in getting the deal done and closed, is so important to getting our stakeholders through an impasse."[52] Moreover, given the nascence of impact bonds, the expertise of an experienced third party with insight on effective impact bonds in other developing markets was crucial to the effective design and implementation of the DIB.

Outcomes focused: Phyllis Costanza at UBS Optimus Foundation notes: "Organizations have to be optimally structured to be able to implement a DIB... they have to be able to do their bookkeeping based on outcomes."[53] Being a "very outcomes focused organization"[54] enabled Educate Girls to become a "first mover"[55] for an education DIB. Moreover, being outcomes focused meant that the ingredients for tracking and measuring data and performance were already in place; for example, Educate Girls had already previously completed a randomized control trial.

Alignment of stakeholders: Despite the challenges of negotiating the DIB over the course of a year, all the stakeholders remained committed to making it a reality—which was essential in reaching a workable arrangement. "I think that alignment [of desired outcomes]," says Safeena Husain, "really kept us completely focused for a year in terms of negotiating the DIB."[56]

KEY CHALLENGES

Dearth of data: Given that impact bonds are dependent on measurable and quantifiable outcomes, a dearth of data in India was a hindrance, and is likely to present a challenge in any developing market where DIBs are launched.

DIBs are not yet well established: DIBs are a new form of investment vehicle. All parties to the DIB were interested in creating the bond precisely because it was an innovation to be tested, but this has presented inevitable challenges given that few pre-existing standards, processes, or metrics are available for putting this financial agreement in place. For example, legal contract templates needed to be designed from

scratch, and that consumed time. Safeena Husain notes: "[The process] was definitely very time consuming because there was no template really, and next time round, it will be much faster."[57] Additionally, actors must reimagine their engagement with development programs, learn to link their interests to results more rigidly, and grapple with the necessary changes in mindsets and practices that it involves. Phyllis Costanza of UBS Optimus expresses optimism about the potential opportunities: "We have a lot to learn, but assuming that all goes well, we are interested in doing more of this."[58]

FUTURE PLANS

Results-based financing: Given its ambitions to scale, Educate Girls sees the concept of results-based financing as one way of maintaining quality of outcomes of their program. Scaling runs the risk of diluting quality, and results-based financing can mitigate this risk.

PERFORMANCE

Social impact: By taking the first step with DIBs, Educate Girls is in fact "amplifying the conversation in India and... outside"[59] about making funding for education more outcomes-based. A greater consciousness of outcomes could, in the longer run, generate bigger impact in the education industry.

Financial returns: The program is still in its implementation stage, and returns have not been observed.

COURSERA

Venture Capital, Development Finance Investment, Government Funds

Coursera seems ready to disrupt higher education by expanding access to quality courses with its scalable online education platform. Coursera has reached more than 14 million users since 2012.

BASIC INFORMATION[60]

Education sector: Higher Education, Education Technology

Description: Coursera is an online education platform that partners with top universities and organizations to offer courses to audiences globally at no cost. Since its inception in 2012, Coursera has reached more than 14 million users from more than 190 countries in more than one thousand courses. It partners with more than 100 leading university partners in more than 25 countries.

Geographic area: Worldwide, with headquarters in Mountain View, California

OPERATOR INFORMATION

Mission: To provide universal access to the world's best education.

History and key activities: Coursera was founded in April 2012 by Stanford computer science professors, Andrew Ng and Daphne Koller, after a pilot program in 2011 in which they placed their courses online. This garnered overwhelming demand, with the first classes gaining more than 100,000 students, and the pair "wanted to empower other professors around the world to do something similar."[61] Coursera has become a leading provider of massive open online courses and continues to aim to be best-in-class in the market. Jake Samuelson, Business Development Manager, notes: "We provide really high quality content from the best universities in the world at a completely disruptive price point, and available for people anywhere they live, and on a busy schedule. Coursera's business model is driving the adoption and growing currency of alternative credentials. We see the market expanding, and we are excited to be a leading provider."[62]

Courses are free and open to anyone, anywhere who wants to take them. Through partnerships with top institutions such as Stanford University, Yale University, and Peking University that design courses, Coursera offers a wide variety of courses, covering both niche and general subjects. To improve learning outcomes and experience, courses are designed to be interactive, with features such as forums, videos, and quizzes. Assessment can now be done in a range of ways including peer-graded assignments and machine-graded assessments for programming assignments, equations, and short texts.

Coursera has recently diversified its offering. Some of these changes include providing around 100 on-demand courses, which provide students with more flexibility. Their courses are now also accessible by mobile devices, and Coursera is focusing on being more "mobile-first"[63] in its approach. Jake Samuelson says, "China and India are our fastest growing markets. We know that China in particular is driven by our development of a full product on mobile."[64] Coursera is also investing in opportunities for individuals to take multiple courses in the same area. These series of courses, called Specializations, give students access to curated sets of courses that can demonstrate a particular skill or area of learning plus the ability to apply their learning in a final capstone project. For students looking to obtain certified credentials, Coursera issues verified certificates through a paid service, with verification done through a combination of facial and typing recognition mechanisms.

Certificates are issued upon successful completion of the course. These certificates are usually obtained for career enhancing reasons and Coursera is the second most posted credential on LinkedIn."This approach has proved very popular," notes Scott Sandell, Managing Partner at New Enterprise Associates, "and as a result, the business is growing rapidly."[65]

Coursera has a significant international profile, with 73 percent of its learners and 60 percent of its revenues from outside the US. More than one-third of users are in emerging markets—a feature that has driven some investor interest. Sean Peterson, Education Specialist at IFC, notes: "The emerging market user base of Coursera is a large and significant percentage, with many emerging market countries currently boasting the highest user growth rates on Coursera. IFC's focus is on increasing access to education and lowering the cost—Coursera delivers on both metrics."[66] Scott Sandell notes: "There is a desperate, global need for access to higher education, and Coursera has found its place at the center of this incredibly important transformation."[67] Coursera's platform is increasingly open to students around the world, and its Global Translator Community currently engages nearly 2,000 volunteers globally to translate courses to assist students learning outside of their native language.

Coursera has also established Learning Hubs in countries including Iraq, Haiti, India, Sudan, and others. The Learning Hubs employ blended learning, combining Coursera's online courses with in-person facilitation.

FINANCING INFORMATION

Sources of capital: Coursera has undertaken two series (A and B) of equity fundraising to date. Both series had multiple closes. Series A was raised in 2012 and totaled $22M USD, while Series B was raised in 2013 and totaled $63M USD. For its Learning Hubs, Coursera has in-kind support from the US government and range of other partners.[68]

Investors: Coursera's investors include venture capital investors focused on technology (such as New Enterprise Associates [NEA] and Learn Capital), education corporate companies, development finance institutions (such as International Finance Corporation [IFC], the private sector arm of the World Bank), Kleiner Perkins, GSV Capital, and Angel Funder Yuri Milner. Coursera sees their investors as more than just financial investors. According to Jake Samuelson, "Beyond the financial investment, our investors' advice and feedback has been critical to our growth. We're not just taking their checks, we take their advice, and it's been critical for us as we've grown."[69]

Period of investment: Investors will exit their investments through a share liquidity event, such as an initial public offering or the entity being acquired in its entirety by a strategic partner.

KEY SUCCESS FACTORS

Technology and innovation: Technology was an inspiration behind Coursera and has been a key enabler of its growth. Each of Coursera's founders "has a vision on how technology could reshape education."[70] Coursera aims to hire the best computer engineers to develop and polish the product for the market. As Jake Samuelson notes, "We're always trying to make this site act spectacularly in different markets."[71]

Media support, with "wind at their backs"[72]: Attention and publicity from the media has enabled Coursera to gain credibility quickly, which has allowed the company to develop more partnerships while establishing itself as a viable certification channel. Michael Staton, Partner at Learn Capital, comments: "Media drives credibility, and what people care about in education more than anything is credibility."[73]

Focus on sustainability of growth: Coursera was established as for-profit company rather than non-profit, because of "the potential to scale, the potential to acquire the right people to make this something that can really reach as many people as possible."[74] This focus on developing a sustainable model has led to concepts such as the verified certificates to keep the business growing.

KEY CHALLENGES

Technical challenges from internationalization: It is an ongoing challenge to ensure Coursera's site looks good and works well and quickly for its millions of learners in different countries. Regulations, browser technology, and internet limitations in different countries can create barriers.

Organizational challenges: Coursera is growing very quickly, and as it moves out of start-up phase, it has faced challenges such as putting the right processes in place to keep people and tasks organized, while also developing a strong company culture. Jake Samuelson comments: "We're growing really, really fast, and we need to continue to build processes that keep everyone organised while remaining an innovative, nimble company."[75]

PERFORMANCE

Social impact: Coursera has reached more than 14 million users in more than 190 countries, and through its Learning Hubs, has increased accessibility to quality education globally as well as driven

employability. According to Sean Peterson at IFC, "The growth of new products on Coursera which take input from leading employers and employment trends globally provides a fit for IFC's mandate and fits with the evolving education/employment space."[76] Additionally, Coursera has provided financial aid "to tens of thousands of learners who face significant economic hardship for the chance to earn Verified Certificates."[77]

Financial returns: While anticipated investment returns are not publicly available, investors were confident in the company's performance. "As much as venture capitalists like to do good," notes Scott Sandell at NEA, "we also have an obligation to do well. From what we've seen so far... Coursera is on the right track to do both."[78] Michael Staton at Learn Capital reports that Coursera "will likely be a very strong returning company."[79] Industry norms are 25 to 30 percent for venture capital investors.

FUTURE PLANS

Higher touch points: Coursera is considering the addition of premium services to complement their online courses and current paid features. In addition Coursera has also recently started its first online degree program in partnership with University of Illinois, Urbana-Champaign.

Improving the learning experience: Coursera aims to keep improving the learning experience for users. One such idea is to build "habit-forming, short form"[80] content that users can access on the go.

BRIDGE INTERNATIONAL ACADEMIES

Development Finance Investment, Venture Capital, Angel Funding, Low Interest Financing

This vertically-integrated education system has provided disruptive innovation to the bottom of the pyramid education market and is scaling rapidly. It now has 100,000 students enrolled.

BASIC INFORMATION[80]

Education sector: Nursery and Primary Schools

Description: Bridge International Academies is the world's largest education company exclusively serving families living on less than $2 USD a day. Through vertical integration of the school supply

chain, extensively leveraging technology, and emphasizing measurable outcomes, Bridge delivers the same consistent quality education to more than 100,000 students at over 400 schools. Bridge has raised four rounds of financing to date, working with different types of investors at different stages of their growth.

Geographic area: Kenya (2008), Uganda (2015), Nigeria (2015), India (2016); Nairobi, Lagos, Kampala, New Delhi, Washington, DC, London and Cambridge, Massachusetts offices.

OPERATOR INFORMATION

Mission: Knowledge for all

History and key activities: Bridge was founded by PhD anthropologist Shannon May and education technology entrepreneur Jay Kimmelman, in Nairobi, Kenya in 2008, who were motivated to address the problem of poor quality schooling for children living below the international poverty line, who "are scoring at three percent of OECD [the Organisation for Economic Co-operation and Development] countries, which was heart-breaking, [because] intellectual curiosity and intellectual ability... isn't distributed by current economic patterns."[82] Across the developing world, there is a huge gap between people's education needs and available schooling in the public or private systems. About 50 percent of the world's population lives on less than $2 (USD) a day and has little access to quality schools. Students do not achieve basic levels of reading, writing and arithmetic owing to factors including poor teacher training and absenteeism, and public schools can have hidden costs or suffer from corruption. Private schools are typically small scale operations without the capital available to invest in instructional outcomes.

Bridge seeks to fill this gap; as Alejandro Caballero, Senior Education Specialist at IFC notes, "The Bridge model really goes at the heart of these issues and tries to solve them."[83] It builds and operates schools with fees of $60-100 USD per year (as low as $4 USD a month, depending on the local market and class level). By working from the starting point of scale, Bridge is able to keep costs low while generating enough capital to invest in teacher training, pedagogical research, and systems for school management, thereby enabling 90 percent of parents living below the international poverty line to send all their children to school, while spending less than 20 percent of their income on education. Bridge plans to educate 10M students across a dozen countries by 2025.The first Bridge Academy was opened in 2009 in the Mukuru slum in Nairobi, and by the end of the year, they had opened a second school, with ~300 students enrolled. Bridge reached

more than 50,000 students and 200 academies by 2013, and doubled that number to more than 100,000 students and ~400 academies by 2015. 2015 was a watershed year for Bridge as they began their international expansion, starting with Uganda and with plans to enter Nigeria in September 2015 and India in 2016. This growth has impressed investors: "Growing from a startup to serving over 100,000 students in five years is a challenge anywhere in the world, let alone in the markets Bridge has chosen, but they have done it,"[84] notes Colin Bryant, Operating Partner at New Enterprise Associates.

By owning and operating the entire system of building and operating academies, Bridge's systems enable it to rapidly open schools, provide access to good teaching, and assure quality. It has meticulous processes for nearly every component of its schools, from site selection and school design to price setting and curriculum development, all focused on improving system efficiency. Most of these processes are done in-house, or are vertically integrated, in order to keep costs low. Teachers receive an e-tablet with detailed lesson plans and instructions on how to conduct classes, and learning materials designed by education specialists based in Nairobi, Kenya and Cambridge, Massachusetts. These teacher guides are downloaded weekly onto the teacher tablets via the Academy Manager's smartphone. This allows teachers to focus on delivery, rather than lesson creation, while ensuring the quality of classroom instruction.

FINANCING INFORMATION

Sources of capital: Like a typical Silicon Valley start-up, Bridge has series of equity fundraising and has gone through four series (A-D) to date. Each series broadly reflects Bridge's needs at different stages of its growth, and investor profiles have been different in each round. Bridge's Co-Founder Shannon May notes, "As you develop your track record, a start-up should try to target its investors and think through who would be the best complement to its existing investor base."[85] Bridge has funding from a variety of sources which reflects its identity as a social impact focused business with high profitability potential. Besides equity fund-raising, Bridge has also received capital through low-interest financing including impact and commercial debt.

Investors: Bridge's main investors now number 13 institutions. Investors include venture capital investors focused on technology (such as New Enterprise Associates [NEA], Khosla Ventures and Learn Capital), development finance institutions (such as International Finance Corporation [IFC], the private sector arm of the World Bank; the Commonwealth Development Corporation, the equity investing arm of the UK government; and the Overseas Private Investment

Corporation, the debt arm of the US government), high net worth individual-backed VC funds (Bill Gates Investments and Zuckerberg Education Ventures), and impact investors (Omidyar Network and Khosla Impact). Additionally, in the early stages (Series A), Bridge also received funding from multiple angel investors. Having proven development impact, in 2014 Bridge secured its first tranche of low-interest finance, with the Department for International Development providing risk mitigation capital to test the business model in Lagos State.

Both IFC and NEA cite Bridge's catalytic potential within the education sector in demonstrating the potential of a new way of financing education reaching the poor: "We believe Bridge can be a category definer within education," notes Alejandro Caballero, Senior Education Specialist at IFC, while Colin Bryant at NEA says, "We focus on partnering with exceptional entrepreneurs tackling big challenges... and Bridge is fundamentally re-writing the rules of what is possible in education for those at the base of the global economic pyramid."[86]

Period of investment: Investors will exit their investments through a share liquidity event, such as an initial public offering or the entity being acquired in its entirety by a strategic partner.

KEY SUCCESS FACTORS

Technology and innovation: Technology is a key enabler of Bridge's ability to scale, and Colin Bryant of NEA notes: "Advances in mobile devices, the cloud and big data have made Bridge's model possible in ways that probably weren't possible a decade ago."[87] For example, research associates use a digital survey platform to survey at least 50 households in each community they are evaluating to fully understand family preferences and needs, with geo-tagging to calculate how far children have to walk and perform catchment analysis, which in turns drives decisions around real estate. Technology is also used in classrooms to track teacher and student performance, in order to identify areas of feedback and improvement. Lastly, technology is used to automate processes, such as classroom delivery and financial management.

Passionate, talented entrepreneurs driven by a sense of ethics and urgency: At the heart of Bridge is the aim to give families control over their educations and lives, and this has propelled Bridge. Co-Founder Shannon May notes: "Internally, we have our own mission of urgency: every year we're not serving a community is another year that children are likely not learning as well."[88]

Focus on outcomes: Bridge aggressively tracks its academic and social outcomes, and financial margins to ensure the company is offering

a high quality service with the potential to scale. May notes: "We are all about outcomes. We're all about measurement in our approach to driving down cost and measuring service."[89] Greg Mauro, Managing Partner at Learn Capital notes: "[Bridge] always had a very large market research team to analyze the data, and they focus on what the data's telling them... and then combine that with a managerial competency to get things done in a developing economy environment with all that entails."[90]

KEY CHALLENGES

Driving costs down: Bridge's entire provision of service was reverse-engineered off a price point of ~$5 a month, as the company knew it had to match families' ability and willingness to pay. The company tries to drive cost down at every part of the supply chain, but this presents obvious and ongoing challenges (for example, increases in building materials costs could raise prices in the supply chain for materials, affecting sensitive margins). But this endeavor has given Bridge a strong competitive advantage, as highlighted by Greg Mauro: "We don't foresee anyone undercutting the technology-enabled Bridge model that would be able to scale operations effectively with fully dedicated (non-hybrid use) facilities at that price point."[91]

Human resources and culture: Bridge is a "high-pressure place to work"[92] with emphasis on results, which requires capable and passionate people. Hiring the right people who can do the work and get behind Bridge's mission, especially in face of urgent, rapid growth is an ongoing necessity and, as in many start-ups, an ongoing challenge.

PERFORMANCE

Social impact: Bridge has begun an endeavor to provide quality education to the most underprivileged students globally, with new academies opening at a rate of one every 2.5 days. Bridge is demonstrating what philanthropic capital/grants would struggle to fund: quality and scale on a sustainable basis.

Academic results: Bridge uses the U.S. Agency for International Development (USAID) developed Early Grade Reading Assessment (EGRA) and Early Grade Math Assessment (EGMA) to evaluate pupils' performance. They use an independent third-party organization to conduct these exams annually across a sample of thousands of pupils from Bridge International Academies and neighboring schools. Results show that Bridge International Academies pupils learn 32 percent more in English and 14 percent more in mathematics than their peers in neighboring schools.

Financial returns: Bridge has received growing and continued investments from traditional investors and is expected to achieve desired market returns on investment.

FUTURE PLANS

Continued scaling: Bridge plans to continue expanding into more countries, aiming to reach a dozen countries and 10M students by 2025.

Evaluation and sector learning: Due to Bridge's scale and data collection, they are able to do "mini-randomized control trial" testing of different topics such as peer tutoring, intensive reading, different math pedagogies, etc, which economists and educators might be interested in. This serves both the academic community and furthers the thought leadership on instructional design. Greg Mauro notes: "It's pretty extraordinary. The scale we're at now allows enables a network effect that allows the team to do efficacy optimization of pedagogy that's really never been done before."[93] Moreover, the World Bank group will be participating in an evaluation of the model together with a group of leading academics. Alejandro Caballero, Senior Education Specialist at IFC notes, "One of our key goals in considering an investment in Bridge is helping measure performance and derive specific lessons about how this type of education can contribute to improving learning outcomes."[94]

IDEAL INVEST

Investment Vehicle — Asset-Backed Security

Since 2006, Ideal Invest, a student financing company, has been supporting over 50,000 students through its loan programs totaling over R$1B (Brazilian reals) (~$280M USD)

BASIC INFORMATION[95]

Education sector: Post-Secondary Education

Description: Ideal Invest is the largest private provider of student financing for post-secondary education in Brazil, with more than 50,000 students taking PRAVALER loans since 2006. It uses the sale of asset-backed securities (ABS) to fund its loan portfolio.

Geographic area: Brazil

OPERATOR INFORMATION

Mission: To be recognized as the best financial solutions company enabling access to education for youth and adults in Brazil, being essential for educational companies, and generating economic value for all stakeholders.

History and key activities: Ideal Invest was founded in 2001, shortly after the liberalization of Brazil's for-profit higher education industry in 1998, offering working capital finance to private universities that was backed by student loan receivables. Realizing there was no private student lending in Brazil, Ideal Invest moved into the student lending business in 2006 with the launch of PRAVALER. Based on their learnings around student repayment, and providing financing to universities, Ideal Invest created an ABS fund to fuel its student lending business. This innovation provided a valuable student financing alternative when the industry was in its infancy, bringing education access to students, while the operational success of the program has allowed Ideal Invest to quickly gain scale in its provision. It has also delivered market returns to investors at a relatively low risk level.

Impact: Ideal Invest has partnerships with about 200 universities, which represent ~50 percent of private undergraduate students. Since 2006, they have reached more than 50,000 students through loan programs worth over R$1B (~$280M USD). The organization expects to double its portfolio to reach more than 100,000 students by 2016.

FINANCING INFORMATION

Description of lending process: Students enrolled in partner universities may apply to PRAVALER for financing. In order to be eligible, students must have an enrolment certificate from a post-secondary education (PSE) institution and a co-signatory for the loan (usually a parent) who has a good credit history and a salary that is at least twice the monthly tuition fee of the student. Ideal Invest's rigorous borrower screening uses a proprietary credit scoring model that takes into account student academic performance, planned course of study, and university. "It's a relatively strict process,"[96] notes Ideal Invest's CEO Carlos Furlan, "but it's important for the sustainability of the program to be really concerned about the delinquency rate."[97] Borrowers have to renew their loans every semester.

LOAN TERMS

Interest rates: Zero percent to 1.35 percent per month on average, depending on college and course. Interest rates are partly subsidized by partner universities, which benefit from filling marginal seats.

There is also a Zero Interest Program where the partner institute covers all the interest. Since April 2015, Ideal Invest has begun only accepting new students from partner universities who subsidize students' loans in part or in full.

Payback period: The structure is easy for a student to understand: they pay half the typical tuition fees per month over a period of at least two times the course length. The student begins payment during studies (no grace period), and therefore must pay 50 percent of the tuition fee plus interest every month. Combined with the requirement that students renew their loans every semester and a delinquency rate measured over 90 days, this allows Ideal Invest to monitor delinquency more tightly.

Delinquency rates: 4.9 percent. Delinquency rates are monitored over a 90-days period, and Ideal Invest provides 100 percent provision for them.

Amount of capital invested: R$250M ($80M USD) that is recycled to fund more loans

INVESTOR INFORMATION

Investees: In the early stages, Ideal Invest secured investment from friends and family, and it has eventually moved towards HNIs, institutional investors, and pension funds.

Structure of ABS: Ideal Invests issues senior and junior notes for the ABS. Ideal Invest holds all junior notes, which accounts for 22 percent of the fund and is the minimum requirement to generate an AA- rating on the senior notes. It sells senior notes to investors. Therefore, Ideal Invest bears most of the risks of default.

Process of issuing notes: There is a lengthy process of six months to issue a note; it is a multistage and iterative process that involves various regulatory approvals and paperwork, road shows, and book building.

Investment terms: The length of the latest term note is 42 months, with a 12-month grace period, after which there is a monthly amortization of the note. Interest rate on the note is approximately 120 percent of the Brazil interbank lending rate, translating into 13.75 percent + 2.8 percent interest rate on the latest issuance.

Provision: Approximately twice the real delinquency rate

Other partners: BNY Mellon (Trustee), Deutsche Bank (Custody Bank)

KEY SUCCESS FACTORS

Product design that aligns stakeholder interests:

Benefits to partner universities: Ideal Invest supports universities to achieve higher enrollment (among students who would not otherwise have enrolled), thereby increasing space utilization. Moreover, Ideal Invest students are less likely to drop out and to higher-revenue professional degrees.

Benefits to students: PRAVALER loans are easy for students to understand, access, and repay.

Benefits to investors: A well-structured, AA- rating, investment product and a conservative level of delinquency provision provide investors with market returns at a low risk level.

Robust borrower assessment: Ideal's proprietary credit scoring model helps it to keep delinquency low (thereby delivering sustainability) by ensuring that it is assessing borrower credit-worthiness accurately. Carlos Furlan notes: "Over the years, we have learned important lessons about why students repay and why they do not. Issues like the co-signer, the distance the student travels to and from school, specific courses in regions, the quality of their education, they're all factors in the likelihood they repay on-time. So this information guides our lending decision."[98]

Good understanding of the business environment and bureaucracy: Ideal Invest has been able to deliver student finance effectively while navigating the various bureaucratic hurdles successfully.

KEY CHALLENGES

Regulatory and macro changes: In 2010, the government introduced a student financing scheme, FIES, that competed with PRAVALER and provided much lower interest rates of 3 percent and a loan term of 18 years. FIES grew very quickly initially with government funding, and this made it challenging for PRAVALER to compete. There is also significant regulatory restrictions on operating a financial company that Ideal Invest has had to adapt to, such has having to find a partner bank, since funds cannot issue loans directly.

Maintaining discipline for a strong rating: A big part of maintaining investors' confidence and raising capital is keeping delinquency rates low. As the business grows, there is an even bigger imperative to manage the portfolio so that the good track record may be kept, especially since students as first time borrowers can be a challenging

population to support and track to pay back their loans on time and in full. This is particularly salient in the current climate of high interest rates in Brazil; Carlos Furlan comments on the latest fundraising: "It's not easy to raise money in this environment nowadays, but even so, we have been able to increase our operations seven times year-on-year in terms of funding."[99]

FUTURE PLANS

Risk sharing with universities: Ideal Invest is looking to models which would involve risk sharing with the universities (currently, Ideal Invest bears all risks of default) to reduce cost of capital and provide lower interest rates to students

Sale of junior notes to investors: Sale of junior notes can raise more capital to help PRAVALER gain scale more quickly.

PERFORMANCE

Social impact: To date, Ideal Invest has enabled more than 50,000 students to pursue higher education. With FIES as the only main alternative (which has recently been scaled back), many of these students would not have otherwise enrolled. Moreover, when FIES funding was cut and lending capacity decreased, Ideal Invest was able to fill part of the gap, thereby ensuring that potential students are not denied educational opportunities due to an unforeseen macroeconomic situation. Ideal Invest has also helped universities fill up seats and remain more sustainable.

Financial returns: Ideal Invest has been able to provide market returns to investors, while maintaining a financially responsible profile through keeping delinquency rates low.

GEMS EDUCATION

Individual Entrepreneurs and Families, Market Rate Loans, Private Equity

This family-run enterprise has grown to serve 250,000 pupils across 71 schools in more than a dozen countries

BASIC INFORMATION[100]

Education sector: K-12

Description: The Varkey Family, widely recognized as one of the leading business families in the education sector, has grown GEMS from a small family-run tutoring business in 1959 to the largest school operator in the world, with schools in more than a dozen countries across different curricula and price points. The company has leveraged a range of private capital sources to propel its success at different stages of its growth, including family funding, debt financing, and private equity.

Geographic area: UAE, France, India, Jordan, Kenya, Malaysia, Qatar, Saudi Arabia, Singapore, Switzerland, Uganda, UK, USA

OPERATOR INFORMATION

Mission: To put a quality education within the reach of every child in every community in the world

History and key activities: GEMS was started by two professional teachers, K.S. Varkey and his wife Mariama Varkey, as a tutoring business in 1959. They started with tutoring adults and slowly moved on to children. This led to the founding of their first school, Our Own English High School, in 1968, which remained relatively small scale for more than a decade. The first major investment was the 1980 relocation of the first school, to a purpose-built facility that was funded through bank loans. This initiation came about through regulatory pressures from local authority and recognition of a commercial imperative from the owners' son, Sunny Varkey.

The success of this venture rested on GEMS providing a strong quality of education, and the endeavor generated cash and credibility allowing GEMS to grow. The family took loans to build 15 schools between 1980 and 2000 to respond to new market demand, predominantly from expatriates, for diversified school offerings. In 2000, the loose network known as the Varkey Group of Schools was formalized as GEMS, and expansion of the GEMS network accelerated, with more than 35 more schools since 2000 and new schools set up abroad.

The pace of growth and clear market opportunity soon meant that family funding and debt couldn't provide the appropriate fuel for growth, and consequently GEMS partnered with the Abraaj Group. To maintain the integrity of the business, GEMS ensured that they remained the majority shareholders with board oversight and hands-on involvement in daily operations. Dino Varkey, Group Executive Director and Board Member notes how important continuing family involvement is to the company's business philosophy: "We will be taking decisions for this business that will ensure its long-term future. That's a very,

very important non-negotiable... for us, being majority in our business is very, very important."[101] To facilitate the transition, GEMS instituted a formal board structure in 2007. The original investor exited their investment in 2013, and in 2014, GEMS brought on a second consortium of Private Equity investors: Blackstone, Fajr Capital, and Mumtalakat.

To build on their extensive experience in the education sector, GEMS has also moved into the business of providing educational consultancy, aimed at helping both public and private clients improve the quality of education provision. GEMS Education Solutions was established in 2011 for this purpose. GEMS has expanded beyond for-profit work, with the establishment of the Varkey GEMS Foundation in 2010. This philanthropic initiative aims at providing access to education, building teacher capacity and advocacy for responsible education policies.

Impact: 71 schools across 14 geographies serving 250,000 students

Features: The company's diverse school offerings include both affordable, quality schools and high-end premium schools. Curricula offered include the American, British, Dual/Local, Early Years, French, Indian and International Baccalaureate curriculum. Regardless, the common thread that runs through all GEMS schools is its values of leading through innovation, pursuing excellence, growing by learning, and global citizenship.

FINANCING INFORMATION

Sources of capital: The family's approach has been risk tolerant and focused on meeting market opportunities while delivering consistent quality. Initially GEMS drew on family funding, retained earnings, and bank loans. Subsequently GEMS sought private equity investment to drive growth.

Investment terms: GEMS has actively used debt financing, leveraging up to six times per dollar earned in the initial years, to fund their growth for most of their operations. Presently, GEMS is leveraged at rough 2.5 times per dollar earned. Minority stakes to private equity firms are 20 to 25 percent of the total business, ensuring that the Varkey Family maintains majority control.

Governance arrangements: Governance arrangements consist of an investment committee, audit committee, various sub-committees and five independent non-executive members in addition to the executive board which consists of the three Varkey family members involved with the business

Period of investment: Long term — the Varkey family plans to remain in the business for generations. Dino Varkey comments: "The one thing that I can guarantee is that, regardless of the nature of our influence within the organization changing over time, we will never exit this business. For us, this is our core purpose, it's our DNA. We want to create generational value."[102]

KEY SUCCESS FACTORS

Patience, driven by a strong sense of purpose and mission: GEMS understands that cultivating good schools takes time and that education is a long-term business. By adopting a long term view to their business, GEMS has been able to manage their schools successfully and make the right decisions.

Maintaining control within the family: Keeping GEMS as a family business has, according to Dino Varkey, Group Executive Director and Board Member, allowed it to adopt a "patient capital approach,"[103] remaining flexible and autonomous, to build up real value and brand equity without succumbing to short-term profit pressures.

Responsive to market demands: GEMS has innovated in response to market, for example by addressing changes in market demand driven by social and demographic changes in Dubai's population.

Choosing the right partners: GEMS recognized their strengths from being family-owned, and were able to choose external partners who understood that and catered to their strengths. For example, recognizing the importance of education as a long term investment, the investment with Abraaj Group came out of one of the equity house's long-term funds. Moreover, GEMS chose partners who were synergistic in being able to bring them access to new markets and leadership.

KEY CHALLENGES

Natural limit on the amount of capital provided by family funding: Relying solely on family funding was insufficient if GEMS wanted to gain scale quickly. That meant the company needed to take on the risk that came with debt, and subsequently to lose some autonomy through the private equity s.

The shift from family funding to external investors: Dino Varkey notes: "I think the most challenging thing for the family was [going] from having absolute autonomy and authority over the business... [to ensuring] our partners were aligned."[104]

PERFORMANCE

Social impact: The combination of private enterprise, private capital, and quality education provision has allowed GEMS to scale its activities, reaching more than 250,000 students every day. The Varkey GEMS Foundation, the company's philanthropic arm, has the objective of reaching 100 underprivileged children for every child enrolled in a GEMS school.

Financial returns: Financially, GEMS has done well and as recently as 2014, was valued at some $1.5B to $2B (USD).

FUTURE PLANS

Public listing: GEMS is contemplating a public listing of the company in the longer run. Dino Varkey considers it an "eventuality that GEMS looks at a listing"[105], though GEMS believes in being patient about it. Sunny Varkey, in a public interview, notes: "We're not Facebook. Education needs a lot more patience and hard work."[106]

STUDENTFUNDER

Peer-to-Peer Loans

An early-stage UK-based peer-to-peer (P2P) lending platform that provides loans for Masters and professional courses.

BASIC INFORMATION[107]

Education sector: Post-Secondary

Description: StudentFunder offers student finance to individuals pursuing Masters degrees and employment-oriented courses in the UK. It uses peer-to-peer lending to fund its loans.

Geographic area: UK (with students coming from UK and overseas)

OPERATOR INFORMATION

Mission: StudentFunder was founded by people who struggled to fund their education and wished to help others finance theirs.

History and key activities: Juan Guerra, the founder of StudentFunder, moved from Mexico to Germany to pursue his undergraduate study and later to the UK for his MBA. To finance his education, he juggled various part-time jobs and scholarships. Guerra, who had worked in the microfinance industry, wondered why he wasn't able to access

a loan, rather than a scholarship. He recalls: "I just thought, 'This is really silly. It's really wasteful,' because I would have happily paid the scholarship back, and they could have recycled this money so someone else could have come in the future."[108] This experience laid the foundations for StudentFunder, a company that began offering P2P loans to support individuals to take employment-oriented post-graduate courses in the UK. With increasing tuition costs and limited bank loans, grants, or public funding available, it can be a challenge for students—particularly those who travel from overseas—to finance their studies. Initially, StudentFunder started off providing a platform on which students could raise donations. Students would pitch their study plans and fundraise from friends, family and extended networks. Later, the organization converted the donation platform to a peer-to-peer lending platform. Since April 2014 peer-to-peer lending has been a financial service regulated by the UK's Financial Conduct Authority.

StudentFunder specializes in supporting individuals pursuing Masters degrees and professional courses leading to a job. These individuals have less access to funding from existing government and banking sources in the UK. The course length varies from short, three-month professional certification courses (such as web development) to Masters programs typically lasting one year. The borrower profile comprises about half domestic students with the other half coming to the UK from abroad, typically from Commonwealth countries. StudentFunder allocates funds from a pool of funding provided by its lenders to individual borrowers and manages the repayment process. StudentFunder believes that with funding an additional 20 to 30,000 people in the UK could enroll in post-graduate and professional courses. The platform covers costs by taking a commission on each loan.

Impact: In 2014, with just over £350K ($546K USD) in capital, StudentFunder funded 50 aspiring students. StudentFunder plans to support 100 to 150 students with £1M ($1.6M USD) in funding in 2015.

FINANCING INFORMATION

Description of lending process: Prospective borrowers submit a short online application and are screened at a second stage with a Skype interview. StudentFunder requires UK based guarantors for loans.

LOAN TERMS

Interest rates: Rates have varied. In 2014 they were 7 percent fixed. In 2015, for any outstanding balances, borrowers will pay annual interest of 8 percent variable, set to three-month LIBOR.

Loan size: Typical loan size is £7,500 ($11,700 USD).

Payback period: Students begin repayments immediately by paying a token monthly amount of £1 each month for the first 18 months of the loan. This builds the habit of making timely loan repayments. Students begin repaying loan principal and interest within six months after graduation. After 18 months of the loan, students pay a fixed, monthly, fully amortized amount. There are no fees for early repayments. Seven years is the maximum pay-back period offered (the seven year period includes the 18 months in which students repay £1/month).

Default rate: Only nine borrowers who attended short courses in 2014 are now amortizing their loan, given that the company started lending in 2014. The target default rate, reflecting industry standards, is 2.5 percent

INVESTOR INFORMATION

Investors: Any individual can apply to become a P2P lender with StudentFunder provided they are over 18 years of age and resident in the UK. The minimum investment amount is £5,000. Institutional investors have comprised individuals, foundations, social banks, and angel and trust capital. The organization is now looking more to traditional banks. Juan Guerra notes: "Once you reach a certain scale and you've proven what your default rates are likely to be, you can then start unlocking bank finance and institutional capital."[109]

Return on investment: Loans from operators are spread in tranches of £100 across the portfolio, which is continuously diversified. As these tranches of £100 accrue interest and are repaid by the students, the investors are also repaid. If a student fails to repay, lenders are compensated for principal and interest from StudentFunder's £100K contingency fund.

Investor screening: StudentFunder performs background and identity checks to authenticate the identity of the lender as well as to meet all anti-money laundering requirements and financial regulations.

KEY SUCCESS FACTORS

Relationship with the borrowers: In the business of student finance, it is essential to maintain a positive relationship with students, who are typically first-time borrowers and hence may not be familiar with the habit of making repayments, which in turn might affect the portfolio of the operator. The £1 repayments during the first 18 months are designed to build this habit and relationship. Founder Juan Guerra notes, "If students know you're there to help them and you have their backs, they will repay you. If students think you're there to squeeze pennies out of them, then they may be less inclined to do so."[110]

Shifting cultural conceptions: StudentFunder identifies the shift in cultural conceptions of loans in the UK as a key change for their business. The UK government is now providing some loans for Masters students as well, legitimizing the concept of borrowing for education: "Good loans are a good thing. Missing out on education is a much worse thing than borrowing at 7 percent to fund it. You'd finance your car; why wouldn't you finance your Masters? Especially given the fact that education, unlike a car, is an asset, not a liability."[111]

KEY CHALLENGES

High barriers to entry: Student finance is an "intricate"[112] business and requires that businesses navigate regulatory, legal, and financial challenges. Robust systems and processes are required to achieve scale. The biggest barrier in student finance is establishing a successful track record of repayment in new markets. For these reasons, starting and sustaining a student loan business can be difficult.

Regulatory changes: The private student finance market in the UK is still nascent and subject to regulatory changes in the early years. These can have a profound impact on business viability.

FUTURE PLANS

Financing online courses: StudentFunder is beginning to look at supporting students to access online degrees through partnerships with universities, for whom it will act as an outsourced credit department. With online learning, the capacity to accommodate students is almost unlimited and also the marginal cost per student is very low.

PERFORMANCE

Social impact: In 2014, StudentFunder supported 50 students to pursue post-graduate education. Juan Guerra comments, "I am very proud of the students we have supported. They are really amazing people, and we are proud to be a part of their journey." [113]

Financial returns: StudentFunder is providing flexible finance with fair rates to students while opening up a new asset class with stable returns for individual and institutional investors.

QATAR OUTSTANDING SCHOOLS PROGRAM

Government Funds, Corporate Funding

The Outstanding Schools Program is a public-private partnership that provides children of Qatari and expatriate families with enhanced and expanded access to high-quality private K-12 education.

BASIC INFORMATION[114]

Education Sector: K-12

Description: Qatar's Outstanding Schools Program (OSP) is a public-private partnership that provides incentives for internationally recognized private schools to establish branch campuses in Qatar in order to increase the range of high quality education options on offer for both local Qatari families and expatriates. OSP, funded and supported by the Supreme Education Council (SEC), has devised a range of financial and in-kind benefits to attract international schools to the country. While the key objectives of the program have remained unchanged, new insights have led OSP to modify its approach and strategies over time in order to reflect the needs of both the SEC and potential applicants.

Geographic area: Qatar

OPERATOR INFORMATION

Mission: To further expand the provision of high quality education options for both Qatari and expatriate families.

History and key activities: The OSP began in 2007 under the guidance of Her Highness Sheikha Moza bint Nasser. At the time of its launch, it represented a unique and innovative approach to public private cooperation within the field of education, both regionally and internationally. The aims and objectives of the program include the following:

a) To increase the level of variety to choose from in the private school sector;

b) To help establish high quality private schools in order to meet increased demand

c) To replace the existing private schools that fail to meet the rigorous criteria established by the SEC, with private schools that have very high academic standards

d) To increase the number of specialized schools — for example, schools

for special needs students and vocational schools

e) To encourage private school sector participation in the process of establishing more schools with outstanding academic credentials.

The program has gone through three iterations as it continually assesses the best way to attract schools, ensure their successful operations, and maintain school autonomy while ensuring accountability.

Throughout all phases, the program has brought exceptional international schools to Qatar. Outstanding schools are those schools which teach according to a recognized international or national curriculum, leading eventually to university entrance in countries throughout the world. They may be primary schools, secondary schools, or vocational colleges. They may provide a general education experience or specialize in a specific area of study, e.g, the arts, the sciences, or sporting achievement. Additional criteria that must be met by any school selected by the SEC include:

- **A history of proven success;**
- **Teaching a recognized international or national curriculum;**
- **International or national accreditation;**
- **Involvement in, and contributions to, the local community; and**
- **A competitive but reasonable fee structure.**

During Phase 1 of the program (2007–2010), the Supreme Education Council (SEC) conducted an extensive research study to understand the potential and options for identifying and attracting outstanding international schools, with a focus on academic excellence and the personal development of children. First, OSP conducted extensive research on various countries' league tables and sought personal recommendations within trusted networks for outstanding schools. Schools were also prioritized based on their fit with local needs, such as demand for single sex education. Selection criteria included whether schools were unique in some aspect: excellence in certain subjects, bilingual education, or extracurricular offerings.

Three schools were initially invited to set up branch campuses in Qatar: DeBakey High School for Health Professions, a leading charter school based in Houston; The International School of London, a top IB school in the UK; and Sherborne School, an historic all-boys preparatory school in the UK. The schools were tasked with establishing branch campuses that reflected the quality of education provided by the home campus while adapting to meet the local needs of parents, students and the SEC.

Prior to signing a contract, the schools provided an Education Plan to the SEC to demonstrate that these commitments had been met. Many top-performing schools approached by the SEC, particularly UK schools, were very keen to join the program but were restricted because they have charitable status, the terms of which require that their assets are safeguarded and thus complicate third-party arrangements. Thus, in 2010, OSP introduced a second phase in which it also offered the option of a new "operator" model to run alongside the existing approach, in which international schools would operate a local campus on behalf of SEC. Schools had the option to choose which approach was most suitable.

With this new option, schools were more able to comply with the legal constraints associated with their charitable status. As part of this alternative agreement type, the SEC established physical buildings and agreed to provide the home campus with a management fee (royalties and a per-student premium) to run their programs. Operational budgets and fees were decided prior to campus inception, and SEC offered additional funding support if student tuition fees did not cover the agreed budgets in the early years of operation. The first school to open under this model was the SEK International School, an IB model based in Spain that operates campuses globally. In the following year, a second school opened under the Operator model—the Qatar Finland International School, an innovative model run by a teaching university in Finland that incorporated best practices from the highly regarded Finnish system. The school's practices focused on global citizenship, worked to achieve inspiration through technology, and aimed to provide a holistic learning experience, all in accordance with SEC objectives.

In the latest phase of the OSP (2015 onwards), the SEC has chosen to work directly with local business interests, encouraging them to act as sponsors for high performing international schools. The rationale underpinning this modified approach has been motivated by four main factors: the desire to engage local businesses more effectively within the education process; the desire on the part of the SEC to spend less time on establishing schools and more time on promoting and guaranteeing high-quality educational outcomes; the desire to foster a more streamlined and flexible approach to OSP; and the desire to make best use of existing SEC resources, e.g, vacant buildings. Local companies often rely heavily on expatriate labor and need to provide access to excellent schools to attract and retain employees. The SEC has compiled a list of potential target schools, in line with the original definition of an outstanding school, and in response to the defined needs of the local education context. The list is shared

with companies who then seek to establish mutually beneficial agreements with the schools in order for them to establish branch campuses in Qatar. When considering which schools from the list to approach, the companies review the current priorities established by the SEC's strategic plan, as well as the needs of their current and future employees. Businesses then directly develop arrangements with schools. Once agreements have been finalized, the SEC supports the establishment of new schools by advising both parties on the licensing process and by providing additional incentives, such as the provision of premises. The new arrangement continues to ensure buy-in from parents and industry before school opening. Several schools are currently planning to open under this type of arrangement.

Throughout all the phases, significant support has been provided to schools prior to, during, and after establishment. SEC has offered advice in numerous areas, including legal, financial, communications, marketing, and academic areas.

The international schools established under OSP are required to offer the same curricula as their home campuses. As is the case with all private schools, schools are also required to promote and support local cultural identity for the benefit of all students by ensuring that Arabic language, Islamic Studies, and Qatari Social Studies courses are included in their curricula. Finally, also in line with all private schools in Qatar, OSP schools take part in the appropriate international student assessments such as PISA and TIMMS.

FINANCING INFORMATION

Description of activity: Financing and support has varied by phase:

Phase 1: Under the ownership agreement, schools accessed in-kind support such as rental agreements at below market rates and access to discounted leases for new school buildings that included infrastructure and furniture. Schools were given grants to cover start-up costs associated with activities like hiring and PR. This support allowed for the possibility that schools would eventually build and move to their own purpose-built and privately funded campuses. Should a school decide to take up this option, it was agreed that the SEC would help the school to access low interest loans to support the construction of the new school.

Phase 2: Under the operator agreement, schools were offered a new and fully furnished/equipped school, a start-up budget, and an annual management fee based on a per capita sum and royalties payments. On behalf of the SEC, a school would replicate the environment of its

home campus and would agree an operational budget. Tuition fees were determined by the SEC, who provided additional funds to the school if fees were not sufficient to cover agreed operational costs, particularly in the first years of operation.

Phase 3: Businesses choose potential schools from a list curated by the SEC, and upon making contact with the school and coming to an agreement, the parties approach the SEC to finalize a partnership arrangement. The SEC provides advice for licensing and incentives such as a rent-free or low-rent school building, typically an existing building in need of renovation.

KEY SUCCESS FACTORS

Flexibility/adaptability: SEC has adapted the program to ensure it meets objectives while also ensuring the resources available are used most efficiently. The program has therefore rapidly adapted since inception and responded to insights gleaned from preceding phases. For example, the operator agreement was introduced to solve a specific problem of non-profit schools encountering difficulty in establishing branch campus operations under the existing agreements in Phase 1.

Data-driven approach: The SEC has taken a data-driven approach in each step of the process, which has helped them identify areas of needs and improvements. For example, SEC identified performance targets for the program based on a combination of data collected from 17 established international schools in Qatar, population trends, and discussions with key employers in Qatar. Market research has been essential in identifying the factors that help determine which schools should be encouraged by the SEC.

Business involvement: In the most recent phase, SEC has taken a unique approach by directly involving private businesses. This provides an innovative way for private sector businesses to improve their appeal to current and potential employees. This has a direct impact on business viability. Involving businesses also reduces operational risk for schools, because they are provided the early assurance of demand from employees families affiliated to the business.

KEY CHALLENGES

Clear recognition of financial and legal viability: Schools looking to establish operations require clarity on financial viability, which entails factors such as projected enrollments, fee points, and costs of education provision. Legal viability is also a consideration due to the charitable status of many highly reputed schools. The SEC has

recognized that it is necessary to address these factors in order to facilitate the successful establishment of international schools.
Need for adaptation: Adaptability is a strength of this approach to public-private partnerships, and responsiveness to market need has been important to the success of the program. However, the ongoing adaptation of OSP has meant school openings have not kept pace with initial expectations. They are now picking up speed as the program enters a new phase.

Maintained quality/brands: Outstanding private schools are built on their reputations, and it is one of the most valuable assets they hold. A misstep, such as setting up an underperforming branch campus, can erode brand in the domestic market and devalue the investment in moving abroad. Therefore, it is essential that while operators adapt to their new environment they are also provided the required operational and/or financial support to continue delivering the same quality they do at their original campuses.

PERFORMANCE

Social impact: OSP has played a significant role in providing expatriates and Qatari families increased opportunities to access high quality private education. Since establishment, the outstanding schools have enrolled more than 2,500 students. Several schools have already expanded their campuses to accommodate the demand for seats.

Financial returns: The schools may deliver financial returns for their new co-investing local partners. There is the potential for long-term economic impact in Qatar given the financial returns to schooling and the increased attractiveness of Qatar as a business hub for expatriates.

FUTURE PLANS

Expanding outside of Doha: Currently, the schools are concentrated in Doha. The SEC plans to expand beyond Doha to meet needs throughout Qatar.

More schools: The SEC has expressed a desire to open more schools, with a target to open two schools per year until 2018.

#4

LESSONS FROM EXPERIENCE

#4 LESSONS FROM EXPERIENCE

The case studies profiled demonstrate the breadth and diversity of private capital's participation in education, from early stage peer-to-peer lending platforms to established global education businesses backed by mainstream investors.

These cases, despite their diversity, offer a coherent and widely applicable set of lessons that can support three key stakeholder groups—government, operators, and investors—to engage with the opportunities presented by the increased need for private capital in education. In this section, we will address the questions:

- How can governments support the effective deployment of private capital in education?
- How can education operators leverage private capital most effectively?
- How can investors succeed in education investments?

Perhaps the most important lesson from the case studies is the importance of appropriately designed incentives that align for all stakeholders. The interests of all parties involved must be addressed. Particularly in the case of public-private partnerships, commercial interests of operators must be balanced against local needs, laws, context, and tradition. In Part 2, we highlighted the tensions of leveraging private capital in education. As in all sectors where public goods intersect with private gain, tensions can arise in education between profitability and impact. These tensions are most effectively resolved when profitability and impact go hand in hand and are mutually self-reinforcing.

Whether in GEMS, StudentFunder, Educate Girls, Bridge International Academies, or the other organizations profiled, the successful achievement of impact objectives is directly related to the realization of investment returns. The alignment between profitability and impact in these organizations also provides valuable inspiration for the wider education sector, which can look to these examples to replicate their models and methods in other parts of the world.

In what follows, we also draw on Parthenon-EY's experience in the education sector over the past two decades advising governments, operators, and investors in education.

- **How can governments support the effective deployment of private capital in education?**

Policymakers play a vital role in regulating the education sector in a way that facilitates private sector participation while balancing individual protections and quality assurance. Governments are in a position to identify the critical areas of intervention where private sector provision may enable them to fulfil objectives for education and achieve social impact. They can support the effective deployment of private capital in four important ways, explored in detail in what follows:

A CLIMATE THAT ATTRACTS INVESTORS AND OPERATORS ALIKE IS ONE WITH CLEARLY ARTICULATED, CONSISTENT, AND SUPPORTIVE POLICIES.

1 - Design transparent, consistent and supportive regulations

Transparent public sector regulations and decision-making enable investors and operators to initiate new activities, sustain their existing work, and expand into new markets. A climate that attracts investors and operators alike is one with clearly articulated, consistent, and supportive policies. These can include licensing, land access and use regulations, tax laws, and inspection requirements, as well as a range of other areas. For example, the Qatar Outstanding Schools Program has sought to provide such a supportive framework where conditions for school operators are clearly outlined and have been designed to increase the likelihood that schools will be interested in negotiating agreements. In the Outstanding Schools Program, these conditions include incentives such as grants to cover start-up costs and the provision of furnished school buildings at a low rent, in exchange for the school's cooperation with important guidelines set by the SEC, such as the promotion of local culture by the school and the commitment to a standard of education that is in line with that of the home campus.

Government regulatory policies, at their best, are developed in dialogue with providers and revised on an ongoing basis to reflect changes in business models and the education sector. Investors and operators can play an important role in influencing the regulatory environment and shaping policy that reflects sector innovation.

Needless to say, unstable regulations can not only upset current operations, but deter future market activity and investment. "One of the toughest parts about [the student finance] market," says Juan Guerra, CEO of StudentFunder, "is that it's so sensitive to policies, and that government positions can just wipe out an industry or make it flourish. That's not very appealing to investors. It's just risky, and you don't know what the next election is going to bring."[115] Ideal Invest experienced a setback related to changing regulation in 2010 when the Brazilian government launched public finance for students with an extremely low interest rate. Later, the government announced that it would reduce the number of funded seats available at these low interest rates, dramatically increasing the demand for private funding. These changes could create an unstable scenario for Ideal Invest in its operations, which minimizes risks by ensuring funding is 100 percent independent from the government.

2 - Track and report data

Governments should dedicate time and resources to provide clean, accurate, and widely available education sector data. Tracking and reporting of data is useful for two reasons:

a) Problem identification and targeting resources: Publicly collected data can help in identifying problems and targeting resources for areas with high need. Governments can track longitudinal statistics that illustrate education trends, including deficits by region or sector of education. For example, the data provided by the government of Rajasthan on female education attainment by district enabled Educate Girls to respond to unmet market need (gender gap in education) and provide services in districts where it was most essential.

b) Better tailoring of interventions: Access to open sources of credible data from the government can support education operators to more effectively tailor their solutions in the market. For example, as publicly funded bodies, UK universities are required to report their postgraduate employment rates, which supports StudentFunder to make lending decisions based on borrowers' likely post-study employability –and therefore their ability to repay loans. Another example is the establishment of credit bureaus–agencies that research and collect

individual credit information and provide it to creditors, thus enabling them to make informed decisions before granting loans. In the absence of credit bureaus, it is challenging to offer student finance that can widen access to post-secondary education. Existing credit bureaus also need to become better at providing information that enables lenders lend responsibly to younger people.

3 - Drive access to education

Governments can enhance private sector willingness to provide education services in areas of unmet need by providing incentives for their participation. Incentives can be in the form of tax concessions, support in operational costs, access to land at a favorable rate or on a preferential basis, and access to finance, buildings, and resources, among others. For example, in Singapore, the government actively manages supply and demand in the K-12 sector by encouraging schools to provide curricula that are undersupplied and in high demand. Further, it incentivizes education investment by providing an initial tax allowance of 25 percent and annual tax allowance of 5 percent on capital expenditure incurred for the construction or extension of an educational institution.

Another way governments can provide non-regulatory incentives is by providing direct funding to private schools. In the Netherlands, 70 percent of total enrollments are in private schools that receive a fixed amount of government funding per student, with extra funding for disadvantaged students.[116] These incentives could, for example, accrue to schools serving children with special educational needs or behavioral issues.

4 - Deploy public-private partnerships

Public-private partnerships (PPPs) are medium to long-term agreements to balance finance and operations between the government and the private sector. The advantages of a PPP model to the government and private sector are twofold: leveraging combined resources and ensuring relevant offerings. The government's massive financial and operational capabilities can be combined with the specific expertise and efficiency of the private sector. One of the simplest PPP models would be one in which the private partner provides infrastructure services while the government provides educational and support services.

One commonly used PPP model is for the government to purchase education services from private providers. For example, the government

purchasing program in Côte d'Ivoire sponsors students from public schools to attend private schools in order to address the problem of low capacity in the public system. Schools are chosen to receive students based on their educational performance and receive a fee from the government for each student. Other governments pay private providers to operate their public schools. For instance, the government of the Punjab province in Pakistan has licensed out public school management to several NGOs. These arrangements can vary in nature but are focused on improving the quality of education based on the new operators' expertise in the sector.[117]

Voucher systems are another widespread PPP model. One of the longest running voucher-like programs is the School Funding System in Netherlands. Both public and private schools are funded by the government and parents are given a wide choice of schools options. The schools are given wide autonomy to manage their resources and determine what is taught; the government steps in to inspect schools and only decides on broad policies and statuary quality requirements for the schools. Schools receive extra funding if they are located in socioeconomically disadvantaged zones.[118]

PPPs are also increasingly gaining momentum for foreign governments to bring private Western brands into their countries to leverage their brand and years of experience. Governments are able to provide financial support, local contextualization, and a less risky entry proposition while the private providers bring years of experience in Western education unavailable in many emerging markets. Qatar has effectively partnered with a variety of K-12 schools through the Outstanding Schools Program and has also attracted leading American and British universities to open branch campuses in the country.

- **How can education operators leverage private capital most effectively?**

Operators in the education sector must follow the tenets of successful businesses across sectors. The following lessons highlight insights applicable to many sectors while describing how education operators in particular should consider their incorporation to more effectively leverage private capital.

1 - Design a robust business model

Robust business models should be influenced by
a) consumer insight; b) local contextualization; c) scalability; d) adaptability.

Strong consumer insight: Education operators and organizations serve a wide range of consumers, from rural schoolchildren to first-time student borrowers to high-income expatriate families. Therefore, education operators typically need to be extremely clear about their target consumer groups (whether based on income level, demographic group, or geographic area—or all three) and rigorously design their products and services to serve their segment well. They should have an understanding of the consumer's needs, motivations, and behaviors such as their education aspirations, ability to pay, alternative education options, borrowing behavior, and preferences for different features of education services.

For example, recognizing that students are typically first-time borrowers with a strong preference for online transactions, both StudentFunder and Ideal Invest have implemented systems for easy, online loan enrollment and repayment. Moreover, both organizations begin repayments during the period of study—with StudentFunder collecting just £1 each month to instill repayment habits. These aspects of their business model help with early identification of issues, build a link to the borrower, and limit delinquency.

EDUCATION IS A HIGHLY LOCALIZED BUSINESS, SUBJECT TO CULTURAL, REGULATORY, AND FINANCIAL VARIATIONS ACROSS GEOGRAPHIES.

b) Local contextualization: Education is a highly localized business, subject to cultural, regulatory, and financial variations across geographies. For this reason, even a highly successful business model from one region may not be implemented as effectively in another. It is noteworthy that there are few examples of truly global education operators; most are focused on just a few key markets and have business models highly specialized to these markets.

c) Scalability: Scalability is also an essential part of the design of education businesses that are social impact oriented or those that rely on volume to drive profits. For example, Bridge International Academies, Ideal Invest, StudentFunder, and Educate Girls have models that reduce operational complexity and centralize important back-office functions in order to deliver scale. Both Bridge International Academies and Educate Girls have models with some features of franchises—highly replicable and process-oriented operations. Safeena Husain, Educate Girls Founder, notes: "We want to scale,

making sure that for every child we reach, we have the same impact, because the biggest risk with scale is that you can dilute quality over time."[119]

d) Adaptability: The case studies profiled all have mechanisms to adapt their approaches to improve outcomes and efficiency. For example, Ideal Invest has adapted its systems to understand student repayment behavior, and over the last eight years, the organization has improved its proprietary credit scoring model, now in its fourth iteration. Bridge International Academies' monitoring and evaluation team identifies emerging patterns, issues, and innovative practices in their schools and investigates them using quantifiable analysis—often using the e-tablets distributed to their teachers to implement changes in real time, track results, and adjust the approach. This enables the organization to adapt its model and roll out effective innovations across its network.

2 - Define the desired role for investors

Education businesses have various priorities around growth, social impact, governance, or geographic focus for which investors can provide support. Therefore, educational operators should be clear about what they need from their investors. Education operators should consider:

a) Desired social impact: Investors will shape the course of the business and affect social impact objectives, and certain investors may be able to help or hinder these achievements.

b) Desired governance control post-investment: Investors can play important governance roles and support businesses to grow, but operators need to consider their desired role and influence on decision-making. For example, the Varkey family remains the majority shareholder in GEMS by design, with capital from their investors playing a role in expansion and scaling operations.

c) Desired investment horizon: Depending on the desired outcomes — geographical expansion, mass scalability, further investment, the investment horizon will vary. Different types of investors who also have various investment needs will affect the timeline of investment.

d) Desired investor capabilities and support: Investor support could include assistance in accessing networks, professional mentoring and advice, support in managing and influencing regulators, access to land, access to new markets, opportunities for M&A, and other aspects.

3 - Focus on quantifying outcomes

Quantifying outcomes assists education operators to ensure successful performance and attract potential investors. It allows operators to

identify and align their goals with their operations and to measure their impact and progress over time. Within the education sector, too often organizations implement various activities without defining desired outcome and impact metrics. In order to attract and retain investors, however, education operators must be able to demonstrate not just activities but also social and/or financial outcomes; as Phyllis Costanza, CEO of UBS Optimus Foundation notes, "In education it's not just about access, or the number of children going to school, but it's critical to know whether or not those children learn."[120]

For example, the development impact bond (DIB) at Educate Girls looks at measuring two outcomes: girls' enrollment and boys' and girls' learning outcomes. Prior to the launch of the DIB, Educate Girls engaged in a baselining exercise to assess the existing rates of enrollment and the current academic performance in the target population, and during the course of the intervention will assess the service group against a control group. This tracking will support the realization of returns in the DIB and also will support Educate Girls in focusing activities on achieving results and demonstrating its efficacy to other funders. At Coursera, extensive data collection is leveraged to track outcomes and improve performance. As Jake Samuelson, Business Development Manager at Coursera notes: "We've gotten more sophisticated about what makes a successful course, and we collect data on what's the optimal length of a course for different content, what our best practice is for presenting content, things like that."[121]

"I DON'T THINK THERE'S A SINGLE INVESTOR THAT ISN'T EXCITED ABOUT THE IMPACT AND ISN'T EXCITED ABOUT THE OPPORTUNITY TO MAKE A DIFFERENCE IN EDUCATION."

4 - Emphasize the social impact

Even for profit-focused investors, the potential to have an impact in education can be a powerful pull to make investments and to retain education operators in a portfolio. As Shannon May, Co-Founder of Bridge notes, "It feels good... and I think it matters [for investors] that it feels good."[122] Moreover, governments acknowledge and appreciate operators creating an impact in their societies. Therefore, it is essential for operators to emphasize the social impact that they create.

Even for commercially-minded investors who do not have development paradigm as a part of their approach, the positive social benefits of education can make these investments more attractive than equally financially compelling but neutral alternatives (such as retail or food and beverage). Jake Samuelson, Business Development Manager at Coursera notes: "I don't think there's a single investor that isn't excited about the impact and isn't excited about the opportunity to make a difference in education."[123]

- How can investors succeed in education investments?

Investors in education businesses need to be guided by the same assessments of risk and reward as in their wider portfolio. However, two additional considerations should be applied for investments in education that are particular to the sector:

HOWEVER, WITHOUT SUSTAINABILITY—AS DEMONSTRATED THROUGH THE ABILITY FOR BUSINESSES TO ACHIEVE EVEN MODEST PROFIT MARGINS—THESE SOCIALLY BENEFICIAL MARKETS CANNOT SURVIVE AND THRIVE

1 - Lead with profitability

Impact investors, by nature, weigh impact as an essential component of their investment decisions and have an essential role to play within the education sector: their involvement can open up new markets and education sub-sectors that have potential to lift vulnerable communities out of poverty. Impact investors can help to prove the case for socially impactful markets serving the poor; for example, UBS Optimus Foundation became involved in the Educate Girls DIB because, as CEO Phyllis Costanza notes, "We wanted to be able to bring client money to something like this, in order to create an investable opportunity for the bottom of the pyramid."[124] External market stimulation, including participation by philanthropists and impact investors offering "patient capital,"[125] is often required to support the development of socially beneficial markets, evidenced through the development of microfinance over the past 20 years. However, without sustainability —as demonstrated through the ability for businesses to achieve even modest profit margins—these socially beneficial markets cannot

survive and thrive; "subordinating capital returns for impact objectives in education does a disservice to the entire sector," notes Michael Staton, Partner at Learn Capital. "That does not mean that you can't create impact-orientated pools of capital to go after more challenging problems or serve more disadvantaged populations, but right now the most fundamental problem in education is that there are very few examples of a virtuous cycle of capital availability, innovation, and return."[126] Impact investors therefore should lead with profitability, seeking investment opportunities that can provide evidence of their financial returns alongside healthy social impact.

2 - Realize education is a long-term business

Successful education businesses rely on the ability to prove quality and therefore, education investments must have a long enough horizon for operators to demonstrate successful academic outcomes. GEMS Group Executive Director and Board Member Dino Varkey notes that, "On a very conservative basis, a single school can take five to seven years... to become sustainable."[127] This aspect of the business also pushes operators to ensure quality, as poor outcomes will become visible during the course of the investment.

Education also has the potential to offer stability not available in other sectors. In the K-12 and higher education segments, operators enroll students for 3 to 12 years, which provides long-term revenue visibility, lowering risks. Further, it provides negative working capital as payments are received before the services are performed and continue for the duration of the student's enrollment.

Another implication for investors due to the long-term nature of the education investments is the importance of ensuring quality. In Part 1, we explored how education is correlated to economic outcomes. If education quality is poor, academic results will not be realized, and as awareness grows over a few enrollment cycles, consumers will switch to higher-quality options. Parthenon-EY's research across more than 80 markets surveying tens of thousands of parents and students further underlines this point: academic quality is the most important selection criterion in choosing education options.

As Bridge Co-Founder Shannon May notes, "A school that has bad learning outcomes is not going to stay open, because everyone is going to leave."[128] Therefore, quality must be at the heart of education businesses. Investors can help maintain a focus on keeping education quality central to operations, especially as organizations scale.

3 - Look for category definers

Private investors have the capability to shape the direction of entire industries through their education investments. For example, Investors NEA, Learn Capital, and IFC all cited the importance of the potentially transformative nature of work done by Coursera and Bridge International Academies, in which they are all co-invested. These earlier-stage investments in promising and highly differentiated but unproven companies are characteristic of venture capital. Learn Capital Partner Michael Staton notes, "We largely look for differentiation, and I've started to use the phrase 'double differentiation,' where not only do we want to see a product that is different and original, we also want to see their path to market or their distribution strategy will also be different and original."[129] The importance of looking for category-defining companies could also be applied to more established education businesses. Education companies that will be successful are those that are "cracking the code on how to disrupt the status quo."[130]

NIMBLE, DISRUPTIVE NEW ORGANIZATIONS AND METHODS ARE RESHAPING WHAT IT MEANS TO GO TO SCHOOL, GET A DEGREE, OR TRAIN FOR A JOB.

Section conclusion

Government, operators, and investors have important roles to play in supporting effective and responsible deployment of private capital in education. They must do this against the backdrop of a rapidly shifting education landscape. While private capital has an important role to play, it is not a panacea but rather another building block to developing sustainable, quality education systems accessible to all. In the conclusion to this piece, we describe some of the trends that stakeholders will encounter in looking to harness the potential of private sector education.

#5
CONCLUSION

#5 CONCLUSION

It is an exciting time to work in education.

No other sector has as much potential to shape our societies or positively impact lives. Significant progress has been made toward international education targets outlined in the Millennium Development Goals and Sustainable Development Goals are within reach, and a new focus on quality alongside access is emerging. Nimble, disruptive new organizations and methods are reshaping what it means to go to school, get a degree, or train for a job. We believe that there is tremendous potential within the sector for the fruitful engagement of private capital, organizations, and governments. For Parthenon-EY, this research has underscored some exciting trends that we believe will profoundly shape the sector in the near term:

Marquee Financial Returns and Public Listings: The financial success already realized from education investments by traditional investors, as well as the expected continued growth in deal sizes in the sector, will drive further increases in financially motivated participation in education. Similarly, as more companies move toward public listings or high-profile acquisitions, private education will draw attention from a wider base of investors.

Infusion of Technology: Education technology is a vibrant sector for investment. In addition to the excitement around companies developing MOOCs and adaptive learning tools, investors are also interested in the adaptation of technology in traditional education businesses and how its use can profoundly affect operators' ability to scale and grow. Michael Staton of Learn Capital says, "We believe that the digitization of products and services being available on connected devices is driving a radical shift in how well markets work and how well private companies work in education."[131]

Novel Investment Vehicles and Intermediary Organizations: In this report, we have highlighted some of the innovative methods of financing students, businesses, and social impact organizations such as the Educate Girls development impact bonds and StudentFunder's peer-to-peer lending. New investment approaches are often used to fund smaller operations or riskier individuals and, as such, their growth has the potential to generate better outcomes and equitable

access. Moreover, in social impact-focused sectors of education, where markets are still nascent, intermediary organizations like Instiglio are developing to help bridge the gap between investors and providers. As these mostly nascent vehicles develop and these organizations grow, their successful outcomes and impact will spur adoption and scaling of these methods across the sector.
Against a backdrop of these trends, the need for—and proven success of—private capital in education will ensure its ongoing growth, particularly in emerging markets.

It will be Parthenon-EY's continuing privilege to support organizations working to advance the field of education and to watch this vibrant industry develop.

GLOSSARY

ABS: Asset-Backed Security
A financial security that is backed by a loan, lease, or receivable

DIBs: Development Impact Bond
The equivalent of a social impact bond in the development context. A bond where financial payback to investors is dependent on a set of pre-agreed outcomes. Investment returns to bond-holders are covered by a donor outcomes payer rather than a government entity

Funding Rounds: Series A, Series B, etc., are capital financing rounds.
Price of shares typically increases as funding rounds progress

HNI: High Net Worth Individual
A classification used to refer to wealthy individuals or families typically having more than $1M USD of liquid assets

IFC: International Finance Corporation
Private sector arm of the World Bank Group

LP: Limited Partners
A partner in a partnership whose liability is limited to the extent of the partner's investment and/or ownership

MDGs: Millennium Development Goals
Time bound and quantified targets set by the UN to address extreme poverty in all its dimensions

M&A: Mergers and Acquisitions
The consolidation of companies, either through a merger (combination with another company) or sale/purchase

MOOCs: Massive Open Online Courses
Online courses aimed at unlimited participation and open access through the internet

Outcomes Payer: The party paying investors in an impact bond

PPP: Public Private Partnership
A venture that is funded or operated through a partnership between the government and a private sector company

PSE: Post-Secondary Education
The phase of education after secondary education. Also called tertiary education, higher education, or third level education

P2P Lending: Peer-to-Peer Lending
The practice of lending money to "peers" or unrelated individuals without going through a traditional intermediary

R$: Brazilian Reals
Currency used in Brazil

R&D: Research and Development
An activity undertaken by companies with the intention for product innovation, improvement, and development

SWF: Sovereign Wealth Fund
State-owned investment fund

SIBs: Social Impact Bond
A bond where financial payback to investors is dependent on a set of pre-agreed outcomes. Investment returns to bond-holders are covered by a government outcomes payer

UNESCO: United Nations Educational, Scientific, and Cultural Organization
Specialized agency of the UN aimed at promoting peace and security by promoting international collaboration

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About Parthenon-EY

Parthenon-EY joined Ernst & Young LLP on August 29, 2014. Parthenon-EY is a strategy consultancy, committed to bringing unconventional yet pragmatic thinking together with our clients' smarts to deliver actionable strategies for real impact in today's complex business landscape. Innovation has become a necessary ingredient for sustained success. Parthenon-EY has a dedicated Education practice — the first of its kind across management consulting firms — with the explicit mission and vision to be the leading strategy advisor to the global education industry. Parthenon-EY has deep experience and a track record of consistent success in working closely with universities, colleges, states, districts, and leading educational reform and service organizations across the globe. For more information, visit www.parthenon.ey.com.

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Disclaimer

About WISE

Qatar Foundation, under the leadership of its Chairperson, Her Highness Sheikha Moza bint Nasser, established the World Innovation Summit for Education in 2009. WISE is an international, multi-sectoral platform for creative thinking, debate and purposeful action that contributes to building the future of education through innovation and collaboration. With a range of ongoing programs, WISE has established itself as a global reference in new approaches to education. The WISE Summit brings together over 1,500 thought leaders, decision makers and practitioners from education, the arts, business, politics, civil society and the media.

The WISE Research Reports bring key topics to the forefront of the global education debate and reflect the priorities of the Qatar National Research Strategy.

These publications present timely and comprehensive reports produced in collaboration with recognized experts, researchers and thought-leaders that feature concrete improved practices from around the world, as well as recommendations for policymakers, educators and change-makers. The publications will focus on topics such as system-level innovation, teacher education, early-childhood education, new ways of financing education, entrepreneurship education, wellbeing, twenty-first century skills and education reform in the Gulf Corporation Council Countries.

This report has been reviewed by:

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3 - The asset-rich countries of the Gulf such as Saudi Arabia, Bahrain, and Kuwait lie outside this correlation due to the contributions of oil wealth to their economies. However, as these countries diversify their economies, their sustained growth and stability will depend on their ability to develop knowledge-based economies built on the foundation of strong education systems. Many of these governments have accordingly invested in developing their education systems.

4 - The tertiary enrollment ratio indicates a nation's post-secondary educational attainment as a percentage of the population that is enrolled in tertiary education out of the relevant age cohort that could be enrolled.

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6 - This correlation does not imply causation, but does indicate an important relationship between educational attainment and economic growth.

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15 - This graph is illustrative to show how overall GDP growth over the past three decades has increased much more than a 1:1 ratio. Rather, as household income has risen over time, the number of families that are able to send their children to private schools has increased in a greater proportion than household income, as illustrated by the bell curves movement and the increase in the shaded portion of the graph.

16 - Ibid.

17 - For India K-12, growth is calculated for most recent years of data available, 2010-2013.

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30 - "One senior administrator with bold ideas lamented to me that the intention and impetus exists at his well-known college, but there's just no capital to try to experiment, and thus no room for failure. As a result, his university's business model is in a holding pattern, and so is nearly everyone else's. Many universities manage billions in research funding, but there is usually no R&D budget for their own product, namely delivering education to willing buyers. Those administrators in the position to understand the imperative to innovate don't actually have control over purse strings. Presidents and provosts will tell you: operating budgets are tight. Institutions have been raising tuition just to keep the lights on." From Staton, M. (2014, June 10). Universities Are Missing Out on an Explosive Growth Sector: Their Own. Harvard Business Review. Retrieved from https://hbr.org/2014/06/universities-are-missing-out-on-an-explosive-growth-sector-their-own/

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