

private education for the poor

A sector of affordable private schools is emerging in the developing world. But how can investors take part?

By Abby Callard



Photo Credit: IFAD/Susan Beccio

A young Mongolian girl learns to write.

» The affordable private school movement—made up of private schools where monthly student fees are less than US\$12 (₹600)—is gaining momentum worldwide and providing low-income families the ability to choose where to send their children to school.

“Our experience has been that the low-income families are very concerned about the education of their children,” said Debasish Mitter, the Portfolio Director of education in India for the **Michael and Susan Dell Foundation**. “These families are making the choice to send their kids to low-cost private schools.”

How to Invest

The big question now is how to harness the power of these small, fragmented schools in a sustainable, scalable way to make a dent in the education sphere. Part of that equation is whether or not investors will be interested in this market.

“We’re pretty humble about how many investable ideas are out there, what models can really be attractive in a commercial sense,” said Steve Hardgrave, Senior Managing Director of **Gray Ghost Ventures**.

In 2008, Gray Ghost Ventures established the **Indian School Finance Company** (ISFC) to provide loans to the estimated 300,000 private schools in low-income ar-

reas throughout India. This company is doing what few investors can: investing in individual schools. To date, the ISFC has invested in 285 schools in Hyderabad.

“We really are excited about that business from both a social impact and an investment point of view, mainly because as a finance feature, it’s fungible,” Hardgrave said. “It can apply to any school with any context that needs resources for expansion or for adding their own solutions. That kind of fungible nature of finance opens up almost the whole market.”

To date, most investments in the education space have been in service providers that are generally aimed at the higher-end private schools or government schools.

“So far folks like **Educomp** and the bigger players who have been quite successful at the higher end and maybe even with some government contracts find it very difficult to work with this large number of fragmented and smaller affordable private schools,” said Hardgrave.

How then can a service-providing model work within the context of this fragmented system of schools?

One way is with teachers. The Michael and Susan Dell Foundation invested in **Teach for India** (TFI), a program that recruits high-quality young professionals to serve as teachers in under-resourced schools for two years. Fellows teach in government and low-cost private schools in Mumbai and Pune.

The other investable model, Hardgrave said, is in school chains. One entrepreneur has discovered a potentially scalable model with his “school-in-a-box” approach. Jay Kimmelman, who founded Bridge International Academies, hopes to document and replicate his approach. In 2009, he received a US\$1.8m (₹81m) investment from **Omidyar Network** to do just that.

“Bridge is an extremely replicable model,” said Amy Klement, Vice President of Omidyar Network. “It’s offering high-quality and affordable education to the masses. As he builds the business, Jay is creating systematic processes in order to replicate the schools and scale massively.”

Currently, Bridge operates 22 affordable private schools in Kenya, which Omidyar estimates to be the largest private primary school chain in Africa, and hopes to create 1,500 schools across the continent by 2015.

The Need for Robust Data

The consensus seems to be that the key factors in investing in education are accountability and robust data. In many systems, both are missing.

“We think setting the aspiration very high and benchmarking with robust data is an absolute must,” said Mitter. “The invest-

ment decision, or any other decision, should be based on learning level data.”

This reliance on hard data is at the core of the foundation’s investee TFI. Teachers track student progress not on a test-to-test basis, but on an objective-to-objective basis and measure which specific objectives students have mastered. This data then drives lesson planning.

Kimmelman, of Bridge International, also relies on learning level data. In randomized control tests, students at Bridge scored 60-100% higher on reading tests than their peers in similar schools.

To reduce the information gaps for all stakeholders, **Gray Matters Capital**, an offshoot of Gray Ghost Ventures, is pioneering a rating system for affordable public schools in Hyderabad.

“We are very excited about the notion of reducing the information asymmetries regarding these schools both for parents, regulators, investors and solution providers,” said Hardgrave.



A young boy studies at a school in Chennai, India.

Should Education be For-Profit?

While profiting off of education tends to be a touchy subject, a for-profit model can increase quality as well as accountability.

But what about profits? Hardgrave, a believer in the vibrancy of the market, is not afraid of earn-



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ing profits in the education space.

“There’s a huge opportunity here that no one has been brave enough to explore or creative enough to explore,” he said. “If there are a first few people that are blazing trails then I think there’s a lot of value in that because it’s not just the value of the service provided by the company in which has been invested, but there is a whole world being opened up to other imitators and adjacent models and other investors to come into. I think there’s incredible social value from early movers, and for every early mover that makes those wide margins, you’ll have your 10 that have lost their shirt trying to do it.”

In addition, because education is a game changer when it comes to poverty, Hardgrave estimates that the value created for students will surpass any profits earned by investors.

“If you add up what money might be made from a company like this and then added up the additional income earned from all the children impacted by such an investment over the course of their lives, then [the profit] is going to be dwarfed,” Hardgrave said [op](#).

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