

Education needs 'high impact' investors

Policy and fund constraints have stalled pedagogic and technological improvements. Debt-driven funds can make a difference

The Indian education sector sees a combined expenditure of more than \$ 100 billion annually. Yet, it receives a surprisingly small percentage of impact investments. Unitus Capital's *India Impact Equity Investment Report 2013* estimates that equity investments made in education account for less than 3 per cent of share value among other investments.

This approximation seems abysmally low. Over 250 million children are currently enrolled in schools. In less than a decade, a substantial proportion of these children will comprise India's working age population projected to become one of the largest and youngest in the world.

Education is highly valued across all income segments and households are prepared to spend a fair share of income on children's education. There has been unprecedented growth in the setting up of private schools, which currently account for 40 per cent of total student enrolment.

This data points to the need for far greater, good quality and impactful education solutions that cater to all segments of society. Why are we not seeing impact investors whose objective is to invest in socially relevant products for the low-income population?

And why are education companies/social entrepreneurs not interested (in terms of number and influence) in designing and distributing products and services that cater to this segment of children?

The challenges

Education enterprises and entrepreneurs who aim to provide products and services to government and affordable private schools face several challenges. Prime among them is limited access to government schools which is further complicated by drawn-out tender procurement processes, and long and unpredictable payment cycles.

Affordable private schools (APS) pose another set of challenges. Run by various organisations these constitute a highly fragmented market. However, what they have in common is a limited ability to pay for anything additional to what they have already agreed to source at the start of their operations: RTE requirements that prescribe the inclusion of certain kinds of infrastructure which involve costs; and the absence of clear academic standards for grade-appropriate learning which complicates an education company's ability to gauge and offer the right kind of tools and services that could be impactful.

When a company is able to circumvent these challenges it still needs to prove to schools that buy in to its pitch that its product or service has undeniable 'extra' value.

Measurable impact

Much like test prep companies and play schools which both enjoy sustained demand and a willing, paying clientele, education companies will have to clearly articulate what it is that a student will acquire in investing in their specific pedagogical product/service.

But is it possible to create a clear value articulation for pedagogical products and services aimed at school children?

Evolving a set of common benchmarks would be the first step to inch closer to this goal. The aim should be to set absolute levels of age and grade-appropriate competencies so as to measure relative improvements in student learning levels and thereby assess investee impact.

Companies that want to grow in scale will have to first demarcate what age-specific learning outcome they hope to improve. They will then have to follow it up with data much like what test prep companies do that proves how using their product improves a student's specific competency.

Another solution that educational enterprises can use in order to overcome their challenges lies in



Que sera sera What does the education basket have for them? PAVELSVOBODA/SHUTTERSTOCK.COM

roping in an otherwise overlooked and underestimated constituency — the parents.

Engaging the parents

Currently, a majority of parents looking for good quality, affordable education, continue to be uninformed of who their schools' service providers are and what potential impact they can create on their children's learning levels. If education companies can focus on facilitating this need by co-opting parents in their outreach efforts, parents will be far more willing to let their wards' schools invest in such products and services. This will give the enterprises the impetus to find firm ground to grow.

Systematic and continuous monitoring of results and publication of the efficacy of services will further help establish close ties with parents. Additionally, technological platforms, including mobiles, can be used to convey news and updates on children's progress unobtrusively and cost-effectively. Education enterprises can introduce

individualised child-level reports that can be made available through inexpensive digital platforms. They can also conduct workshops on the web or in person to familiarise parents with the latest tools or techniques to boost engagement at home. Together, these initiatives can help lend credence to the efficacy of pedagogical tools that the parents have 'bought in' to.

Early-stage investments

Collaboration in sales channels and in financing can help to address some of the costs associated with scale-up. The booming APS market is witnessing the growth of finance companies that offer loans.

Such companies are partnering with education product enterprises on their 'go-to-market' strategies. As a result, while the finance company gains a partner with a shared interest, the service provider gains access to an existing distribution channel easing its entry into the market. The way forward for investors will lie in their taking the lead in making risk-measured, early-

stage investments. However, what will be crucial in determining how they fare in their endeavours will be their ability to factor in some ground rules while evaluating risks and assessing potential.

In order to help kick-start greater investments in fledgling education enterprises, prospective investors should prioritise offering debt rather than equity investments. This will help the companies grow stably and sustainably.

It is just a matter of time before the education sector sees huge growth in terms of impact investments.

What it will take is responsible, educated choices by investors when venturing into the field and their close collaboration with social entrepreneurs and education enterprises in order to ensure that every child in every income segment gets an opportunity to avail good quality, affordable education.

The writer is the director of India Education, Michael & Susan Dell Foundation. The views are personal