



Aspen Network of  
Development Entrepreneurs



# Strengthening the Ecosystem for Edupreneurs in South Africa: Findings from a roundtable discussion

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*Photo courtesy of SPARK Schools*



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# INTRODUCTION

After the success of a global series of Aspen Network of Development Entrepreneurs (ANDE) roundtables on Strengthening the Ecosystem for Invention-based Entrepreneurship in Emerging Markets<sup>1</sup>, ANDE South Africa set out to replicate the model with a focus on edupreneurship (education entrepreneurship). This sector was chosen due to the increase in private sector initiatives both globally and locally that are aiming to solve education related issues<sup>2</sup>, the burgeoning need across all stakeholder groups to focus on education as a national priority and as the first in a global series of ANDE Edupreneurship roundtables set to take place in other chapters during 2015.

## Context and Aims

South Africa's education system is widely considered to be dysfunctional and is seen as a major hindrance to the country's development. ANDE believes that by leveraging the power of technology and innovation, entrepreneurs have the potential to address global challenges, including advancing opportunities for underserved communities to access education. ANDE members fundamentally believe that small and growing businesses (SGBs) can drive growth, promote equity, and support environmental and financial sustainability.

In line with this perspective, the project aimed to drive efforts that advance opportunities and/or support impact technologies that improve access to educational services in South Africa. The roundtable was designed to start a dialogue and build a community between different stakeholders to share knowledge, expose gaps and identify areas for collaboration. ANDE hopes that the effort will benefit the edupreneurship and SGB communities.

### What is Edupreneurship?

We use the term edupreneurship to refer to a subset of entrepreneurs that focus on developing products or services that aim to improve or solve education related problems. We have made this distinction, as we believe edupreneurs face a unique set of challenges that require further exploration.

For the purpose of this project, we focused on two types of edupreneurs: direct instruction models, e.g. schools, with a particular emphasis on Low Fee Private Schools (LFPS); and EdTech entrepreneurs, i.e. content and other service providers such as software and other technology platforms.

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<sup>1</sup> See [Impact Inventing](#) (Aspen Network of Development Entrepreneurs, 2014).

<sup>2</sup> [The Top 5 sectors for SA entrepreneurs in 2015](#) (SME South Africa, 2015) identified education as one of the top sectors for South African entrepreneurs in 2015. The UN Foundation's Global Accelerator named education as one of their top social entrepreneurship trends for 2015.

## Project Structure

The project had two phases – a research stage and the roundtable event. The two month research period began in January 2015 and was carried out with the help of Emzingo MBA fellows Laura Tobar and Zoraida Velasco, who undertook desktop research to identify key stakeholders and conducted targeted interviews in order to identify key constraints and challenges that edupreneurs in South Africa face. This helped to inform the agenda for the day-long roundtable event held in Johannesburg in March 2015. Dalberg Global Development Advisors also provided input into the design of the roundtable.

In the research phase, a non-exhaustive list of 150 stakeholders was identified and 33 interviews were carried out over a six-week period. A select group representing a broad range of stakeholders including funders, capacity development providers, university actors, government actors, and edupreneurs were invited to attend the roundtable. 33 people participated (see list below). The findings in this report are drawn from the preliminary research and are based on the roundtable discussion. Findings will be included in the ANDE global report on completion of the Edupreneurship roundtables in other ANDE chapters. This report will also be complemented by post-roundtable activities that the group identified in the final session of the roundtable (see Ideas for Action).

Findings in this report are divided according to the following discussion topics as per the interviews and roundtable: Access to Finance; the Regulatory Landscape; Infrastructure and Enabling Technologies; Markets and Demand; The Road to Scale: Human Capital and Skills; and Ideas for Action.

### What is a Small and Growing Business?

Supporting small and growing business is at the core of ANDE's mission. Small and Growing Businesses (SGBs) are defined by ANDE as commercially viable businesses with five to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from \$20,000 to \$2 million. SGBs differ from the more traditional characterization of small and medium enterprises (SMEs) in two fundamental ways. First, SGBs are different from livelihood-sustaining small businesses, which start small and are designed to stay that way. Second, unlike many medium-sized companies, SGBs often lack access to the financial and knowledge resources required for growth.

# FINDINGS

## Access to Finance

### Key Discussion Questions

- Is the funding landscape too risk averse, or is there a lack of investment ready opportunities for investors?
- Are there mechanisms to coordinate capital?
- Are existing financial instruments working and are government funds easily accessible?
- Can we leverage blended capital models and innovative financial instruments like Social Impact Bonds to de-risk investment?

In this session, it emerged that availability of funding is heavily dependent on the growth phase of the enterprise, with most funding available for more mature enterprises which are post-revenue and in some instances, post-profit, and largely absent at the early stage where softer, more risky capital is required. Some risk capital is made available by a small handful of local high net worth individuals (HNWIs) and a niche pool of international investors, but access to these networks is difficult and generally requires personal connections. Government funding (grant or other) is allocated based on strict criteria, and generally requires a demonstrable proof of concept to be eligible. Most money that is available for education projects is either focused on the public sector in the form of grants or invested in high-return / low-risk school models which serve the high-end market and often have high-value property portfolios attached. There is next to no early-stage venture capital in South Africa to fund start-up edupreneurs. The group felt that government has a role to play in funding at this seed phase by providing start-up capital but also paying for pilots, which if proven to be successful, can de-risk investments for private venture capital looking to invest in this space.

The second challenge concerns the legal structure of the ventures. Many organisations are forced to opt for a hybrid structure – a not-for-profit and a for-profit entity<sup>3</sup>, working in tandem, in order to raise funding from different sources. This is complex and costly. Related to this are the difficulties that entrepreneurs operating in township economies face in raising capital vis-à-vis those edupreneurs working in cities and suburbs. Edupreneurs starting schools in townships are perceived to be higher-risk for funders and generally set up as not-for-profits to attract grant funding. This however, deters commercial investors from investing in these schools. This may suggest a knowledge gap in terms of the returns, both financial and social, that are possible through investing in these schools serving lower income communities. Finally, a big challenge seems to be the ‘different language’ spoken by entrepreneurs and investors, a mismatch in terms of their expectations, and lack of understanding of each other’s needs and requirements.

### Recommendations

1. Do a **mapping exercise** of funding vehicles and investment opportunities which provides information about what is available at the different growth phases, and the needs and requirements of all parties.
2. Practitioners are encouraged to work with grant makers to look at deploying their capital as early-stage risk capital and replicate successful models to **make impact investing and patient capital more available and practical** in South Africa. Create pooled funds to fund risky innovations and expand niche investment with an education venture capital profile locally.

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<sup>3</sup> See [A Guide to Legal Forms for Social Enterprises in South Africa](#) (International Labour Organization, 2011)

3. LFPS models **should split the real estate element from the operations company**<sup>4</sup> to attract investment.
4. Set up investment structures that allow a blending of returns and expectations.
5. Adopt a **stakeholder approach and change mindsets** in order to speak the same language. Introduce HNWLs to the benefits associated with investing in edupreneurs. **Match edupreneurs to serial entrepreneurs** - the funder buys into the entrepreneur and the entrepreneur chooses a funder that **adds value**.
6. Further **explore social enterprise structures** that could ameliorate complexities of hybrid models, lower administration costs and incentivise funding flows into social businesses.
7. **Re-orientate Corporate Social Investment (CSI)** to initiatives that could be useful to edupreneurs and away from unsustainable, short-term corporate branding opportunities.

## The Regulatory Landscape

### Key Discussion Questions

- How does the environment hinder or facilitate business for edupreneurs?
- What is the extent of government support?
- What policies have been successful in incentivising edupreneurship?
- Should there be a government framework for social enterprises to reduce the complexity of hybrid legal structures?
- Does the school registration and UMALUSI accreditation process take too long?
- Subsidies. Are policy reforms necessary? Is legal and policy assistance available through bodies like ISASA?

The group identified two policy areas that act as barriers to entry for edupreneurs: independent school registration<sup>5</sup> and the Public Finance Management Act (PFMA)/supply chain regulations.

The LFPS stressed their frustrations around the time required for registration of a new school, mentioning the difficulty in having to secure a property far in advance (in order to meet registration requirements) of being able to start operations and earn revenue. In some cases this may mean that school operators are forced to operate illegally for a short time. This becomes less problematic once there is more than one school in operation and cash flow has been established. Edupreneurs also mentioned a lack of understanding of policies by officials themselves and inconsistencies such as last minute provincial registration date changes and petty corruption during inspections. The edupreneurs agreed that the Independent Schools Association of South Africa (ISASA) is very helpful to them during this process.

The second problem – specifically affecting EdTech entrepreneurs and those innovating around new products and services for the public schools system, is that the procurement rules in South Africa are not geared to encourage innovation or support trying out new approaches. EdTech entrepreneurs stressed the importance of this, stating that access to markets and customers (often government schools) was often more important to them than access to seed funding.

One important initiative which might be able to provide some access into the public schools system is the National Education Collaboration Trust (NECT). NECT is a multi-stakeholder effort to try to improve education outcomes in South Africa by overcoming barriers to learning in certain priority districts and in particular to try to ensure CSI spend increases its returns on investment in education. This presents a potential opportunity for edupreneurs, who have solutions to specific problems, to be able to test their ideas at scale in certain districts. This is beginning to happen but in limited

<sup>4</sup> A state funder suggested that they are more likely to fund the operations company as real estate is seen as risky.

<sup>5</sup> Independent schools need to register with the Provincial Education Departments (PEDs) after undergoing inspection.



cases and the processes for this are slow and cumbersome. It is understood that NECT is considering the role of contract and independent schools as part of a suite of solutions, but this is at very initial stages.

### *Recommendations*

1. **Streamline the registration process for new independent schools**, perhaps using ISASA as a voice, or building better linkages to government directly.
2. Organisations such as the Innovation Hub, as an agency of the Gauteng Provincial Government, are in a good position to **find solutions and package opportunities for government** to minimise barriers to access for EdTech entrepreneurs. This involves understanding what government needs and then presenting a suite of options to the decision-makers in the relevant department. A careful vetting process is required to avoid one poorly conceived concept weakening the group.
3. **Improve existing, and encourage more government-funded pilots**. Government is interested only in solutions that can be taken to scale, but it is very difficult for edupreneurs to get the access, permission or funding to run pilots at any sort of scale. Encouraging government to fund more pilots at suitable levels of scale to test efficacy early should be a priority.

## Infrastructure and Enabling Technologies

### Key Discussion Questions

- What are the infrastructure and cost-saving technology needs and challenges of LFPS?
- Is infrastructure readily available, and if not, what are the solutions (government or private sector)?
- Going digital – can Edtech edupreneurs serve challenges of LFPS? What is the interplay with the school structure, curriculum and content?
- Blended learning. Are optimal standards emerging?

### Infrastructure

For LFPS, there are pros and cons to owning versus renting infrastructure. The type of funder and the location of the schools also influence the entrepreneur's decision. For many funders who are looking principally to back an entrepreneur and a school concept, having to consider the additional costs and exposure of including buildings into their funding model, i.e. a property portfolio, is unappealing – not least as much of the investment will be tied up in infrastructure with little available for operating costs. Although owning property allows one to build up a balance sheet, renting allows for preservation of cash flow. That said, the option to rent is not readily available to LFPS in townships, as there are few buildings that are suitable. Existing government buildings in places like Soweto provide good potential options, but are hard to come by and slow to come up for tender. A lack of infrastructure in certain poorer areas has also perpetuated a trend towards LFPS catering for emerging middle class areas. Unless there is a direct government or other drive to free up existing buildings for schools, it will be very hard for the very low fee market to grow.

A number of entrepreneurs are exploring modular container schools as an alternative approach to overcoming the lack of appropriate infrastructure. In one example, which leverages a corporate CSI contribution and cross-subsidisation from a donor, the containers are used as classrooms by day and a movie theatre by night. While useful for a school in a small community, the capital injection required is still large, and the main savings comes from the de-risked construction time compared to bricks and mortar. Furthermore, there is often a negative community perception of this type of

infrastructure for a school<sup>6</sup> and the nature of CSI funding limits prospects for scale. Hence, the appropriateness of this, and other types of cost saving infrastructure, depends heavily on the intended purpose.

### Recommendations

1. **Encourage government to speed up the leasing of unused buildings** in township communities.
2. CSI might be better orientated to **support school projects that can have alternative uses**<sup>7</sup>.

### Enabling Technologies for LFPS

LFPS in South Africa make up a tiny percentage of the market and therefore the needs they have in terms of specific enabling technology is niche and very specialized. As such, the types of enabling technology (both hardware and software) that many of these schools are seeking, is not readily available in South Africa. The discussion revealed that the types of education technology useful for LFPS is limited in South Africa as many of these school models need to rely on a combination of cloud based solutions (decreasing reliance on expensive hardware), blended learning models (to decrease the reliance on human capital) and smart technology that can generate usable data in real time. This is not readily available in South Africa and is therefore generally imported. Local products tend to be designed to meet current South African problems. As a result the products available are generally content focused, and not particularly adaptive<sup>8</sup>. Software that reports data is hard to come by, and the local market is too small to incentivise local developers to develop bespoke products. For LFPS in peri-urban or township environments, WIFI costs are still a barrier, and offline instruction software is used.

### Recommendations

1. **Edupreneurs should approach universities** to exploit existing opportunities for collaboration. In particular, utilise existing Research & Development (R&D) to fund partnerships to develop appropriate software solutions for the market.
2. **More risk capital** is needed for EdTech to encourage innovation and disruptive technology for this nascent market.
3. Consider **open source platforms** to list challenges and find solutions<sup>9</sup>

## Markets and Demand

### Key Discussion Questions

- What best practices exist to gauge market demand for innovative education models?
- What are the challenges of targeting low income markets e.g. market building and field testing?
- What impediments exist to unlocking public sector markets?

The market size for independent schools was assessed in a recent Centre for Development and Enterprise (CDE) report and was found to be larger than expected. In the areas included in the study, up to 30 per cent of schools were private<sup>10</sup>, albeit often unregistered. However, in a market dominated by public school providers, market testing and piloting, as

<sup>6</sup> Containers may also prove problematic during inspections.

<sup>7</sup> According to a funder, creating alternative uses for buildings de-risks the investment and makes it more attractive to financiers.

<sup>8</sup> One LFPS said they are looking for a Learner Management System (LMS) that is integrated with a Financial Management system, to reduce administration costs and send automated information to parents.

<sup>9</sup> See the [Research Institute for Innovation and Sustainability's Solex](#) platform.

<sup>10</sup> See Affordable Private Schools in South Africa (CDE, 2015).

well as branding and awareness are areas that edupreneurs are currently trying to navigate. The session revealed learnings from the experiences of LFPS. In terms of market testing, one LFPS operating in a township conducted a pilot by hosting holiday camps. Initially parents were not charged a fee, and meals and transport were free. It was found that attrition was high and the impact hard to measure. Once a small fee was charged, parents held children accountable and attendance was higher. This revealed a willingness to pay for quality education. Finding the appropriate pay point continues to be done by trial and error and at least one school model uses a sliding scale, according to an Ability to Pay assessment. This particular LFPS calculates that with government subsidies (up to 60 per cent of the government rate per child for the poorest quintile schools), and attaining targeted payment levels, it can become profitable.<sup>11</sup> The importance of an appropriate Financial Management System (FMS) can help with not only fee collection and monitoring by sending automated responses to parents regarding fees, but also on attendance, grades and achievements, with the added benefit of encouraging parental involvement.

All the LFPS participants stressed that education and aspiration are closely linked and therefore in all the models selling a value proposition (and brand) was more important than stressing the affordability of the school. Word of mouth is very important in building the school's reputation for quality and often things that may seem less obvious – such as the school uniforms or appearance of school buildings – are what parents associate with quality. LFPS felt it was better to sell at an appropriate price point, and not explicitly as a low fee school.

### *Recommendations*

1. **Create a platform for LFPS to share experiences** and work with the system to change the rhetoric on what quality education entails. Demonstrate to parents the value of educational excellence, through media and other market influencing mechanisms.

## **The Road to Scale: Human Capital and Skills**

### Key Discussion Questions

- What are the gaps in the lifecycle of edupreneurs from concept phase to scale?
- What are the roles of academia, incubators and accelerators? Is there access to entrepreneurial education, mentorship, and talent?
- Is the lack of human capital a barrier to scale and what teacher training programs are developing?
- What collaborative opportunities exist and how can the ecosystem better support these practices?

For LFPS, human capital was cited as the number one factor that would determine their success and ability to scale.<sup>12</sup> The schools were unanimous in the view that there is a lack of teaching and other educational management skills in South Africa. This despite the fact that South African teachers are amongst the highest paid in the world. Technology offers a potential solution to low quality teachers. Many EdTech entrepreneurs are developing technology to break the dependency on human capital. LFPS are using technology to lower human capital costs, and are developing their own innovative professional development models to use with programs that provide technical content. In most instances, each LFPS is developing its own model in-house, but efficiencies might be achieved by sharing or outsourcing this development process.

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<sup>11</sup> This subsidy is relatively high compared to some countries with no subsidy, however, countries like Chile and Pakistan pay up to 90%.

<sup>12</sup> One school claimed that owing to a lack of skills, it was only able to hire 20 employees out of around 500 applicants. Growth beyond three of four schools would not be easily possible by 'hiring in' under existing competitive processes.

One solution being explored to build the skills base is to develop apprenticeship models. These models reduce the pedagogical requirements of qualified teachers, and equip people with fewer skills and with lower salary expectations, but who have a range of other aptitudes and skills such as leadership, to become coaches and facilitate the use of content programs effectively. Identifying these types of candidates is difficult and takes time, but key characteristics which are sought include: a desire for personal development, an ability to understand the pedagogy and content mastery. A shift may be required in the way teachers think about their profession. One model advocates for providing a rigorous structure (involving a clear competencies framework and career pathways), practice in the form of video lessons and coaching, and expert support. If apprenticeships are the answer, they too need to be scalable. One consideration is that, given the general requirements across industries for some of these more generic skills, perhaps a portion of the training could be offered across industries, with schools facilitating the specialised technical training required.

### *Recommendations*

1. **Internal knowledge sharing platforms** around teacher development programs that could produce a toolkit for the duplication of successful models to achieve Economies of Scale.
2. **Further research** and exploration into **apprenticeship models to scale**.

### **Ideas for Action**

#### Key Discussion Question

- What actionable project/s can members of the group collaboratively design for ANDE or participants to take forward to help create a more supportive ecosystem for edupreneurs?

The final session produced suggestions by the group for ANDE and others participants to take forward after the roundtable. ANDE, in partnership with members Dalberg Global Development Advisors and The Innovation Hub, is pursuing the following three Ideas for Action:

1. An **Edu-capital map or database** to gain an understanding of what funding and requirements are available at different growth phases of enterprises. This aims to bridge the divide between funders and edupreneurs. Dalberg Global Development Advisors will be leading on the project.
2. **Showcasing opportunity or 'Fashion Parade'** to foster and expose locally relevant, globally competitive entrepreneurs to a) access to customer/markets or b) access to advice, bundling or endorsement opportunities. The Innovation Hub is currently vetting and compiling a list of edupreneurs (excluding schools) to present to key access partners including the government and members of the CSI community at an ANDE supported event in June 2015.
3. **Influencing mechanism.** An ANDE-led closed breakfast session with influential investors and key corporate decision-makers to share ideas on the types of capital needs and investment opportunities in this sector.

Furthermore, the roundtable highlighted the importance of idea sharing and the opportunity for the edupreneurs to continue to do so, through an independent platform to learn from one another and strengthen their unified voice.

## Conclusion

There is growing activity in the edupreneurship space in South Africa. However, while the independent school sector in South Africa is growing, the market for high quality LFPS is small, and will remain so unless key funding (risk and patient capital) and support such as better policy implementation and access to infrastructure in township geographies is prioritised. For this to occur, a stakeholder approach is needed for support players in the ecosystem to fully comprehend the benefits, challenges and opportunities that are available.

For EdTech entrepreneurs, access to markets is crucial, and for this, government-paid pilots that package opportunities in a suite of options that meet the market's needs, can open up this customer base. Additional unexplored opportunities may exist for local EdTech entrepreneurs to serve the technology needs of LFPS. However, EdTech entrepreneurs need to understand the requirements of LFPS and need risk capital to develop solutions and software that not only reduce human capital costs, but also generate usable data.

Human capital remains the biggest challenge to scale for LFPS. All schools that participated in the roundtable are innovating in this area, developing their own teacher training and professional development programs. Apprenticeship models that train coaches (rather than qualified teachers) to instruct learners to use technology content platforms were considered as a solution to scale and research on best practice and cross-industry scalable models should be further explored.

Finally, the roundtable demonstrated that there are examples of LFPS in South Africa that are innovative, disruptive and scalable. Such schools have the potential to provide cheaper, more effective solutions that can provide an alternative to government in providing high quality education to all. Given the right kinds of support, such models have the potential to positively impact education outcomes in South Africa.

# APPENDIX

## Participant list

1. Jay Kloppenberg, African School for Excellence (ASE)
2. Nonhlanhla Masina, African School for Excellence (ASE)
3. Bridget Fury, ANDE South Africa (lead facilitator)
4. Lisa van Eck, ANDE South Africa
5. Erik Pretorius, Awethu Project
6. Owen Muzambi, Awethu Schools Programme
7. Nontobeko Sibisi, Bhubesikazi Investment Holdings
8. Vernon Mukasa-Batende, Bhubesikazi Investment Holdings
9. Jeremy Lang, Business Partners Limited
10. Tessa Yeowart, Centre for Development and Enterprise (CDE)
11. Errol Radebe, City Year South Africa
12. Devang Vussonji, Dalberg Global Development Advisors
13. Liesbet Peeters, D-Capital Partners
14. Faizal Ladha, Digiram Digital Learning
15. Ryan Harrison, eAdvance SPARK Schools
16. Stacey Brewer, eAdvance SPARK Schools
17. Andrew Bonfiglio, Emzingo Group
18. Chris MacLean, Emzingo Group
19. Nizenande Machi, Emzingo Group
20. Mignon Hardie, FunDza Literacy Trust
21. Stuart Bartlett, Industrial Development Corporation (IDC)
22. Vineet Bewtra, Omidyar Network
23. Ali Sweet, Pioneer Academies
24. Chinezi Chijioke, Pioneer Academies
25. Siphon Marala, Small Enterprise Finance Agency (SEFA)
26. Melanie Smuts, Streetlight Schools
27. Rosie Chirongoma, Symphonia for South Africa
28. Gary Bannatyne, The Innovation Hub
29. McLean Sibanda, The Innovation Hub
30. Kershni Maharaj, Raizcorp
31. Nicholas Glicher, Thomson Reuters Foundation
32. David van der Walt, VizierMaths
33. Chimene Chetty, WITS Business School