The Fortune at the Bottom of the Pyramid in Education

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March 2012
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Abstract: Since the publication of The Global Education Industry (Tooley, 1999), a number of important developments have taken place in this emerging sector which help to shed further light on the changing role of the profit motive in the design and delivery of education in low income communities across the developing world. This working paper will briefly examine the work of the late C.K. Prahalad and its relevance to education; the growth of chains of budget private schools; the development of ecosystems for wealth creation in education and finally the United Nations and its changing attitude towards the profit motive in education.

Key words: bottom of pyramid, profit motive, C.K Prahalad, budget private schools.

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1. Introduction

Since the publication of The Global Education Industry (Tooley, 1999), a number of important developments have taken place in this emerging sector which help to shed further light on the changing role of the profit motive in the design and delivery of education in low income communities across the developing world. This working paper will briefly examine the work of the late C.K. Prahalad and its relevance to education; the growth of chains of budget private schools; the development of ecosystems for wealth creation in education and finally the United Nations and its changing attitude towards the profit motive in education.

2. C.K. Prahalad and the bottom of the pyramid

The growth and development of budget private schools in developing countries previously documented by James Tooley (Beautiful Tree, 2009), has coincided with a more widespread increase in interest in the role of for-profit companies in helping to serve the basic needs of the poor across the developing world. A leading light in documenting this trend over the previous decade was the late C.K Prahalad (1941-2010), whose publication The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits (2004), helped to challenge the complacency of both company directors who were ignoring the majority of the world’s population living on low incomes and development experts who have traditionally been highly sceptical and suspicious of for-profit companies especially when they attempt to engage with poor communities.¹

Prahalad rejected the traditional approach to international aid which often assumed that the poor were helpless victims in desperate need of humanitarian assistance. A new approach was therefore required which recognized that the estimated 4 billion people who live at the bottom of the pyramid (BOP) on less than $2 a day were not simply beneficiaries of charitable hand-outs but resilient entrepreneurs and value-conscious consumers. The strength of this new approach was that it tended to create opportunities for the poor by giving them better access to the products and services that were previously reserved for those on higher incomes. For-profit companies can therefore help to raise the living standards of those at the bottom of the pyramid, whilst also generating a profit - a genuine win-win situation.

¹ Numerous books have been published since including: Make Poverty Business - Increase Profits and Reduce Risks by Engaging with the Poor by Craig Wilson and Peter Wilson, November 2006; Sustainability Challenges and Solutions at the Base of the Pyramid Business, Technology and the Poor, edited by Prabhu Kandachar and Minna Halme September 2008; Inclusive Business: A New Strategic Paradigm at the Bottom of the Pyramid Markets: a case study analysis, Marco Bucheli, 2009; Next Generation Business Strategies for the Base of the Pyramid by Ted London and Stuart Hart, November 2010.
The remarkable growth in the use of mobile phones in developing countries over the previous decade has helped to reinforce Prahalad’s message that the profit motive can be harnessed to do good and that there is a market for world-class goods and services amongst the poor if they can be made available at affordable prices. Across the developing world mobile phones are now being used to pay bills, transfer money, combat AIDS and allow farmers to access prices and offers from traders. They are also being used to allow millions of users who don’t have access to traditional banks to open saving accounts, earn interest on their money and access credit and insurance products. Safaricom’s M-Pesa in Kenya is the most famous example which has attracted 9.4 million Kenyans in three years. While in 2000 there were approximately 15,000 mobile phone handsets in Kenya, this has since increased to over 20 million, representing half of the population. As a result Safaricom is now East Africa’s most profitable company, with profits of $370m in 2009, which commentators suggest is partly due to Safaricom’s strategy of targeting low-income users. Taking this into account it is perhaps hardly surprising that research is now showing that increasing the number of mobile phone users in a country can help to increase the rate of economic growth. As noted by Mohammad Yunus: “when you get a phone it is almost like having a card to get out of poverty in a couple of years”. Finally, it is important to note that the size and nature of the mobile phone market has been influenced to a certain extent by the regulatory environment which exists in each developing country. In countries that have liberalised their telecoms’ markets and broken up state monopolies then there is a much higher rate of mobile phone use, compared to those countries which restrict foreign investment and other providers from entering the market.

In order to transform low income communities into consumer markets, Prahalad highlights the importance of creating the capacity to consume. First, he is critical of the traditional approach of providing products and services free of charge as this often has the feel of philanthropy; while charity may feel good it rarely solves the problem in a scalable and sustainable fashion. Second, Prahalad suggests that traditional products, services and management processes will not work. Instead companies must learn to innovate and take into account their customers low and irregular cash flows. For example, a pay per use business model will allow customers to pay low costs for each use of a product or service and therefore encourage consumption and help to increase access and choice to an increasing number of branded consumer products. Instead of assuming that the poor cannot afford certain products and services and so don’t represent a viable market, the emphasis

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must now shift towards recognising their willingness to pay and to thinking about how to bring the benefits of global standards at affordable prices.

Finally, while much of the focus in the BOP literature has been on how individual companies can best serve the poor in developing countries, significant attention has also been given to the importance of developing an ecosystem surrounding these companies – a network or community of different organisations (for-profit, non-profit, private, public) which all play an important role in helping the company to deliver the finished product or service. Prahalad’s simple message is “don’t go it alone” and he concludes by suggesting that the key stakeholders in this debate need to have a change in mind-set as the dominant logic of each group is continuing to restrict their ability to see the opportunities which now exist.

While the first section of Prahalad’s publication focused on explaining the rationale behind increasing private sector involvement in the fight against poverty, section two and three showcased examples of private companies in a variety of different markets serving large numbers of low income families. This evidence was impossible to ignore and it quickly made any blanket condemnation of for-profit companies operating in these markets untenable. The remarkable growth of microfinance and the use of mobile phones in developing countries has also helped to reinforce Prahalad’s message that the profit motive can be harnessed to do good. These developments therefore raise an intriguing question - is it now possible to apply to education the same level of innovation, ecosystem development, and focus on affordability that has occurred in other markets including the market for mobile phones?

3. The BOP approach to education for all

In his 2004 publication, Prahalad identified education as one of a number of BOP markets which were now emerging as a major opportunity. Two years later this was reinforced when Tooley’s essay “Educating Amaretch: Private Schools for the Poor and the New Frontier for Investors” won the first prize in the IFC and Financial Times’ first annual essay competition ‘Business and Development: Private Path to Prosperity’. Tooley recommended that the development community could assist the poor by extending access to private schools through targeted scholarships and vouchers and private investors could also contribute through ‘microfinance-type loans, dedicated education investment funds and joint ventures with educational entrepreneurs, including the development of brands of budget private
schools to help solve the information problem facing poor parents. Acting as one of the judges, Prahalad announced the prize with the following comment:

Getting education right is a universal aspiration. Mothers around the world, both poor and rich, aspire for their children to get a good education. The poor want choice and they are willing to pay for good service.

Together with an extract from Tooley’s essay, the *Financial Times* also published the following editorial which highlights the increasing frustration with the prevailing consensus and the need for fresh thinking:

Without literacy and numeracy, people are doomed to a life of poverty. Development experts know that. So, too, do parents. Disgusted by corrupt and incompetent public sector provision, many of the world’s poorest people are turning to private sector alternatives. This is a fascinating development, on which the world should now build. Almost everybody knows that governments cannot run factories, farms or shops. But many people still expect them to do a first-rate job of delivering education. They are deluded. Poor parents have realised this already. They have also done something about it. . . . Education is not, as has long been believed, too important to be left to the private sector. It is, instead, too important to be left to failing public monopolies. The private-sector revolution empowers the one group of people that cares about the education of children: their parents. Outsiders – both official and private – must build on the initiative the poor have shown.

While such statements will sit uncomfortably with many development experts, they are now helping to attract increasing interest from a variety of different private organisations from around the world, which are now looking at how to apply the BOP approach to help increase access to education to some of the poorest people on the planet.

Perhaps one of the more surprising aspects of the current education for all debate is the fact that a global solution was agreed and implementation attempted by the international community without any involvement of what many would describe as the most important players, the key stakeholders and those who are primary responsible for the education of children – their parents. While development experts often have strong opinions on how they believe other people’s children in developing countries should be educated, it is remarkable that those who are ultimately responsible for children’s education play no role in the key decision making processes. Not only is very little if anything known about the nature and

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6 Educating the Poorest, *Financial Times*, 17th February 2007
kind of education that individual parents want their children to receive, but there also appears to be very little interest in giving parents a much more prominent role. It is simply assumed and taken for granted that all parents across the developing world are in desperate need of a government school, compared to a variety of different alternatives.

However, according to a report published in 2009 by the Monitor Group, ‘[t]he most common mistake among unsuccessful market-based solutions involves confusing what low-income customers or suppliers need with what they want. People living at the base of the economic pyramid should be seen as customers and not beneficiaries’.7 This will apply in particular to education: if the BOP approach is to be applied to the ongoing search for “education for all” then this process must start by respecting parents as customers and not simply as beneficiaries of charitable donations. Placing parents at the centre of their children’s education and giving them the dignity and respect which they deserve will therefore be of paramount importance.

Furthermore, the BOP approach to education for all must also reject the idea that the only option for developing countries is to follow in the footsteps of developed countries in terms of educational development. For the previous half century, international agencies have been promoting, championing and ultimately exporting the nineteenth century Western model of free and compulsory government schooling across the developing world. However, very few development experts have been prepared to stop and ask whether this is a sustainable method of funding education in developing countries and also if this is what parents in developing countries actually want. This approach is also based upon the assumption that a government monopoly in education is the optimal solution, which developing countries also deserve to benefit from. The implication is that there are very few if any important lessons to be learnt from how developed countries have guaranteed education for all in the past.

However, it is interesting to speculate what would happen if governments in developed countries were given a blank sheet of paper and asked to redesign their education systems from scratch. How many governments would simply reintroduce the same bureaucratic “one size fits all” government monopoly? Or how many would take advantage of the opportunity and choose to redirect public funds to parents and encourage a competitive education sector with a variety of different providers? The fact that many developed countries are now looking to dismantle their nationalised systems of education, also highlights the fallacy of encouraging developing countries to follow in the same earlier footsteps and therefore make exactly the same mistakes.

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Just as it makes little sense to try and sell to BOP markets products and services designed for affluent markets in the West, exactly the same principle applies to education. Instead, developing countries must now look to leapfrog and innovate. An example of best practice is the mobile phone sector, where developing countries have simply leapfrogged the use of land line telephones and gone direct to the widespread use of mobile phones which are more effective, efficient and affordable. The task now facing those in education is to apply the same level of innovation, ecosystem development and a focus on affordability to education which was previously applied to telecommunications.

According to the prevailing consensus those who live at the bottom of the pyramid have very little income and simply cannot afford to pay school fees. As a result this problem can only be resolved by abolishing all school fees irrespective of many parents willingness to pay. This attitude is rejected by the BOP approach which instead focuses much more attention on creating the capacity to consume and transforming how education is designed and delivered in order to make it much more affordable.

Two important developments in the application of the BOP approach to education for all include the extension of microfinance services into private education markets and the appearance of a small number of chains of budget private schools. Both of these developments are now helping to increase access to private schools and make them more affordable.

4. Microfinance in education

As previously noted by Tooley in *Educating Amaretch* (2006), a creative new frontier for investors has now emerged to meet the increasing demand for microfinance services within this low cost private education sector. In 2008, one of the world's largest microfinance companies Opportunity International also introduced its Microschools of Opportunity programme, which provides loans to education entrepreneurs or “edupreneurs” to help expand and set up new private schools serving low-income communities. Critically to help these schools become sustainable, Opportunity International also provide business advice on record keeping, finance and accounting methods, and compiling legal documentation. Microschools are now operating in fifty locations in Ghana and nine in Malawi and they intend to expand into several other countries across Africa and Asia. Opportunity International's Banking on Education initiative also offers school fee loans to parents which enables them to pay school fees over a period of time which is more compatible with their cash flow. School savings accounts for children are also being developed which will hopefully encourage families to save money for their children's education. Both of these
initiatives will help to make education more affordable for children in the developing world. Opportunity International is seeking to raise an additional $10 million to help finance the expansion of its Banking on Education initiative and hopes to provide increased educational opportunities to over 250,000 poor children by 2012.

EduLeap is another new microfinance organization which hopes to help edupreneurs lift their communities out of poverty. As well as providing microfinance services, they will look to provide business and teacher training and curriculum tools to help improve the quality of education being provided. EduLeap hopes to raise $20 million to finance the education of 1 million impoverished children over the next seven years and an additional 3 million children over the following five years. According to their website its efforts ‘are predicated on the fundamental notion that the poor are already finding ingenious ways to help themselves’.

These private sector developments have followed in the footsteps of projects such as the IFC’s Africa Schools Program which has been providing debt and risk sharing investments to banks in a number of African countries. The International Finance Corporation (IFC) is the world’s largest multilateral investor in private education sectors in developing countries and they have also been providing advisory services to its banking partners to help strengthen their capacity to lend to the education sector and also to private school borrowers to improve their creditworthiness. By reducing risks the IFC is hoping to encourage banks to increase their lending to private schools across the continent. Commenting on the developments in Africa over the previous decade, IFC’s Guy Ellena suggests that there has been a considerable increase in the recognition of the significant contribution that private education can bring:

For example, in Ghana, Kenya, Nigeria, Senegal, and Uganda private school enrolment is up from 15 percent to over 40 percent. Many governments are actively encouraging private sector growth while remaining aware of the need to ensure that such provision meets appropriate standards and quality benchmarks. Entrepreneurs and philanthropists are bringing new perspectives and innovative approaches to the sector.

To encourage financial institutions to lend to creditworthy but underserved borrowers in developing countries, USAID uses the Development Credit Authority (DCA), which offers financial institutions a variety of guarantee agreements which are designed to encourage lenders to expand their lending to new sectors and regions, or to improve loan terms. The DCA therefore provides ‘a flexible tool for opening sustainable sources of financing that support the development objectives of the U.S. government’. Critically, experience shows that when a USAID guarantee expires, the financial institutions involved often continue to lend to the same

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8 EduLeap website (http://eduleap.org/What_We_Do.html).
10 Credit Guarantees Promoting Private Investment in Development - Year in Review 2009, p.4
borrowers that they had previously perceived as unqualified. Furthermore, competing financial institutions often enter the same market, increasing competition and improving terms for the borrowers. The intervention therefore helps to change attitudes and so it becomes sustainable in the long run.

Since DCA was established in 1999, more than 234 partial credit guarantees have facilitated over $1.9 billion of private capital debt financing in more than 70 countries and through the DCA guarantee mechanism, USAID has been able to leverage an average of $30 in private sector funds for every dollar spent by the U.S. Government. While the majority of these credit guarantees have been used to strengthen agriculture, finance water and infrastructure, support microfinance and improve food security, some have been used in education. Two recent USAID collaborations are worth noting. First, in October 2009 USAID and Grameen Foundation announced a new agreement that will make $162.5 million in local currency financing available to microfinance institutions across the developing world. This will enable these institutions to continue making loans to small businesses and entrepreneurs at a time when credit market are tightening. According to USAID’s Acting Administrator Alonzo Fulgham ‘increasing access to finance enables the world’s poor to improve their own lives, and this partnership will enable millions more to lift themselves out of poverty’\(^{11}\). Second, in March 2010 a memorandum of understanding was signed between USAID and the Swedish International Development Agency (SIDA) which formalizes an agreement by the two agencies to enter into joint guarantees to support financing to entrepreneurs throughout the developing world. As noted by Dr Rajiv Shah from USAID ‘one key advantage of credit guarantees is that they promote sustainable lending that capitalizes not on donor resources, but on resources that already exist in developing countries’\(^{12}\). Again, the focus is on promoting self help and sustainability.

In May 2010 Gurcharan Das, former Managing Director of Procter & Gamble and a well known author and commentator in India announced that he would now lead the education arm of SKS, a leading microfinance institution\(^{13}\). Disappointed with badly performing government schools and the impact that this has on the poor, Das suggests that budget private schools now provide a viable alternative. SKS are therefore looking to develop a system of SKS schools that only charge 175-200 rupees and cater for more than a million poor children from the same families who take loans from SKS. The example of a microfinance institution creating its own chain of budget private schools also raises the interesting question of which other private institutions or large multinational corporations might also follow suite in the near future?

\(^{11}\) USAID Press Release, October 21\(^{st}\) 2009.

\(^{12}\) The Huffington Post, Helping people to help themselves, March 26\(^{th}\) 2010.

\(^{13}\) Gurcharan Das supports education through Microfinance, Microfinance Focus, May 24\(^{th}\) 2010.
As there are now estimated to be over 60 million microfinance clients around the world, this approach of encouraging these clients to invest in their children’s education appears to have great potential. Such schemes have also been recommended by Khumawala (2009), who suggests that a scholarship fund can be created for the clients children; when the loans are being repaid a percentage of each payment is placed in the fund which is then matched by a payment from the microfinance company.

5. Emerging chains of budget private schools
The most exciting development to occur in this private sector revolution in education concerns the growth of a number of chains of budget private schools which have ambitious plans to expand nationally and then across the developing world. For example, Bridge International Academies (BIA) was set up in Kenya in 2009 with a mission to revolutionize access to affordable, high-quality primary education for poor families across Africa. By July 2011 twenty two schools had been opened in the slums of Nairobi and the company now has plans to rapidly scale the company and expand across Sub-Saharan Africa. By 2015 they hope to have a total of 1800 schools serving more than one million families. To enable an expansion of this size they have introduced a “School in a Box” model which provides each new local school manager with a detailed step-by-step set of instructions on how to set up and manage a new school. Some of the key features of this model include the following: the time from conception to opening is 5 months; school buildings are constructed for less than $2,000 per classroom; parents are charged 295 Kenyan Shillings ($4) per month which is estimated to be less than the unofficial fees charged at local free government schools; each school will be able to enrol up to 1000 children and will expect to become profitable within one year of opening; students attend school each weekday from 7:30 a.m. to 5 p.m.; both school managers and teachers are employed from the local community and while their base salaries are low they receive bonuses for increasing enrolments and the on-time payment of school fees; and finally detailed lesson plans are developed at the head office with a particular emphasis on ensuring that children have a good understanding of English.

An important initiative introduced by BIA concerns the use of a custom-built automated computerized student payment system which allows parents to pay school fees using a mobile phone. This technology is also used to manage the majority of each school’s financial transactions, helping to create a “cashless school system”. The head office

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15 Bridge International Academies (www.bridgeinternationalacademies.com/).
therefore distributes school budgets and teacher salaries by mobile money transfers and parents are also expected to pay school fees in the same way. As no money is handled within each school, teachers are restricted from demanding extra payments and parents are also asked to report any demands for such payments to the head office.

To help fund its ambitious expansion plans BIA have also succeeded in attracting a significant amount of private investment from a new generation of impact investors including: Deutsche Bank Americas Foundation; Omidyar Network; Jasmine Social Investments; d.o.b foundation; LGT Venture Philanthropy; Hilti Foundation; and Learn Capital. According to Matt Bannick, Managing Partner of Omidyar Network, BIA provides a compelling example of high-impact entrepreneurship which is “not only extending access to education, but also serving as a model of how others can ignite social change through for-profit innovation”. Following the lead taken by these impact investors, more established companies are now beginning to take an interest, including Pearson who became a significant minority investor in BIA in March 2011. As these school chains begin to grow and develop we should expect more national and global companies to follow Pearson’s lead. BIA (a for-profit company with ambitious plans to expand) is therefore helping to attract an entirely new source of private investment into education and providing a new opportunity for private investors from around the world to make a positive contribution to the development of education in the slums of Nairobi, Kenya. According to JP Morgan, the potential size of investment in the primary education market alone over the next 10 years could be $4.8–$10bn, with an estimated profit opportunity of $2.6–$11bn.

In Ghana, Omega Schools\textsuperscript{16} is another new chain of budget private schools which describes itself as a for-profit business with a social mission ‘to create private schools that benefit low income families and empower aspirations of those at the bottom of the income pyramid’. After the first Omega School was launched in 2009, the number of schools had increased to ten by 2011 and the company now plans to expand the chain across West Africa. An important innovation pioneered by Omega Schools has been the introduction of the daily fee which caters for the many parents that cannot afford to pay monthly or termly fees. This fee covers tuition costs, uniform, books, transport, a de-worming programmes and a hot meal. Each child also receives fifteen free school days a year and an insurance policy which guarantees that every child will complete their schooling in the event of the death of a parent. The popularity of the pay per use business model applied to schooling is highlighted by the fact that the demand for places at each new Omega School has been high and the same model is now being introduced by a number of competing private schools in the local

\textsuperscript{16}Omega Schools (\url{www.omega-schools.com/}).
area. As noted on their website, Omega Schools is now looking to introduce ‘rapid incremental innovations that, if successful, will not only yield benefits to our students, but will also have the potential to be widely replicated, yielding benefits to learners outside our system’. The Omega Schools innovative Pay As You Learn (PAYL) model combined with very low overheads has allowed the company to break even in 2011. These ten schools are therefore financially self-sustainable and do not depend on any external funding from governments or international agencies. This is a remarkable achievement and it confirms that when schools are given the space and freedom to develop they can flourish without government support.

This example therefore helps to shed light on how the profit motive in education can help to benefit not only the children attending the school introducing a new innovation but also children attending different schools, which may subsequently copy or imitate the same innovation. A process of continuous innovation which is normally associated with more competitive sectors of the economy is therefore slowly beginning to emerge in these new education markets. Research published by the Monitor Institute (2011) has identified Omega Schools as an ‘emerging phenomenon with high potential to counter the causes and consequences of global poverty’ (Monitor Institute, 2011, p.26). Again, this is not simply referring to the potential of Omega Schools operating in complete isolation. Instead it also takes into account the transformative effect that opening an Omega School could have on other schools operating in the local area. After the multiplier effect has been taken into account, it becomes much easier to see how an innovation introduced in one school can be quickly imitated by other local schools and eventually across an entire nation. With the increasing use of the internet then perhaps it won’t be long before a new innovation can spread across the global education industry within a matter of weeks.

The cashless school and the daily payment of school fees are two innovations that are already beginning to address the issues of financial mismanagement and the lack of transparency and affordability which have plagued public education sectors in developing countries over the previous half century. The fact that the above two companies have developed and then put into practice these two innovations in less than two years shows how entrepreneurial talent, private investment and the profit motive can have a positive impact in this sector within a relatively short period of time.

A number of chains of budget private schools have also recently emerged in India, the country which is now most closely associated with this private sector revolution in education. For example, SKS Microfinance now run approximately 60 SKS Bodhi Academies in Andhra Pradesh which provide English medium education to 3000 children from rural villages at a
cost of 160-220 rupees per month. Education is from pre-nursery to second standard and a “play way method” of teaching is used in classes of no more than 25 children. An initial pilot was carried out to better understand parental needs and expectations and to examine how each school in the chain can deliver the same standard of education irrespective of differences in location and teacher quality. The company is now looking to develop a system of schools that cater for more than a million poor children from the same families who take loans from SKS. As there are now estimated to be over 60 million microfinance clients around the world, this approach of encouraging microfinance clients to invest in their children’s education clearly has great potential.

Another new entrant in the Indian market is Educomp Solutions which was founded in 1994 and had since become India’s largest education software company. Its new VidyaPrabhat Schools are being built in small towns and remote areas across India and they aim to provide affordable schooling (Rs. 700 per month) that will blend the latest innovations in education technology with traditional Indian knowledge and values. To optimise the use of infrastructure they will operate on a shift system with primary classes in the morning and secondary classes in the afternoon and each school will benefit from access to Educomp’s numerous software applications including: Smartclass; Mathguru; Wizlearn; Aha!Math; EasyTech and Aha!Science. This example therefore raises the possibility of some schools leapfrogging the traditional model of schooling and instead introducing a blended style of learning which combines both traditional teaching with an online virtual experience.

The above developments in this emerging sector help to shed light on some important differences between government and for-profit provision in education. First, the different approaches, methods and models being introduced by these new chains suggests that the profit motive will help to encourage diversity and a variety of different models of schooling, with each model reflecting the nature of the environment in which they operate. Second, for-profit provision appears to be encouraging a willingness to experiment and try new things. Therefore instead of schools looking towards the Ministry of Education for direction and inspiration, each separate company is now investing in R&D to help continuously improve how they manage their schools, use technology and deliver particular subjects. R&D will therefore become much more driven by the specific needs of each different education company. This lies in stark contrast to the vast majority of research carried out in many government education sectors, which often takes place within a university department with little or no contact with local schools. The way in which these new school chains organise and manage their R&D activities may prove to be an important factor which will help to determine whether they achieve their full potential and develop into a national or global chain.
6. Case study: Gray Ghost Ventures

The one organisation which has perhaps gone furthest to apply the BOP approach to education for all is an impact investment company based in Atlanta, USA, called Gray Ghost Ventures (GGV). This is one of a new generation of impact investment firms which is dedicated to providing market-based capital solutions to entrepreneurs who serve the needs of low-income communities in developing countries. As one of the earliest private investors in microfinance, they are now building on this experience “to invest collaboratively in innovative, early stage enterprises that contribute to the well-being of low-income communities in emerging markets and provide an attractive financial return”. According to GGV, impact investing attempts to combine financial return with positive societal impact and the idea that an investment is more than financial is now gaining momentum.

The Indian School Finance Company (ISFC): Recognising the potential in the rapidly expanding market for affordable private schools across India, Gray Ghost Ventures identified financing as one of the key barriers to the growth within the sector. To address this need, they established the Indian School Finance Company (ISFC) to provide capital to low-cost private schools and to help thousands of entrepreneurs and school proprietors bring educational opportunities to low-income communities across India. In January 2009 ISFC therefore began to provide medium-term loans at market rates to low-cost private schools, operating in Hyderabad, Andhra Pradesh. Loans are targeted at increasing school capacity and student learning and are combined with a management training program for school owners. The average loan has been approximately US$24,000, and they are being used to expand school infrastructure and capacity. This allows the school to increase enrolments which increases school revenue and therefore their ability to repay loan obligations. They hope to expand their operations to four more cities across India by 2011.

Gray Matters Capital: Gray Matters Capital (GMC) is the charitable arm of Gray Ghost Ventures (GGV), and is committed to “strengthening the ecosystem around the emerging affordable private school sector to ensure that schools have access to affordable tools and resources that allow them to offer quality education in a sustainable manner and to establish industry standards”.17 GMC therefore complements GGV’s provision of financial services by investing in a number of initiatives that look to enhance the operations of affordable private schools. Again sustainability is identified as a key part of GMC’s social philosophy and the cornerstone of each of the following initiatives.

Affordable Private School Initiative: The Affordable Private School Initiative seeks to expand the knowledge base and mobilise financial resources as a means of enhancing and

17 Gray Matters Capital website (www.graymatterscap.com/)
monitoring the contribution of the private sector. Some of the questions being addressed include:

- What is the profile of private schools in the country with respect to number, institutional type, population served, geographic location and quality vis-à-vis public schools?
- How are affordable private schools organised and regulated?
- How are affordable private schools financed and what are their capital constraints?
- What public and private interventions are needed to improve their capacity to serve low income families and improve educational quality?

According to GMC their research has shown that basic education in the developing world can be a fee-for-service industry, where families are considered clients instead of beneficiaries of charity. Gray Matters Capital are initially focusing their attention on the growing market for private schools in India and they aim to measure performance and learning outcomes in 1,000 private schools in Hyderabad by 2011. If its pilot project is successful in Hyderabad, then they will look to expand its activities across India. As part of its Affordable Private School Initiative, a business model has also been developed which identifies the following unique qualities that define an Affordable Private School (APS):

- Locally Managed: APS are managed by local entrepreneurs who oversee operations and instruction and ensure teachers are in the classroom.
- **Market-Based Solution**: The combined business and academic model makes these schools a sustainable, market-based solution to increasing the availability of low-cost, higher quality education for low-income populations.
- **Demand Driven**: Families of APS students are paying clients with rights to insist on quality.
- **Sustainability**: APS are sustainable enterprises, independently managed, providing a reliable source for education.
- **Competition**: Schools generate market demand and drive intense competition through school selection.
- **Performance**: Schools are social enterprises and put an emphasis on quality, efficiency and performance, justifying the modest tuition charged that allow them to become sustainable enterprises.

**A Rating and Accreditation System**: Recognising that there is a lack of information concerning the nature and quality of services which affordable private schools provide, Gray
Matters Capital is currently working with Micro-Credit Ratings International Limited (M-Cril) to develop “a sustainable rating system to help stakeholders better assess schools and the quality of education they are providing”. The rating tool will look to measure six categories or indicators including: quality of teaching and the learning environment; family/community engagement with the school; management of the school; financial sustainability and infrastructure development.

The aim is to develop a system which will be simple enough so that it can be applied to any school and still provide parents, regulators, school managers and investors with a better understanding of each school and an accurate description of the services being provided. If such a rating system was to develop into an industry standard then it is hoped that this will encourage schools to continually strive to increase their rating score by continuously improving the quality of services which they provide.\(^{18}\)

**Global Affordable Private School Symposium:** In October 2009, GMC hosted the first Affordable Private School Symposium in Hyderabad, India, which had the following objectives:

- Define APSs and why they are important
- Understand school/industry needs from the practitioner perspective
- Build framework around support for industry
- Discuss challenges facing the industry and how to best address them

The event was attended by representatives from the Dominican Republic, Ecuador, Ghana, Kenya, India, the UK and the US and a similar conference will now take place each year.

**EnterprisingSchools website:** Finally, Gray Matters Capital have also recognised the important role which the internet can play in helping to collect and communicate knowledge and experience in this emerging market. Its EnterprisingSchools website is therefore defined as follows:

EnterprisingSchools is a global online community where professionals in the affordable private school industry can connect, exchange information, share expertise and develop best practices. The community was created for schools, donors, financial institutions and education experts as a platform to discuss relevant topics, identify market opportunities and needs, and develop greater understanding of the affordable private school industry\(^{19}\).

While still in its embryonic stages this website will look to bridge the gaps which currently exist between academics, development experts, international agencies and the private sector. It’s clear that Gray Ghost Ventures are now beginning to blaze new trails in this

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\(^{18}\) It will be interesting to see how this private grading system compares to the one being developed by Afroeducare for the Ugandan government, which intends to grade each of the 2000 plus private secondary schools in Uganda. See ‘Govt to grade private schools’, Issac Khisa, *The Monitor*, Uganda, 18\(^{th}\) February 2010.

\(^{19}\) Enterprising Schools website ([www.enterprisingschools.com](http://www.enterprisingschools.com)).
emerging sector and they are likely to be followed by more private companies who also share similar interests and ambitions.

7. Developing ecosystems for wealth creation in education

As previously noted by Prahalad, companies looking to enter BOP markets should not do so alone and this applies in particular to companies looking to enter education markets in developing countries. An important player in these new ecosystems or networks in education will be organisations providing a variety of different financial services. In *Educating Amaretch* (2006), Tooley suggested that a creative new frontier for investors was now emerging to meet the increasing demand for microfinance services within this low cost private education sector. This was reinforced in 2008 when Opportunity International, one of the world’s largest microfinance companies, introduced its Microschools of Opportunity programme which provides loans to education entrepreneurs and business advice on how to succeed and run a school which is financially self-sustainable. As the timely repayment of loans will depend on how each loan is spent and how successful each school becomes, Opportunity International has a clear interest in helping each school to succeed. Microschools are now operating in fifty locations in Ghana and nine in Malawi and they intend to expand into several other countries across Africa and Asia. Opportunity International also offers school fee loans to parents which help them to pay school fees over a period of time which is more compatible with their irregular cash flow. School savings accounts for children are also being developed to help encourage families to save money for their children’s education. All of these initiatives will help children across the developing world to gain access to a quality of education which national governments and international agencies have previously been unable to provide.

This initiative therefore represents a new development in charitable giving, where funds are used to help develop a new market, improve the way it works and make it more attractive to potential private investors. If these charitable investments can help to kick start a new industry then they clearly have the potential to have a much greater long term impact than a traditional charitable donation which may only be focused on providing an immediate and short term impact. This use of charitable funds also corresponds with Prahalad’s insistence that where government subsidies, international aid, and charitable donations are to be used then ‘our goal should be to build capacity for people to escape poverty and deprivation through self-sustaining market-based systems’ (Prahalad, 2009, p.8).

Another example of how a charity can help to support a self-sustainable market-based system in education can be found in the slums of Nairobi, where Scholarships for Kids (SFK)
has introduced the first scholarship program dedicated to helping children gain access to a local fee paying private school. SFK have designed a model which addresses many of the issues which continue to undermine donor confidence in traditional development projects, including the lack of transparency, the misappropriation of funds and money failing to reach those most in need. For example, schools chosen to be included in the scheme must maintain certain standards and scholarship children must maintain an excellent attendance record or the scholarship is withdrawn. In order to encourage participating schools to be self-sufficient, SFK also has a policy that permits no more than 15% of school places to be funded by its scholarships which helps to protect the long term sustainability of each private school. As a result because the vast majority of the schools income will still come from fee paying parents, then the school will still be expected to be competitive with other schools and provide value for money. It is this self-reinforcing mechanism that will hopefully guarantee that those children who receive a scholarship will receive a valuable educational experience. SFK is now in a position to provide potential donors with a cost effective and accountable service, which guarantees that their donations will be used to fund the education of those children most in need and does not undermine the sustainability of each private school.

It is clear that the growth and development of these networks of different organisations, from microfinance companies to scholarship charities, are going to play a critical role in helping education companies develop and manage large chains of private schools. This suggests that any discussion about the potential role of the profit motive in education must also take into account the important role being played by these supporting organisations, including non-profit charities and foundations.

8. The United Nations and the profit motive in education

Together with helping to challenge the political consensus in international development, C.K Prahalad also played an important role in helping to encourage a number of UN agencies to embrace a much more pro-business approach in its fight against global poverty. In July 2003 Prahalad joined the United Nations Development Programme (UNDP) Commission on the Private Sector and Development which examined how the private sector and entrepreneurship can best be unleashed in developing countries. The Commission’s report, *Unleashing Entrepreneurship: Making Business Work for the Poor* (2004), found that while the private sector was already meeting the needs of the poor in difficult to reach and remote places, it was also clear that entrepreneurs in developing countries often faced significant regulatory and licensing hurdles. The report concludes by calling for fresh thinking about international development which is unconstrained by ideology and unhinged from previous
counterproductive debates about the public sector versus the private sector. Instead, the core message was simple - the Millennium Development Goals, including guaranteeing universal access to primary education, will not be achieved without engaging the private sector and unleashing the power of entrepreneurship.

Building on the success of this report, the UNDP launched its Growing Inclusive Markets (GIM) initiative in 2006 to help demonstrate how doing business with the poor can mutually beneficial. Its first report, Creating Value for All: Strategies for Doing Business with the Poor (UNDP, 2008), identified 50 successful businesses across the developing world that generated a profit while also achieving a positive social impact. The concept of an inclusive business model was also introduced which includes ‘the poor on the demand side as clients and customers, and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit’ (UNDP, 2008, p.2). The link between expanding private sector involvement in education and reducing poverty and promoting human development was also reinforced - where poverty is defined ‘not simply as a lack of income, but more fundamentally as a lack of meaningful choices’ and where the basic purpose of development is ‘to enlarge peoples choices’ (UNDP, 2008 p.20).

In its second global report, The MDG’s: Everyone’s Business (2010), the importance of for-profit companies is again reinforced, this time in relation to achieving the Millennium Development Goals (MDGs), including guaranteeing universal access to primary education. Quoting research published by Tooley & Dixon (2005), the report confirms that private education has expanded dramatically over the last two decades and that in some low income areas in India and Africa, the majority of school-children are now enrolled in private schools. Private companies are therefore encouraged to ‘[p]rovide affordable, high-quality education by running schools in slums and rural areas’ (UNDP, 2010, p.24). This will allow companies to utilise their specific processes to promote innovation and therefore act as a ‘conveyor belt for innovative solutions’. Furthermore, increasing private sector involvement in the delivery of education will mean that successful approaches can be replicated in different countries, instead of being confined to one geographical area. This is an important

20 http://www.growinginclusivemarkets.org/
21 Numerous different initiatives have been introduced to help support, document and encourage the growth and development of inclusive business models, including: the International Finance Corporation’s (IFC) Inclusive Business Group (www.ifc.org/ifcext/advisoryservices.nsf/Content/BOP_Inclusive_Business); WBCSD-SNV Inclusive Business Alliance (www.inclusivebusiness.org/); International Leaders Business Forum (ILBF) Inclusive Growth Programme (www.iblf.org/en/programmes/Inclusive-Growth.aspx) and Monitor Group Inclusive Markets initiative (www.mim.monitor.com/).
benefit of increasing private sector involvement in the delivery of education which is seldom discussed in the literature.

The United Nations have also introduced a number of pro-business initiatives including Business Call to Action (BCtA) and Business.un.org - a website which allows companies to identify partnership opportunities and submit ideas for collaboration. A common theme which links all of these initiatives together is the concept of the inclusive business model, which acknowledges the ability of for-profit companies to serve low income communities, while at the same time generating profit. According to the WBCSD-SNV Inclusive Business Alliance, ‘an inclusive business is an economically profitable, environmentally and socially responsible entrepreneurial initiative, which integrates low-income communities in its value chain for the mutual benefit of both the company and the community. It seeks to improve the livelihoods of low-income populations while increasing returns to the company’ (2011, p.12). For example the International Finance Corporation (IFC) has recently documented the growth of the ‘Value for Money Degrees’ model which makes university education accessible to all through a combination of innovations that increase affordability and value. An example is Anhanguera in Brazil which educates 650,000 students a year on its campuses and 100,000 students online (IFC, 2011). The Monitor Group has also documented the ‘Private Vocational Training at the Seam’ model, which enables private vocational colleges to provide low cost, no-frills, quality further education courses. In South Africa more than 700 private colleges currently provide learning opportunities for over 700,000 students (Monitor Group, 2011, p.75-87).

These policy developments within the UN and the wider development community therefore represent a significant change in direction for an international agency that has traditionally looked to national governments to finance and deliver education. The world of business was either largely ignored or seen as part of the problem. For example, writing in 2009, Prahalad states that ‘[u]ntil recently, little attention was paid to the role of the private sector in poverty alleviation. The Millennium Development Goals were originally developed without recognition of the role that the private sector could play’ (Prahalad, 2009, p.5). With the benefit of hindsight this is a remarkable statement as it suggests that the vast majority of the international community had previously been attempting to ‘make poverty history’ without taking into account the role of the private sector, an approach still being used at the turn of the millennium. The timing of this change in direction by the UN is also referred to in a report published by the UN Global Compact Office, which states that direct cooperation between the private sector and the UN emerged in the late 1990s in response to ‘the complexity of global problems, the scarcity of resources and the failure of multilateral mechanisms to address these issues’ (UN Global Compact Office, 2010,p.6). It is perhaps
ironic that the UN had previously justified increasing levels of government planning because of the increasing complexity of global problems. Today, it is this same complexity which is now making central government planning redundant.

Finally, it is also important to recognise that the UN is not alone in recognising the potential of for-profit companies to transform the way education is provided to those living at the bottom of the pyramid. In recent years The World Bank, USAID and DfID have all updated and adapted their strategies on education to take into account the recent growth in private sector provision. The recent growth of a new impact investment community also suggests that there are now an increasing number of philanthropic foundations and venture capitalists who are beginning to invest in BOP markets around the world, including education. Vinod Khosla, the Indian born billionaire and co-founder of Sun Microsystems, is a good example of someone who now invests in companies that profit the poor and still generate a profit themselves. According to Khosla, while the intentions of governments, international agencies and non-profit charities are not being challenged – their ability to get things done in a sustainable way certainly is. He now plans to start a venture capital fund to invest in companies that focus on the poor in India and Africa by providing services like health and education.

The need for new thinking has also been recognised by Bill Gates who has previously championed the concept of "creative capitalism", which he has described as "an approach where governments, businesses, and non-profits work together to stretch the reach of market forces so that more people can make a profit, or gain recognition, doing work that eases the world’s inequities" (Gates, 2008). And it’s not just business leaders who are beginning to challenge the consensus. For example, according to Pope Benedict XVI, the traditional distinction between for-profits and non-profits can no longer do full justice to reality or offer practical direction for the future. After recognising the growth in number of businesses with a social mission, the Pope concludes:

This is not merely a matter of a "third sector," but of a broad new composite reality embracing the private and public spheres, one which does not exclude profit, but instead considers it a means for achieving human and social ends. Whether such companies distribute dividends or not, whether their juridical structure corresponds to one or other of the established forms, becomes secondary in relation to their willingness to view profit as a means of achieving the goal of a more humane market and society (Pope Benedict XVI - Caritas in Veritate, 2009).

This approach also corresponds with the thoughts of Jim Fruchterman, a veteran social entrepreneur in the US who believes that ‘[s]electing a legal structure is not a question of
moral purity. I am structure agnostic: I believe that for-profit and non-profit structures can both be good vehicles for improving society’ (Fruchterman, 2011).

9. Conclusions

There is a growing sense that this is a sector worth looking at. It is time to be bold and try new things. Harry Patrinos, World Bank.

If development agencies are to meet their promise to embrace the private sector as a legitimate partner in the ongoing search for education for all, then a change in approach will now be required. A useful insight into what this new approach will look like is provided by the way the United Nations approaches the task of guaranteeing the right to food, and food for all. The UN’s Food and Agricultural Organisation (FAO) was established in 1945 with a mandate to raise levels of nutrition and to improve agricultural productivity. Food was recognised as a basic human right in Article 25 of the 1948 Universal Declaration of Human Rights and also in Article 11 of the 1966 International Covenant on Economic, Social and Cultural Rights. At the World Food Summit in 1996 the UN reaffirmed the fundamental right of everyone to be free from hunger and the right of everyone to have access to safe and nutritious food. Member states therefore pledged themselves to achieve Food for All, with an immediate objective of halving the number of undernourished people by 2015.

While the FAO states that the primary responsibility for ensuring the right to adequate food and the fundamental right to the freedom from hunger rests with national governments, they also state that this does not mean that governments have a duty to distribute food to all their citizens. Instead, they have an obligation to respect the right to food by not interfering with individuals’ efforts to provide for themselves, and should help those who do not already enjoy the right to food by creating opportunities for them to provide for themselves. It is only after these safeguards fail to secure food for all that a government has a responsibility to provide food, but only to those unable to help themselves. However, an alternative is also recommended; governments may also issue food vouchers, which may be much more cost-effective.

According to Margret Vidar, FAO’s Legal Officer, the state’s obligation to fulfil the right to food comprises the obligation to facilitate and the obligation to provide:

The obligation to facilitate means that it should create and maintain an ‘enabling environment’ within which people are able to meet their food needs. Facilitating enjoyment of the right to food does not necessarily mean direct state intervention in all

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aspects of the food system. But the state can take steps to ensure that private markets are able to perform well.  

According to FAO, national governments can take a number of measures to promote private food markets without resorting to direct food assistance, including reducing barriers to obtaining trade licences, making it easier for companies to enter the market, reducing value-added taxes to keep food prices affordable and by introducing legislation prohibiting monopolies.

The question of how this approach will operate within the existing human rights framework has also previously been outlined by the Special Rapporteur on the Realization of Economic, Social and Cultural Rights, Danilo Türk. In a 1992 report, Türk reflects on the need for new approaches in implementing social and economic rights and under the sub-heading ‘Creating standards or creating space?’ he raised the question of whether the United Nations should perhaps focus more on the creation of space than on creating standards:

Creating political, legal, social and economic space, implying the expansion of access to space, to decision-making, to individual, family and community choices and to de facto opportunity to assert, demand and claim economic, social and cultural rights are processes at least as critical to the attainment of these rights as is the creation of new legal or quasi-legal standards.

As Türk suggests, creating space recognizes the fact that a significant proportion of the obligations associated with economic, social and cultural rights are negative in nature, implying that government has a duty not to intervene in certain areas of people’s lives. The creation of space therefore does not require substantial government expenditure, but instead requires a government to create the conditions necessary for the eventual fulfilment of these rights, and so ‘[t]he creation of space by Governments can, in fact, lead to improvements in the livelihood of citizens by simply allowing people to create their own solutions to their own problems’. According to Türk, this approach also recognizes the frequent inability of governments to intervene sufficiently or provide the necessary resources for these rights to be widely enjoyed. The government should allow these processes to flourish, while simultaneously acting in full accordance with any international obligations concerning these rights.

Therefore, when this approach is applied to education, governments will have an obligation to create and maintain an ‘enabling environment’ within which parents are free to exercise their right to choose how their children should be educated. This places a further obligation.

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23 FAO website (www.fao.org/FOCUS/E/rightfood/right2.htm).
25 Ibid, para.192.
on governments to respect the rights and responsibilities of parents by not interfering with their efforts to help themselves. Creating space for education to develop will therefore allow parents to create their own solutions to their own problems. A critical role of government will be to ensure that private education markets are allowed to perform well by: establishing and maintaining a fair and level playing field; reducing barriers to entry and making it easier for new schools to enter the market; restricting monopolies; reducing all forms of taxation on schools; and removing all unnecessary and bureaucratic regulations. In circumstances where parents are unable to help themselves, then governments and international donors can address this problem through the issue of vouchers or scholarships.

There is now common agreement that the Millennium Development Goals (MDGs) will not be realised until the private sector is recognised, accepted and supported as an important and legitimate partner. In June 2010 the UN Deputy Secretary General even went as far to suggest that it was now a ‘moral imperative and a practical necessity’ for business to play its part in helping to meet the MDGs and he hoped that the need to create a regulatory environment in which the private sector can flourish was now at the top of each government’s agenda.

In education, if the private sector is to be recognised as a legitimate partner and if private schools are to be allowed to achieve their full potential then every developing country will need to make significant changes to the way in which they regulate their private education sectors. Fieldon and LaRocque (2008) suggest that the following questions are likely to dominate this sector for the foreseeable future:

- What are the potential regulatory barriers to private sector growth from both an educational and financial sector perspective?
- What are some possible policy initiatives that would address these barriers?
- What are the key elements to be addressed in developing regulatory frameworks for private provision?
- Are there examples of good practice among existing policies?
- What are the specific regulatory issues that need to be addressed to facilitate new and innovative educational partnerships between the public, philanthropic, and private sectors?

Therefore, instead of focusing on how to inspect, regulate and punish private schools, national governments now need to focus on creating an enabling environment which will

26 It Is ‘Moral Imperative’ for Business to Play Its Part in Reaching Millennium Development Goals, Deputy Secretary-General Tells Global Compact Summit, Press Release, UN Deputy Secretary General, June 24th 2010.
27 Fieldon and LaRocque The Evolving Regulatory Context for Private Education in Developing Countries World Bank Discussion Paper, 2008.
encourage private schools to grow and flourish. However, before any changes can be introduced, more information about what currently exists will be required. The following questions will therefore need to be addressed:

- What are the current regulatory frameworks that low cost private schools currently operate under – including regulations from both local and national government?
- How do the regulations on paper reflect the regulations implemented in practice?
- What are the costs of meeting these regulations and what role does corruption and bribery play?
- Which regulations do entrepreneurs and private schools find most difficult to comply with?
- What initiatives can governments introduce to promote and encourage the growth and development of private schools serving low income families?
- How can national and local governments encourage entrepreneurs to set up schools in their local communities?

Development agencies should therefore begin to work with national governments to help them deregulate their private education sectors. Funding research to address the above questions will be an important start.

There are also a number of governments who are now taking a lead and introducing a number of innovative proposals. For example, the Government of Punjab in Pakistan is encouraging the participation of the private sector by “giving a package of incentives in the form of land at cheaper rates along with other facilities”28. The Ministry of Education in Tanzania is also looking to embrace the role of the private sector, as suggested in the following statement:

The government role is now changing from that of a key player to that of a facilitator in the provision of education. This new role of the government provides a more conducive environment for the private sector to increase its investment in education.29

Tanzania’s Vision 2025 document also recommends encouraging private investment at the local level in order to tap peoples creative capacity; introducing cost sharing, fees and cost recovery measures; creating an enabling environment for greater participation of a diverse array of participants in the provision of education; introducing public subsidies or loans for the poor.

29 The United Republic of Tanzania website (www.tanzania.go.tz/educationf.html).
children who cannot afford school fees and finally introducing tax rebates, priority land allocation, and duty free import of school materials.  

Together with these examples in education, considerable experience in the deregulation of other sectors now exists within the international community. For example, the World Bank’s Doing Business project documents and compares the regulations that enhance business activity and those that constrain it in 183 countries. Expertise and examples of best practice from other sectors should therefore be used to inform efforts to deregulate private education sectors.

References

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30 The Tanzania Development Vision – 2025. This document also refers to the damage done in Tanzania by what is described as a defeatist developmental mindset which has resulted in an erosion of initiative and lack of ownership of the development agenda. This external dependence and the erosion of confidence, dignity and determination have ‘demobilized the ability to effectively utilize human, physical and mental capacities to take initiative and to earnestly search for creative options to solve developmental problems’.