CDE INSIGHT

Affordable Private Schools in South Africa

Private schools for the poor are a global phenomenon. In Nigeria, Kenya, Ghana, Colombia, Chile, India and elsewhere parents are deserting failing public schools and 'edupreneurs' are emerging to meet local needs. South Africa has a small but growing low-fee private school sector. Between 2000 and 2010 the number of public schools declined by 9 per cent, while the number of independent schools grew by 44 per cent (from a much lower base). Growth in low-fee private schooling will accelerate. How do we make these schools more affordable?

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The Centre for Development and Enterprise is one of South Africa's leading development think tanks, focussing on vital national development issues and their relationship to economic growth and democratic consolidation. Through examining South African realities and international experience, CDE formulates practical policy proposals for addressing major social and economic challenges. It has a special interest in the role of business and markets in development.

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Executive Summary

South Africa has a small, but growing, low-fee private schooling sector. In January 2013, CDE hosted a workshop that focused on the changes taking place in the low-fee private schooling sector, and the proceedings are summarised and elaborated upon here. It emerged that there is more potential in low-fee private schooling than many imagine, and that with proper facilitation its scope for growth is great.

The key workshop question was how the changing nature of the sector can best be harnessed to increase access to private schooling by a wider range of communities, especially those in poorer neighbourhoods. The event focused on four main areas: investment in the sector by the Public Investment Corporation and Old Mutual; organic and unplanned growth of the low-fee private sub-sector to meet growing demand; the emergence of formal 'chains' of low-fee schools which yield economies of scale (including BASA, Curro, Spark and Nova); and the use of technology in low-fee private schools both as an educational innovation and a cost reduction intervention.

Affordable Private Schools in South Africa

The independent schooling system is very diverse. There are two key sub-divisions: registered and unregistered independent schools. By law, all independent schools must be registered with the relevant provincial education departments to operate legally, but there are many unregistered schools. There are different reasons unregistered schools exist: many of them have never tried to be registered, but others have tried to navigate the complex regulatory environment with no success. Registered schools are then divided into non-profit schools (which are the majority) and a smaller, but growing, number of for-profit ones. Registered, non-profit independent schools are the only ones that can receive state subsidy, but not all qualify, and their level of state subsidy is according to their fee level. This subsidy is never more than 60 per cent of the equivalent cost of government schooling, even when the parents of children attending are poor.

In the past few years, there has been significant expansion of independent schooling in South Africa. The Department of Basic Education (DBE) figures point to growth of 1,4 per cent in learner enrolment in public schooling during the decade of 2000 to 2010, as compared to 75,9 per cent growth in independent school enrolments (albeit from a much smaller base). Between 2009 and 2012 alone, 118 295 more learners entered independent schools. In terms of schools, the public school sector has actually been shrinking; between 2000 and 2010 the number of public schools declined by 9 per cent, while the number of independent schools (again, from a much smaller base) grew by 44 per cent.

However, it is quite likely that the official figure is an undercount of the private or independent schooling sector. As in many developing countries, the official databases are not accurate or up-to-date. The Independent Schools Association of Southern Africa (ISASA) estimates that in 2013 there are more than 2 500 independent schools. The statutory quality assurance body, Umalusi, has recently estimated that there are some 3 500 independent schools that they have to quality assure.

*Affordable private schools offer an alternative schooling option in poorer communities. Sometimes public schooling is unavailable but, even when it is, public schools are often seen as undesirable by parents. Growing numbers of parents are looking for a different schooling ethos or a better standard of schooling instruction (or both). CDE's initial research in 2010 (*HIDDEN ASSETS: South Africa's low-fee private schools*) surveyed six areas of the country where on average 50 per cent of the population lives in poverty, and discovered that more than 30 per cent of the schools in these areas were private. Compared internationally, however, South Africa still has a long way to go in terms of the proliferation of such schools. Moreover, some interventions to support the low-fee private sub-sector are only in their infancy here. For example, advancing the ability of entrepreneurs/principals to offer fee structures that are accessible to very poor parents; and establishing structures that enhance school quality and provide economies of scale. Developing countries such as India, Nigeria and Kenya often have private schooling rates of over 60 per cent of learners, at fees far less than the average in South Africa, thus enabling these schools to reach the truly poor and not just the working class.*

Since 2010, South Africa has seen significant growth in the independent schooling sector with new players emerging and the formation or expansion of new school chains. Although South Africa's mid-fee and low-fee sub-sectors are diverse in their market orientation, client base and scope, and although their numbers remain relatively small, they still offer valuable insights into future possibilities. In the January 2013 workshop, CDE focused upon school chains: Curro Holdings, Spark Schools, Nova Schools and BASA. All of these chains are using innovative approaches to schooling. This includes centralised administration, a focus on leadership, the introduction of more technology for blended learning, safety in the school grounds and quality of instruction.

There are currently 21 000 learners in Curro schools ranging from pre-school to Grade 12. Curro aims to grow to 80 schools by 2020 accommodating 100 000 learners. They have recently bought a privately run teacher training college producing some 1 000 teachers per annum to serve the needs of their schools. Curro Holdings, which listed on the JSE in 2011, now has a market capitalisation of some R5,4 billion. In July 2012 the Public Investment Corporation (PIC) and Old Mutual Investment Group SA (OMIGSA) joined forces with Curro in an attempt to boost the affordability of independent schooling in South Africa with the aim of expanding high-quality low-fee education.

Spark Schools was launched by young entrepreneurs in 2013, and aims to become a network of low-fee, non-profit private schools, implementing Africa's first blended learning model (i.e. an approach that integrates instruction, combining face-to-face classroom teaching with computer-mediated activities). Spark has learned from successful American experiences, and aims to grow to 64 schools in the next 10 years.

In 2012 the Commonwealth Education Trust, a charitable organisation that invests in primary and secondary education in the developing world, approved the launch of an education venture in South Africa – Nova Schools. They will be supported by a central hub, named Summit Education. They intend to start the first schools in the Western Cape in 2014, and expect to bring the programme to scale, with a full cluster of schools, within three to four years, reaching full cluster capacity of approximately 3 600 learners two years after that.

BASA Educational Institute Trust sets up and operates formal independent primary and secondary schools in working class areas. This black-owned school chain was established in 1992. They have 160 educators, and run *four schools in Soweto, the Johannesburg inner city and Diepsloot, catering to 5 000 learners per year. In March 2013, the PIC and OMIGSA signed an agreement to finance BASA Educational Institute Trust schools that will renovate and expand BASA's Soweto-based Protea Glen Primary School and develop a new high school. These two schools aim to educate 2 400 learners a year.*

With the growth of the sector, one of the primary questions remains around affordability. To which communities are the new chains affordable? There is much innovation and work to be done in further reducing the cost of schooling and making the low-fee sector even more affordable to the poor. By international standards, South Africa's low-fee schools are not often catering to the very poor, with fees of less than R7 500 per annum being considered low-fee here. This is more than double the amount which is considered as low school fees in India. In India 'budget' private schools charge annual fees of R2 000 and less. In Kenya, a chain of low-fee schools charges only R360 per annum.

A major driver of the establishment of chains of schools is the potential for achieving economies of scale. In most other developing countries low-fee schools offer only basic physical services in order to keep costs low. In reducing costs, there are many factors to consider, including the cost of building school facilities and the regulatory costs of compliance with government rules. In addition there is the issue of state subsidy, which is substantially less for these schools than for government schools. Currently, the only affordable schooling option for many of the very poor, are unregistered low-fee schools, which do not receive a state subsidy.

Current implementation of government policy in the independent/private schooling sector is uneven. There have been serious allegations that some provincial education departments have not been paying the required subsidies to registered independent schools. In 2012 in response to an urgent request by National Alliance of Independent School Associations, the South African Human Rights Commission and Public Protector initiated an investigation into five provinces that had reduced unilaterally their subsidies to independent schools. In April 2013, the Constitutional Court ruled that KwaZulu-Natal's education department must pay back some of the subsidies which they had cut by 30 per cent in 2009. This sets a legal precedent for further court action, and the Court's judgement was favourable towards the independent schooling sector in regard to subsidies. It has been estimated that the provincial education departments' failure to correctly implement subsidies has had a negative impact on over 130 000 learners.

Although South Africa has achieved near universal access to schooling there are still insufficient schools for all children. Expanding the independent schooling sector presents a solution to both the access and quality challenges, especially in the case of low-fee schools that can reach un- and underserved children. However, there are several levers that need to be addressed if the sector is to grow in the most effective way. Increasing the available income to low-fee private schools through review of subsidies, finding new financing models and building upon infrastructural and instructional innovations all have potential for enhancing the sector, and reaching even more learners.

While there is resistance to independent schools or a lack of capacity to implement the legislation correctly in many of the provinces, the national Department of Basic Education is supportive of independent schools, as are *some of the provinces. They recognise the value added and cost-savings to government, as well as the need for partnerships and collaboration to improve the quality of the education system as a whole.*

Concluding Remarks

Schooling systems need diversity and experimentation. Affordable private schools should be welcomed in South Africa as they have been in many other developing countries in Asia, Africa and South America. All of the global evidence points to the further and rapid expansion of these kinds of schools. This is a development to be welcomed.

Public policy should be as facilitative as possible while maintaining regulatory oversight in the expenditure of public money. However this oversight should be appropriate, and it is important that there is 'a level playing field' with respect to government and non-state schools. The growth of this sector and the many positive contributions that are being demonstrated by the existence of these schools should now be matched by two developments. The first is a re-examination of government regulation and financing to enable further growth of the affordable private schooling sector. The second development concerns a re-orientation of corporate social investment to include this important and growing sector of schooling, especially in poorer communities.

This could complement the growth in 'development impact' investments. In December 2011, Old Mutual set up a trust worth R1,2 billion, the Schools and Education Investment Impact Fund of South Africa (Schools Investment Fund) that focuses on commercially acceptable returns on investment for low-fee schools. A major contributor to this fund is the Government Employees Pension Fund, through the PIC. The R400m deal with Curro Schools and the agreement to provide R60m to BASA are signs of growing interest within the private sector on the importance of encouraging low-fee private schools for the poor. However, private philanthropy and corporate investment interventions need to be carefully thought through so as not to undermine important self-sustaining dynamics within much of the sector. (See an earlier CDE publication released in 2012: PROMOTING SCHOOL CHOICE FOR THE POOR: Practical ideas from international experience*).*

Introduction

South Africa has a small low-fee private schooling sector: it is small relative to the size of schooling in South Africa as a whole, and the private low-fee share is small compared to other developing countries. The optimal size of a private school sector is a matter of considerable debate, but there is evidence from many countries around the world to suggest that a strong and vibrant private sector can significantly contribute to the improved overall performance of the schooling sector.

In 2010 the Centre for Development and Enterprise (CDE) released a major report on this phenomenon in South Africa, *HIDDEN ASSETS: South Africa's low-fee private schools*, and this was followed by a second publication in 2012 entitled *PROMOTING SCHOOL CHOICE FOR THE POOR: Practical ideas from international experience*.[1] In essence the first report revealed that low-fee private schooling was more widespread in South Africa than many in South Africa (including in government) knew; and the second pointed out the numerous obstacles that South African low-fee schools encountered by comparison with other developing countries.

Early in 2013, CDE organised a public event to learn more about new developments in this growing and dynamic sector in South Africa. It brought together almost a hundred experts and practitioners involved in expanding and strengthening the country's independent schools. The presentations focused on changes that are taking place in the low-fee private schooling sector. These changes are:

- Investment in the sector by large financial (and in some cases public) institutions (including the Public Investment Corporation and Old Mutual);
- Organic and unplanned growth of the low-fee sector to meet a growing demand;
- Emergence of relatively new, formal 'chains' of low-fee schools (including BASA, Curro, Spark and Nova) which yield economies of scale; and
- Use of technology in low-fee private schools as an innovation and a cost reduction intervention.

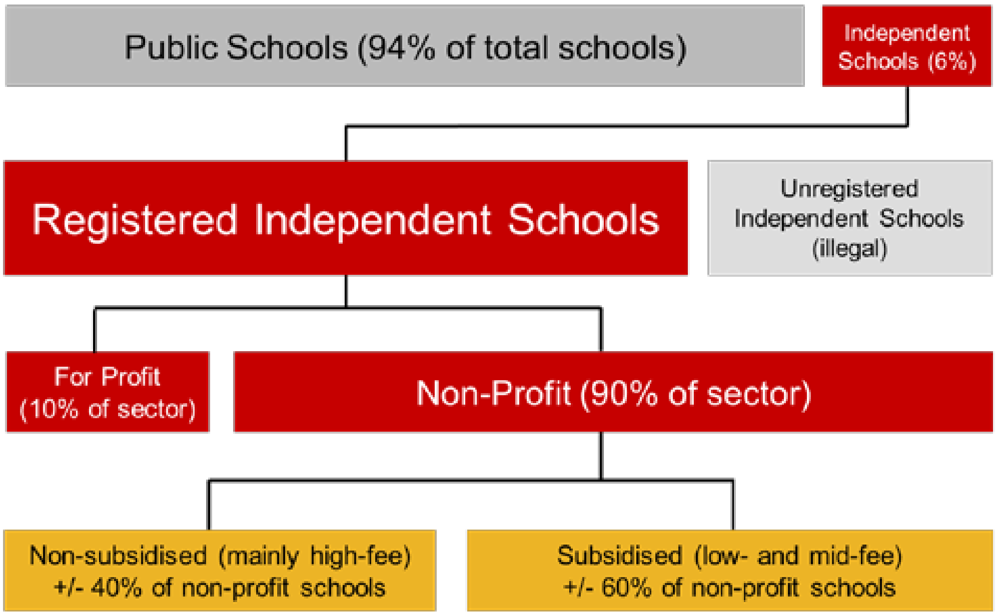
The key question for discussion was how the changing nature of the low-fee private sub-sector can best be harnessed to increase access to private schooling by a wider range of communities, especially in poorer neighbourhoods. This short publication builds upon the presentations and discussions at and after the event.

Affordable Private Schools in South Africa

There is a global move, in both the developed and developing world, to utilise market dynamics to address gaps in the education sector. Individual entrepreneurs and various organisations are increasing innovation, access and choice by providing affordable private schooling to middle class and working class families. This trend has also emerged in South Africa and private schools for poorer people are becoming an increasingly important part of what is known as the independent schooling sector.

The diagram below provides an overview of the independent schooling landscape according to the official figures (however see page 7 for discussion of the accuracy of these statistics).

FIGURE 1: SOUTH AFRICAN SCHOOL SECTOR 2013



SOURCE: ISASA 2013

The first key sub-division in the sector is between registered and unregistered independent schools. By law, all independent schools must be registered with the relevant provincial education departments to operate legally, but there are many unregistered schools. There are different reasons unregistered schools exist: many of them have never tried to be registered, but others have tried to navigate the complex regulatory environment with no success.

Second, the sector divides into a majority of non-profit schools and a smaller, but growing, group of for-profit ones. Third, non-profit independent schools can be divided into state-subsidised schools and non-subsidised ones, according to their fee level.

The new face of independent schooling

Rapid growth in independent school learners

According to the 2012 official figures from the Department of Basic Education (DBE), there were 1 571 independent schools making up 6 per cent of all schools in South Africa and 4 per cent of pupils.[2] The DBE figures show minimal growth of 1,4 per cent in learner enrolment in public schooling in the decade of 2000 to 2010 but 75,9 per cent growth in independent school enrolments.[3]

Just between 2009 and 2012, 118 295 more learners entered independent schools.[4] In terms of schools, the public sector has actually shrunk: between 2000 and 2010 the number of public schools declined by 9 per cent, while the number of independent schools (from a much smaller base) grew by 44 per cent.[5]

However, as is common in developing countries, the official databases are not accurate or up-to-date. Thus, many analysts and associations regard the above official figures as significant undercounts. The Independent Schools Association of Southern Africa (ISASA) estimates that in 2013 there are more than 2 500 independent schools. The statutory quality assurance body, Umalusi, has recently estimated that there are some 3 500 independent schools that they have to quality assure.[6]

Changing demography

Whereas the learners at independent schools were predominantly white in 1994, it is calculated that some 72 per cent were black by 2010.[7]

Socio-economic shift

Whereas the majority of the sector used to consist of high-fee schools, the majority are now mid-fee and low-fee schools that qualify for state subsidies. There has been fast growing demand for places at independent schools by the black middle and working classes.

An overview of low-fee private/independent schools

These low-fee private/independent schools offer an alternative schooling option in poorer communities, where public schooling is sometimes unavailable, but even when it is, it is often seen as undesirable by parents. They are looking either for a different schooling ethos and/or a better quality schooling instruction option. Very few people were aware of the phenomenon of low-fee private schooling and there was limited information on its extent and quality in South Africa before CDE released its ground-breaking research report, *HIDDEN ASSETS: South Africa's low-fee private schools*, in 2010.[8] Since then, a number of significant new developments have emerged, some of them as a result of CDE's efforts to highlight the importance of this sector.

CDE initiated the research on low-fee private schools after learning about the proliferation of such schools in developing countries such as India, Nigeria and Kenya. Private education, particularly for the poor, has become widespread across the developing world. For example, in the poorest areas of Hyderabad in India, over 60 per cent of learners attend unaided private schools. The numbers are similar in Lahore, Pakistan where evidence suggests that about 50 per cent of children from the poorest families attend private schools. Urban areas in Africa have had similar trends – the peri-urban areas of Nigeria and Ghana both have over 60 per cent of the learners in private schools.[9]

In the six areas of South Africa that CDE surveyed in 2008/09, where on average 50 per cent of the population lives in poverty, more than 30 per cent of the schools were private. This was far more than South Africa's official national estimate in 2008, of 4,3 per cent. Furthermore, in the period 1994 to 2009 more private schools were established in these areas than public schools, and there were strong indications that private schools were expanding at an accelerating rate. Frequently these low-fee private schools in very poor parts of South Africa were started by innovative black entrepreneurs.

On the whole, these schools achieved better results than public schools and were supported by local parents, who chose to pay fees rather than send their children to poorly performing public schools. Parents frequently moved their children to low-fee schools in search of quality education. These schools often worked closely with parents, and utilised parental and community support. The research showed that low-fee private schools seek to address a number of capacity issues in the education sector, bringing in good leadership, motivated teachers and using professional development to encourage learner success.

Since CDE's initial report in 2010, there has been significant growth in the independent sector with new players emerging and the formation or expansion of new school chains. The mid-fee and low-fee sub-sectors are diverse in their market orientation, client base and scope and remain relatively small. However, many valuable insights can be gained from these chains which are described below.

Curro Holdings: The precursor to the private company Curro started in 1998 with 28 students and after year one, had an enrolment of about 100. They now have 21 000 children in Curro schools, ranging from preschool to Grade 12. Curro aims to grow to 80 schools by 2020, accommodating 100 000 learners. Curro Holdings, which listed on the JSE in 2011, now has a market capitalisation of some R5,4 billion.

There are three brands in the Curro stable: The Select schools which are high-fee, R22 000 to R67 000 per annum; the original Curro schools with fees ranging from R30 000 to R42 000 per annum; and the Meridian schools with fees ranging from R12 000 to R20 000 per annum. An interesting recent addition to the Meridian brand is the recently acquired Northern Academy, in Polokwane, with fees starting at less than R15 000 per annum. The Northern Academy is a school of 4 000 students situated in one of South Africa's poorest provinces. The school achieved a 99,5 per cent matric pass rate last year.

In an important development, in July 2012 the Public Investment Corporation (PIC) and Old Mutual Investment Group SA (OMIGSA) joined forces with Curro in an attempt to boost the affordability of independent schooling in South Africa. This partnership aims to deliver quality low-fee education by expanding Curro's Meridian brand of schools, which mainly serves black communities, to an initial 20 000 learners across 11 schools nationwide.

The investment by PIC and Old Mutual is intended to improve education in order to address social and economic development in South Africa. Their original concept, which led to the establishment of the Schools Fund, was to find innovative ways of addressing the lack of affordable schooling across the country. This private sector involvement is an investment with specific criteria so that the schools are both high-quality in terms of education outcomes and also achieve commercially acceptable returns for investors.[10]

Spark Schools: Spark Schools was launched in 2013, and aims to become a network of low-fee, non-profit private schools, implementing Africa's first blended learning model (i.e. an approach that integrates instruction, combining face-to-face classroom teaching with computer-mediated activities) for primary school students. There is currently one school accommodating nearly 150 learners in Grades 0 to 2, and they charge school fees of approximately R12 000 per annum. Spark aims to grow to 64 schools in the next 10 years.

The school is based on the Rocketship charter school model in the United States, which has pioneered the use of blended learning. Spark instruction is divided into teacher-led instruction with the whole class and small group instruction with computer-based practice and assessment. This allows them to reduce their staffing costs.

Nova Schools: In 2012 the Commonwealth Education Trust, a charitable organisation that invests in primary and secondary education in the developing world, approved the launch of an education venture in South Africa with the establishment of a network of low-fee independent primary schools. Called Nova Schools, they will be supported by a central hub, which is named Summit Education. Each school has a degree of independence but benefits from the shared resources of the network. The Summit-Nova model has been discussed with and has the support of the Western Cape Education Department. They intend to start the first schools in the Western Cape in 2014, and expect to bring the programme to scale, with a full cluster of schools, within three to four years, reaching full cluster capacity of approximately 3 600 learners two years after that. They are currently planning to charge school fees of about R10 000 per annum.

BASA: BASA Educational Institute Trust is a non-profit organisation established to set up and run formal independent primary and secondary schools. This black-owned school chain was established in 1992 and CDE uncovered its existence in the Hidden Assets research. They have 160 educators, and run four schools in Soweto, the Johannesburg inner city and Diepsloot, catering to 5 000 learners a year.

In a meeting in 2011, with representatives from the Old Mutual fund, CDE recommended that the BASA school chain be investigated as a good investment option. In March 2013, PIC and OMIGSA signed an agreement to finance BASA Educational Institute Trust schools.

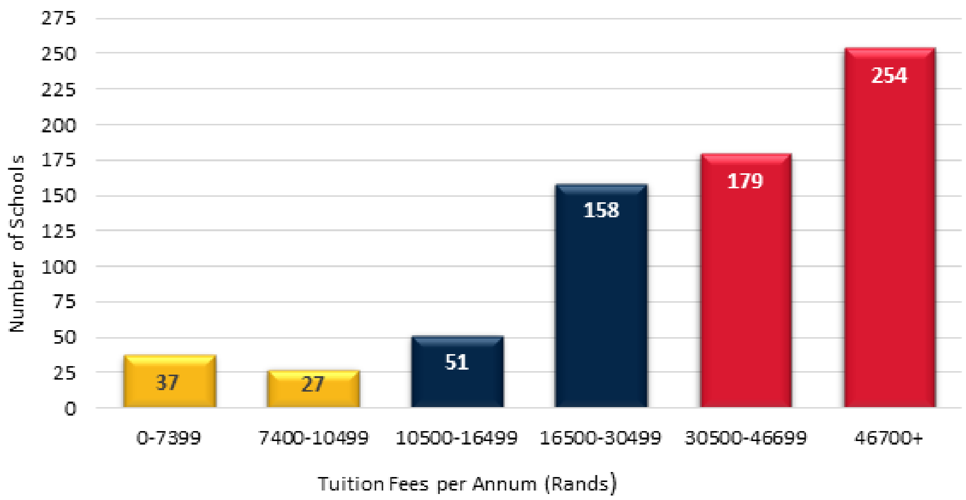
The agreement will see the renovation and expansion of BASA's Soweto-based Protea Glen Primary School and the development and operation of a new high school, to be called the BASA Protea Glen High School, at a collective cost of R60-million. These two schools aim to educate 2 400 learners a year. The current annual tuition fees of the BASA schools range from R5 000 to R7 500 per annum across the primary and high schools.

The Question of Affordability

Although there are many new and growing initiatives, what actually constitutes affordable schooling? To which communities are the new chains affordable? It is significant that except for the BASA schools, none of them charges fees below R10 000 per annum. It is also not clear at this stage whether the fees of the two Soweto BASA schools will remain at their current levels after the renovations and expansion.

In 2013, the lowest fee category of schools that belong to the Independent Schools Association of Southern Africa (ISASA) – the largest of several independent school associations operating in South Africa – consists of those with annual tuition fees below R7 400 a year. (Some donor funded schools charge no fees, and there is one school which charges fees as low as R2 500.) These reach poorer families, but families which still need a steady income to afford fees and for whom it will mean a significant financial sacrifice. Many times the only affordable schooling option for the very poor are unregistered low-fee schools.

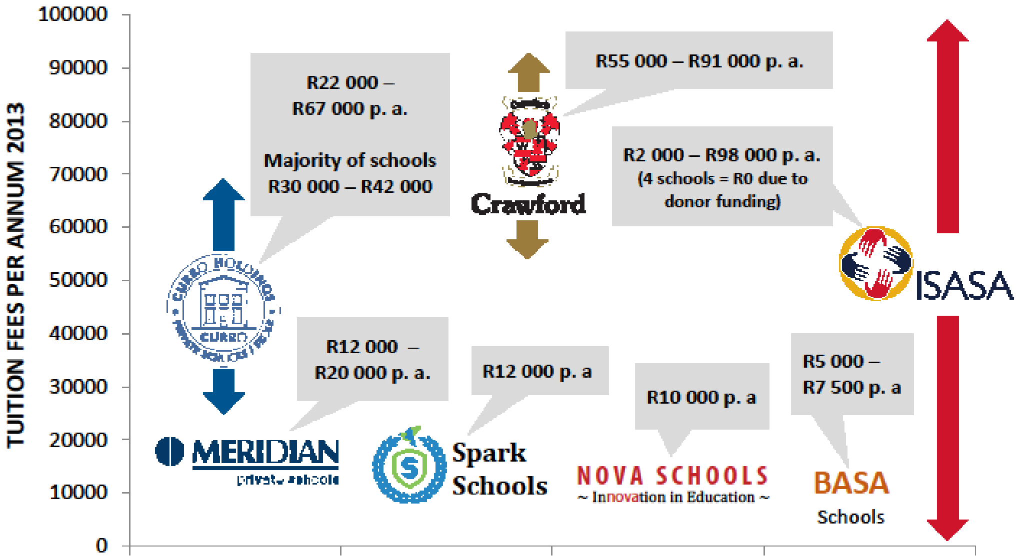
FIGURE 2: ISASA MEMBER SCHOOLS BY FEE RANGE 2013



SOURCE: ISASA 2013

The chart below maps the main and new chains in the independent school sector, according to tuition fees which currently stretches from no fees to close on R100 000 per annum.

FIGURE 3: PLAYERS IN THE INDEPENDENT SCHOOLS SECTOR (2013)



SOURCE: ISASA 2013

Although the private low-fee schooling sector is growing in South Africa, by international standards it is not actually catering to the very poor. Low-fee schools are affordable to many more people than mid- or high-fee ones; however, they are not affordable to the poorest, low-income groups. In South Africa, less than R7 500 per annum is considered very low-fee. That is more than double what is considered low school fees in India, where 'budget' private schools charge annual fees of R2 000 and less. In Kenya, the situation is even more extreme with a chain of low-fee schools charging only R360 per annum. The tuition fees of South Africa's low-fee schools are thus very high in comparison, probably reflecting comparatively high input costs and low subsidies. Although the many and diverse South African independent schools are serving a vital purpose, the challenge is to find ways of lowering the fees and reaching the poorest of the poor. To reach these communities, private school fees would have to be nearer, say, R5 000 per annum and even less. How could this be achieved? In short, it would at least involve reducing costs (including adopting innovative models that utilise new technologies) and increasing income from sources other than fees. These strategies offer opportunities and pose challenges for the private sector and government.

Cost reduction

According to research conducted in 2009 by the International Finance Corporation (IFC), the main costs facing schools are teacher costs (approximately 85 per cent of costs) and costs of acquiring, maintaining or renting buildings. Other costs incurred are costs of teaching and learning materials, regulatory compliance, management and oversight and quality assurance. A major driver of the establishment of chains of schools is the potential of achieving economies of scale.

In other developing countries, this sector offers basic services to keep costs low. For example, in India, teachers in these schools are paid very low salaries, premises like houses with no playgrounds at all are used, and any non-essentials are reduced. In addition, these schools aim to increase the number of learners in the classroom. Although this has kept costs down it has limited their ability to provide high-quality education. Many, if not most of the lowest-fee private schools in India are unregistered schools and thus avoid all the regulations and compliance costs that would push up their expenses significantly.

In South Africa, there have been attempts to reduce costs; however they are still not as low as other developing countries. The Curro schools have managed to provide more affordable private schools for the middle class by scaling up a traditional model of schooling similar to the former Model-C public schools. Curro has centralised the governance, management and curriculum development of the schools in one entity. This enables it to reduce costs, especially as it is looking to aggressively roll out more schools under this centralised organisational structure.

They are also looking at large classroom sizes – 35 to 70 learners in a class. However, by using a combination of educators and teaching assistants, the schools still create an experience of learning in a small group environment. Additionally, they are reducing costs by building new schools in a standard design, getting land from developers at reduced costs in new developments, and exploring new approaches to teaching.

Spark has made similar efforts. Like Curro, a central cost-reducing element for Spark is the organisational structure they have planned: the management and administration of the schools is centralised in a management company to which the schools will pay a fee for their management services. Additionally, there is a strong emphasis on leadership and professional development, which will be provided by the management company.

The challenges for low-fee private schools in South Africa to significantly reduce costs are considerable. The greatest of these is to recruit, reward and retain quality teachers and principals as well as obtain the land for building the school and facilities.

High-quality faculty

A huge challenge for low-fee private schools is affordability of high-quality teachers. Research conducted for the International Finance Corporation (IFC) in 2009 found that across the whole sector, paying competitive, market-related salaries was the greatest financial problem for the schools in South Africa.[11]

The sector cannot offer salaries that compete with the teacher salary packages in the public sector, not only in terms of the salaries themselves but because public sector teachers receive some 35 per cent on top of their salaries in benefits, such as housing allowances, medical aid and pension contributions. Research for the National Planning Commission has shown that South African public sector teachers are amongst the highest paid in the world (in terms of purchasing power parity).[12] Additionally, the South African teacher salary structure is skewed, where the system provides for very high entry-level salaries, but more senior teachers and those with specialist expertise are not paid significantly more than their entry-level counterparts.[13]

The cumulative effect of the significant salary hikes of public school teachers in recent years has made their total remuneration unaffordable for most independent schools. Only the high-fee private schools are able to match or exceed public school teacher remuneration.[14] This impacts upon independent schools' ability to recruit and retain talent.

Although 85 per cent (or more) of their budgets are spent on teacher salaries, low-fee schools are only able to offer considerably lower salaries than the public sector, and they regularly lose teachers to public schools.

Although many teachers opt for the public school system, there are teachers who enter, stay in, or return to the low-fee independent sector for other reasons such as a higher quality professional life, altruism, greater curricular freedom, good school management, often with a strong values-base, more 'teachable' children and a more enabling environment.

School leadership

In addition to high quality teachers, low-fee private schools place a strong emphasis upon leadership. Both the founder of Spark and the founder of Curro argue that leadership is fundamental. A good principal usually makes for a good school and the principal is regarded as just as vital to the school as a CEO is to a business. The particular realities faced by low-fee schools require dynamic and strong leaders who understand the complexities and critical elements of quality education.

Curro has taken one step further, embarking on teacher training. In March 2013, the company acquired the independent Embury Institute for Teacher Education in KwaZulu-Natal. The Institute is adjacent to Embury College, which Curro acquired in 2012. Although the graduates will be positioned to teach at Curro schools, it is not a requirement.

Scenes from low-fee private schools in South Africa, 2008/09

Scenes from low-fee private schools in India, 2012

Costs of facilities

Low-fee schools typically start very small, renting accommodation usually in houses or office blocks, near taxi ranks or train stations. They are also found in disused warehouses, old farm buildings or public or private facilities that are no longer used. Because schools take up a lot of space, the rentals are high and are a significant drain on their funds.

Sooner or later these schools reach a turning point. Their reputation for quality schooling has increased their numbers to the extent that they are bursting at the seams and they have to expand to accommodate the growing demand. It is common rule of thumb that once a school has reached 150 pupils, it begins to reap the economies of scale in terms of more fee income to pay for teacher salaries, which releases more funds for affording other resources or building up surpluses for capital development.

In order for a school to acquire more classrooms to accommodate the bigger intake, it can rent more space if it is available in the existing premises, move to new larger premises, buy a new property or build a new school.

For this low-fee schools need finance and capital, but as the IFC survey discovered, this is the most important challenge faced by independent schools in all school-fee categories, followed by limited classroom space and ground for sports and recreation.[15]

Independent School Associations in South Africa

Where schools belong to one of the eight national independent school associations, they are provided with a range of services. For example, the largest association, ISASA, provides more than 50 services to its members. Other associations provide more limited services centred around their particular philosophy. The services are intended to promote the value of independent education, protect their interests, implement best practices, strengthen their sustainability and increase their capacity to improve their quality and keep abreast of education change. However, it is estimated that more than half of all independent schools belong to no association so they have little access to such services and support.

There are eight national independent school associations that fall under the umbrella of the National Alliance of Independent School Associations (NAISA). NAISA represents national independent associations in South Africa, serving their interests and providing a unified voice on matters of concern and/or common interest. Below is the number of member schools in each association:[16]

- Accelerated Christian Education: about 300 member schools in South Africa.
- Association of Christian Schools International: 87 member schools.
- Association of Muslim Schools: 67 member schools.
- Catholic Schools Proprietors' Association: 95 member schools (and 250 public schools on private property).
- Federation of Waldorf Schools in Southern Africa: 17 member schools.
- Independent Schools Association of Southern Africa: 706 member schools.
- South African Board of Jewish Education: 10 member schools.
- South African Montessori Association: 128 member schools.

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Regulatory compliance

Compliance with government regulations is another major cost for all independent schools, but proportionally more so for low-fee ones. Independent schools are held to a higher standard and are made more accountable than public schools in the South African system. Many low-fee private schools find it difficult to comply with all the regulations. Regulations involve detailed annual reporting; adherence to a management check-list and submission of audited financial statements if they receive a state subsidy; the achievement of the specified learner results and the standards relating to their teachers, buildings and facilities. These are far more onerous than those required for public schools.

The constant reporting, multiple compliance requirements, quality assurance processes and intense government scrutiny drive up costs in terms of additional expenses, time and staff. This creates a disabling environment. The increasing legislation that impacts on independent schools is a limitation to expanding the low-fee sector because they constitute significant barriers to entry.

In addition, poor implementation of regulations by provincial education departments (PEDs), which undermines the rights of private schools and their state benefits, is proving costly for the sector.

State subsidies for low-fee schools

The income of low-fee schools is derived mainly from fees and state subsidies. Non-profit mid-fee and low-fee independent schools can qualify for government subsidies of up to 60 per cent of the fees charged by the school, according to their fee-level. In 2013, in order to qualify for a 60 per cent subsidy, a low-fee school's fees must be lower than some R5 500 per annum or half of the average spend on a public school learner in their relevant province. In 2011, on average the expenditure on a public school learner across the provinces was roughly R11 000 per annum.[17]

If an independent school's fees are R5 500 per learner or lower, then the state subsidy can amount to 40-50 per cent of its income. The calculation and payment of the annual subsidy by the PEDs is governed by the national government's National Norms and Standards School Funding (NNSSF), an amendment in 2008 to the South African Schools Act. NNSSF also set down the many requirements that independent schools have to meet in to order to obtain a subsidy: a governance and financial management check list; audited financial statements; unannounced inspections; and quality control through the learners' annual retention and pass rates in external examinations and assessments.[18]

Increasingly the PEDs are ignoring the NNSSF. They are failing to notify the schools in September of the previous year of the subsidy amount per learner that the schools can expect so that they can draw up their budgets and set fee levels for the forthcoming year; and often do not pay the four annual tranches on time, or at all, or arbitrarily reduce them. This causes severe hardship for low-fee schools: reduced teacher salaries or retrenchments, more children per class, halting essential building projects (such as more toilets for pupils), and even the principals taking out personal loans in order to pay teacher salaries. Ultimately some schools have had to close.

This administrative injustice has become so widespread that in 2012, in response to an urgent request by National Alliance of Independent School Associations, the South African Human Rights Commission and Public Protector initiated an investigation into five provinces that had reduced unilaterally their subsidies to independent schools. According to NAISA, the failure on behalf of the provinces has negatively affected 630 schools and 130 000 learners in the five provinces.[19] On 25 April 2013 the Constitutional Court judgment ordered the KwaZulu-Natal PED to pay back some of the 2009 subsidy which it had cut by 30 per cent, and key findings of the judgment are positive for further court cases.

The allegations in the legal action, by province, include:

- KwaZulu-Natal: The Department has 'incorrectly and deliberately not allocated an adequate amount in its annual budget estimates for subsidies to qualifying independent schools, and has cut its own faulty estimates by arbitrary amounts.'
- Limpopo: Has drastically cut the subsidies to their independent schools. According to ISASA, the Limpopo Department of Education provided only 50 per cent of subsidy payments last year and 60 per cent of payments this year. Furthermore, the Department did not inform independent schools as to the estimated amount of their subsidy, as required.
- Mpumalanga: The subsidy to independent schools was cut by 50 per cent.
- North West: Although the Department has paid subsidies, the limited information they are prepared to provide makes verification of payments and accuracy difficult to assess.
- Eastern Cape: Under paid subsidies between 2004 and 2008; since 2008 no qualifying school has received a subsidy.

Expanding the Sector: Challenges and Opportunities

Although South Africa has achieved near universal schooling there are still insufficient schools for all children. In all developing countries governments are finding that they simply do not have sufficient resources to provide universal education to school-going age children, especially of adequate quality for them to become fully literate and numerate. Access and quality are the key challenges, particularly in South Africa.

Expansion of independent schooling presents a solution to both the access and quality challenges, especially in the case of low-fee schools that can reach the un- and underserved children. However, there are several levers that need to be addressed if the sector is to grow in the most effective way.

Government subsidy

While there is resistance to independent schools or a lack of capacity to implement the legislation correctly in many of the provinces, the national Department of Basic Education is very supportive of independent schools, as are some of the provinces. They recognise the value added and cost-savings to government, as well as the need for partnerships and collaboration to improve the quality of the education system as a whole.

If these schools are to offer fees at R5 000, and preferably less, then they will require a higher state subsidy. The subsidy limit of 60 per cent of the average provincial spend on the learners in public schools, for even the lowest fee schools, needs to be reviewed. Given the significant cost-savings to the state in terms of both recurrent and capital costs (e.g. in the case of Curro schools, they argue that each school saves the state about R15 million in capital outlay and operational budgets of several million per year),[20] why should the state subsidy not be raised to say 90 per cent, as in Chile and Pakistan where they have established innovative models that contract low-fee schools to deliver quality education to disadvantaged communities? They are not permitted to charge fees but the state provides them with a per learner subsidy only slightly lower than the average spend on a public school learner.

Financing expansion of schools

As indicated earlier, the cost of premises is a significant cost for low-fee independent schools. If the low-fee school owns no property to secure a loan, retail banks are reluctant to grant them credit. This means that some principals have actually resorted to mortgaging their own homes or are providing other personal assets such as insurance policies as surety. The IFC survey found that in the majority of low-fee schools (55,2 per cent), which tend to be smaller schools, principals or entrepreneurs provided personal surety/collateral for loans/credit.[21] Interestingly a mere 2,7 per cent of schools, all of which were low-fee schools, were not able to repay their loans/credit.

According to the 2009 IFC study, the low-fee schools surveyed indicated that over the following two years, they intended to apply for loans of, on average, R860 000, with the highest amount reported as R4 million. However, the IFC research found that only 78,4 per cent of the *total* amount of loans/credit applied for by independent schools in South Africa had been granted, although the report concluded that independent schools have a good credit history. In the case of low-fee schools, only half obtained loans and then only 10 per cent of what they had requested.

Schools identified some of the major commercial banks in South Africa as likely sources of future credit, but also pointed to high banking costs and interest on credit as major challenges.[22] The interest rates on loans to schools are high because many banks regard them as a high risk and are aware of the adverse publicity they would receive if the school defaulted and the bank tried to close it.

The IFC report found that, up until then (2009), a relatively small number of commercial banks and development-oriented financial institutions, such as the Development Bank of South Africa (DBSA), had taken an interest in the sector. Some of these however have become sensitive to the needs of individual schools when they apply for loans, and have adapted their products to the assessed needs of the schools.

The IFC and World Bank have pioneered an approach to granting credit to low-fee independent schools in developing countries. This involves a thorough analysis of the quality of education and financial sustainability of the school in the future, giving attention to the school's cash flow when assessing risk, and providing technical assistance which enables the school to develop a strategic business plan. The DBSA has adopted this approach and has linked its loans to social development projects undertaken by the school to increase its benefit to the wider community. According to the IFC, 'the importance of the sector as an aspect of social capital in South Africa is recognised by those financial institutions that have engaged with independent schools'.[23]

Important new development

In December 2011, Old Mutual set up a trust worth R1,2 billion, the Schools and Education Investment Impact Fund of South Africa (Schools Investment Fund). This is a 'development impact' fund that seeks 'to provide a commercially acceptable return on investments in independent low-fee paying schools. The fund finances infrastructure requirements for upgrading existing or building new schools as well as providing finance for education-related needs such as early childhood development, skills training and education materials and services'.[24]

Significantly, the main contributor to this fund is the Government Employees Pension Fund, through the PIC. In July 2012, The Schools Investment Fund announced a R400m deal with Curro Schools and in March this year they signed an agreement to provide R60m to BASA.

Low-interest loans

Another solution to the expansion challenge could be for more donors and companies, through their corporate social investment funds, to provide low-interest loans to low-fee schools for the expansion of facilities or acquisition of new premises so that they could attain the economies of scale that would strengthen their sustainability and serve more poor children.

If a number of donors established a revolving fund of small, low-interest loans for low-fee schools to access, it could make a significant contribution to their expansion. Even part grants coupled with a loan from a retail bank would make expansion more affordable for the schools.

Providing technical advice and business expertise to low-fee schools would answer another important need because typically they lack the skills and capacity to develop strategic plans and business models that would enable their sustainability.

Innovation

Stacey Brewer, founder of Spark Schools, has argued that one approach to expanding the low-fee sector is to embrace innovation. By moving beyond traditional schooling models and embracing new technologies it may be possible to lower the cost of education while also raising the quality and relevance of the education provided in such schools. Thus, Spark's blended learning approach is one of few current examples of an innovative low-fee model.

The Indian School Finance Company

Gray Ghost Ventures (GGV) is an impact investing firm that provides market-based solutions to entrepreneurs addressing the needs of low-income communities in emerging markets. They focus on: microfinance, impact ventures, affordable private schools and helping to advance this growing impact investing market through action and education.

In 2009, GGV created the Indian School Finance Company (ISFC) to provide capital to low-cost private schools across India. This was done after GGV identified financing as one of the key barriers to the growth of the low-few private schooling sector globally.

The ISFC is a Hyderabad-based, non-banking finance company. They extend medium-term loans at market rates to private schools that fall in the monthly average fee range of US$5-12 (R50-120). There are requirements for borrowers, including credit and collateral requirements. Importantly, they must have the project management skills needed to use and repay the loan capital effectively. The ISFC draws on innovative school assessments to identify the most capable school operators. Good schools tend to attract more pupils, thus reducing the likelihood that they will default on their loan. The average loan size is US$24 000 (about R240 000). ISFC has served over 44 000 low-income learners, having given loans to about 500 schools.[25]

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In South Africa, school curricula offered through online learning, supported by teacher tutors, has been pioneered by Brainline, whose students write the examinations of the Independent Examinations Board (IEB). Hatfield Christian School in Pretoria and Heronbridge College outside Johannesburg, have also developed online curricula alongside their mainstream schools.

Clearly mobile technology, such as tablets, smart phones and palm projectors, will become a key element in schooling of the future, not only because the cost of these devices is steadily reducing and they are more affordable than computer laboratories and whiteboards, but because they engage learners, who will become more and more disenchanted by traditional models of schooling which bear no relationship to their world of social media and the internet. Indeed, many independent and public schools are already using them to enhance learning and the trend is also towards Bring Your Own Device (BYOD) to connect with the schools' IT infrastructure.

Internationally, considerable experimentation is taking place with new approaches such as 'flipped classrooms', where learning the basics is set as homework through videoed lessons by the teacher or open-source materials, while precious contact time in class with a skilled teacher is used differently. It is used to identify areas where learners have encountered difficulties, to explore these and then apply the basic skills and foundational knowledge they have acquired to solve problems.

However, with limited resources and sometimes a shortage of staff with specialist information technology skills, introducing new technology for learning can be a challenge for low-fee schools. Over the previous three years, the IFC research found that it was the most expensive business development service the schools had used, and on average they had spent R57 174.[26]

Concluding Remarks

Despite the challenges, there is good reason to be optimistic about the low-fee private schooling sector. There is a new dynamism in the independent school sector as more players enter this market with the common goal of making independent schools affordable to more South African families. The recent investments and expansion have helped shed light on the importance of quality education for lower-income families – filling a gap where public sector provision, for a variety of reasons, is lacking.

As Ann Bernstein, executive director of CDE, explained at the workshop: 'Low-fee schools are providing schooling where there often aren't schools or opportunities for young people; they are often providing a better alternative in poorer communities'.[27]

Affordable schooling provides school choice, most often to those without access to decent public schooling. In terms of the national interest and the best interests of disadvantaged children, there are strong arguments for scaling up low-fee independent schooling at even lower fee-levels. As this report has shown, the critical needs and challenges of such schools provide many opportunities for both the private sector and government to play enabling roles in making this happen.

Ultimately innovation and new schooling models will be vital to scalability and sustainability – particularly in reaching the poorest of the poor. Current innovations that use technological advances reduce teacher costs and centralise management and support services for schools are helping to scale-up the sector. Continuing the investment trend, as seen with the investments from PIC and OMIGSA, can help support these initiatives. Curro schools are on track to expand, primarily at the mid-fee level; and the recent investment in low-fee BASA chain of schools hopefully will yield similar positive results in reaching even more poor learners. Developing these and other new methods of providing schooling will allow for schools to continue reducing fees while providing higher quality education to the poor.

Importantly, entrepreneurship is a critical component for independent schools. There are many different and innovative legal structures that can be used, as ISASA's member schools illustrate, for entrepreneurs in the private sector interested in setting up new low- and mid-fee schools or chains of schools. Additionally, government has expressed support for low-fee private schools; Stacey Brewer explained that in setting up Spark they had a 'fantastic relationships with government', and there was a significant amount of support from the Gauteng Department of Education and the City of Johannesburg.[28] However, with some of the challenges in opening independent schools, it is advisable that a re–examination of the many laws and regulations that directly or indirectly impact upon the sector takes place, as much of the existing legislation was not designed with independent schools in mind, and thus has resulted in unintended consequences. Furthermore, private sector donors, innovative approaches to lending, and independent entrepreneurs can all help improve access to capital and low-interest loans, as well as technical advice to enable low-fee schools to adopt sustainable business models and to achieve efficiencies and go to scale.

There has been significant growth in affordable schooling in South Africa. As independent schools are growing at a significantly faster rate than public schools, there needs to be attention to how to improve access while harnessing private sector involvement. With innovation continuing and more investment in the sector, there is great opportunity for expanding quality education for the poor in South Africa.

Schooling systems need diversity and experimentation. Affordable private schools should be welcomed in South Africa as they have been in many other developing countries in Asia, Africa and South America. All of the global evidence points to the further and rapid expansion of these kinds of schools. This is a development to be welcomed.

Public policy should be as facilitative as possible while maintaining regulatory oversight in the expenditure of public money. However, this oversight should be appropriate and it is important that there is 'a level playing field' with respect to government and non-state schools. The growth of this sector and the many positive contributions that are being demonstrated by the existence of these schools should now be matched by two developments. The first is a re-examination of government regulation and financing to enable further growth of the affordable private schooling sector. The second development concerns a re-orientation of corporate social investment to include this important and growing sector of schooling especially in poorer communities.

This could complement the growth in 'development impact' investments. As noted elsewhere, in December 2011, Old Mutual set up a trust worth R1,2 billion, the Schools and Education Investment Impact Fund of South Africa (Schools Investment Fund) that focuses on commercially acceptable returns on investment for low-fee schools. A major contributor to this fund is the Government Employees Pension Fund, through the PIC. The R400m deal with Curro Schools and the agreement to provide R60m to BASA are signs of growing interest within the private sector on the importance of encouraging low-fee private schools for the poor. However, private philanthropy and corporate investment interventions need to be carefully thought through so as not to undermine important self-sustaining dynamics within much of the sector.[29]

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