

SMEs To Transform Sa's Education Sector

22 October 2018: The education sector in South Africa remains a catch-22, with public schools struggling to yield positive results and private schools being too costly for many South African households to afford. This challenge, however, signals a gap in the market and provides an opportunity for small and medium enterprises (SMEs) in the private education sector to flourish while contributing to improvements in the education sector.

This is according to David Morobe, regional general manager at Business Partners Limited (BUSINESS/PARTNERS), who points out that R246.8 billion was allocated to basic education in 2018 by the South African Government. "This is 14.8 percent of the consolidated budget, and although less than previous years, it amounts to more than what more developed countries such as the USA and UK spend. However, the results do not reflect this investment, with 78 percent of South African Grade 4 learners being unable to read, whilst in the US, this figure is reported at 4 percent and in England, 3 percent. This is according to the Progress in International Reading Literacy Study released in 2016."

"On the other hand, enrolment in the private school sector has seen a 2.7 percent decrease in enrolments in 2018 on top of a 4.9 percent decrease in 2017, while some of these schools struggled to fill their Grade 1 classes," notes Morobe.

He adds that entrepreneurs should be mindful of the fact that there is a real demand in South Africa for services and products that improve learners' academic performance. "However, if SMEs in the private education sector are going to successfully start and grow their businesses, they will need to consider providing an affordable option to remain competitive as the gap in the market for affordable private education is undeniable."

Morobe points out that while quality and affordable education is an issue in the country which needs to be rectified, there are also significant challenges that entrepreneurs are faced with when entering this sector. "Like most other SMEs, obtaining funding for businesses operating in the education sector can be difficult."

He explains that this is because the underlying asset of a school to be financed can be regarded as "too specialized" which poses issues for financiers who may not regard this as an acceptable form of collateral. "Other challenges that entrepreneurs looking to finance their business in the education sector face include compliance requirements, the high capital outlay required to get the business off the ground, the time it takes to enroll attendees to generate income, as well as finding suitable staff."

To minimise the barriers to entry for entrepreneurs seeking to facilitate a sustainable future for South Africa's future leaders, BUSINESS/PARTNERS has a R150 million Education Fund for SMEs which has financed 42 businesses within the education sector to the value of R97 million over the last three years. The majority of funding was allocated to pre-primary schools, private schools and student accommodation, which are seeking to correct the shortfall of accommodation available to students at tertiary level.

"With this being said, the opportunities available to SMEs wishing to enter into the education sector are extensive – from private pre-primary schools to support services and innovative educational products. If SMEs take advantage of this opportunity and are supported in doing so, the education sector can not only be improved, but also become more inclusive to provide the best prospects for all of South Africa's children to one day contribute to a better performing economy with lower levels of inequality and lead improved lives," concludes Morobe.