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Impact Investing in Future Leaders

"Soaring inequality isn't about education, it's about power." Paul Krugman, Economics Nobel Laureate

With nearly half of the global wealth in the hands of just one percent of the world's population, it's no surprise that income inequality is among the most prominent topics on the international development agenda.

High-quality tertiary education is undoubtedly a critical driver in social mobility and economic growth because of its potential to enhance the employability and living standards of individuals and promote the economic and social development of disadvantaged communities. However, the gap in affordability of higher education for the majority of the world's population is often insurmountable. The situation is even more pronounced when it comes to top-tier universities where students from low-income countries are severely under-represented.

Elite education and power networks

There is growing recognition that attendance at prestigious universities offers not just quality education, but access to highly influential, elite networks that could be especially beneficial to students and their home countries. For example, every individual representing a low-income country at the politically powerful World Economic Forum's Network of Global Agenda Councils (GAC) attended a top-tier foreign university. (That these countries make up less than 2.5 percent of GAC's total membership despite contributing 12.5 percent of the world's population is further evidence of the widening *imbalance of power* that exists in global networks.) Indeed inaccessibility to these elite spheres of influence contributes to the on-going marginalisation of countries that are already among the most socially, politically and economically excluded on the world scene.

By supporting nationals from low income countries to attend top-class universities we can broaden their social network and increase the likelihood they can join these discussions.

While many prestigious universities in first-world countries have genuinely sought to provide financial support to applicants from disadvantaged communities, most efforts do not extend beyond their national borders. Thus, for students from low-income countries, like Sierra Leone where the cost of a year studying at Harvard is on par with 100 years of average income, the idea of attending an elite institution is unthinkable.

What is needed is a funding mechanism, championed by the private sector as part of their CSR activities, to increase the number of students from low income countries enrolling in the world's top universities and encouraging them to return to their home countries once their studies are complete.

Impact investing for higher education

Our upcoming report, commissioned by Credit Suisse, Investing in Future leaders: How Impact Investment Can Enable Underprivileged Talents To Access Best In-Class High Education, found that of the more innovative financing models to emerge in recent times, some of the most promising in terms of funding access for underprivileged students to prestigious universities are impact investment models - financial service products offering clients a financial as well as a social return. While this type of investment has advanced many areas of social need, it remains nascent in the education sector due in no small part to the difficulties in privatising short-term gains.

While the bulk of impact investment funds for education appear to have been directed towards primary education and the building and upgrading of school infrastructure - areas where progress can be measured easily - a number of entities have emerged aimed at assisting disadvantaged students access good quality higher education. An innovative impact investment by Kenyan web-based micro lender KIVA in a partnership with Nairobi's Strathmore University offers Kenyan students from low-income backgrounds with high academic scores the opportunity to take out low-interest student loans which cover full or partial tuition and equipment such as laptop computers. Since the start of the programme in January 2012, over half a million USD has been received for some 65 loans, most of which covered full-tuition.

Another active player in Kenya is the Equity Group Foundation, which administers the Equity African Leaders Program (EALP), paying the university costs of top performing students. Since its establishment in 1998, EALP has benefitted more than 1,500 scholars and sponsored around 200 talented Kenyans to study abroad at some of the world's top universities.

Prodigy Finance, an initiative set up by three INSEAD MBA graduates, offers loans to help international postgraduate students access top business schools. Its model most closely resembles traditional financing where an applicant's loan affordability is assessed according to his/her estimated future earning potential. The loans are packaged into international bonds and issued on capital markets offering investors competitive financial return along with a clear social impact. In partnership with Credit Suisse, Prodigy's innovative impact investment structure of over US$25 million has helped more than 500 talented students from over 70 countries access some of the world's best universities.

Innovative ways of making an impact

Using a slightly different model, Brazil's Ideal Invest is a non-banking financial institution with an asset-backed securities fund structured to carry loans to maturity. Its interest rates, partially subsidised by partner universities, combined with reasonable default rates, deliver healthy returns to investors and supported the company to expand to more than 200 universities. Since 2006, more than 40,000 loans have been distributed.

While most impact investment models in the higher education sector require the applicant to repay the loan amount plus interest, Lumni has an impact investment model with an innovative way of providing returns to investors. After evaluating the earnings potential of individual students, finance is offered subject to the student entering into an agreement to pay a set percentage of their income for a set period of time after graduation. To date, Lumni has funded over 3,000 students across the Americas.

High education bonds

Some other new ideas currently being developed which could offer investors the chance to "do good and do well" in the higher education sector include Higher Education Bonds based on the existing green bonds issued by multilaterals like the World Bank or multinational corporations. While these projects may bear a certain risk, green bonds typically get a strong rating (A to AAA) because their repayments are directly covered by the treasury department of the well-rated multilateral or multinational issuers.

And then there is the possibility of bank-affiliated branding loan programmes through which major banks trusted in the targeted region leverage their strong brands to back competitive loan programmes earmarked for students from low-income communities.

Assisting impact investors

Governments can help incentivise private impact investments targeting low-income students by offering partial tax credits, underwriting a component of total risk or innovative public-private-partnerships (PPP).

Higher educational institutions also have a vital role to play by cultivating close working relationships with financial institution partners.

Challenges of measuring impact

Of course the difficulty with impact investing is finding ways to measure the somewhat intangible benefits of a prestigious university education.

Perhaps the most basic short-term measure of success is whether or not the student graduates. Their employability, earning potential, standard of living, scope to influence, civic participation, and whether or not they return home and gain access to international corporate boards and ruling elites could also be considered.

There is, however, no 'one-size-fits-all' approach as each case may differ according to the background of the student and the university they attend.

A fairer future

With a decline in public funding for education in many countries, exacerbated by the global financial crisis, universities across the globe have shifted the cost burden on to students through higher tuition fees, broadening the gaping chasm between the haves and have-nots. By opening up higher education opportunities for disadvantaged talent from low-income nations, impact investing can go some way to addressing this and give the world's poorer countries a better chance of joining the global power networks that make the decisions affecting their future.

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