



Expanding the knowledge base: how to invest in education

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Achieving any of the UN Sustainable Development Goals will require significant investment from the public and private sector – particularly SDG4 (Quality Education). Fortunately, private industry is stepping up, providing more ways for investors to help improve the education system, reduce poverty and promote sustainable growth – all while seeking attractive returns.

Education is essential to reducing poverty and promoting sustainable economic growth: each additional year of education is associated with 13%-35% more GDP per capita.¹ But not everyone has access to quality education. More than 262 million school-age young people don't attend school, six out of 10 children are not acquiring basic literacy and numeracy after several years in school, and 750 million adults are illiterate.² This is why the UN's Sustainable Development Goals (SDG) include "quality education" as one of the 17 highest priorities – and it points to the critical role that investors can play.

Investors can help expand educational opportunities for all

Annual spending on education globally was estimated at USD 5.9 trillion in 2018 and could reach USD 10 trillion by 2030.³ Within this market, several sub-segments show promising growth potential:

- Spending on digital education – where lessons are delivered online – is expected to grow at 12.5% per year from now to 2025.⁴
- In China, vocational schools (also known as trade or technical schools) could see double-digit growth in the next years.⁵
- The revenue of global online degree providers is set to reach USD 7.7 billion by 2025 – a significant step up from the figure of USD 3.3 billion in 2019.⁶

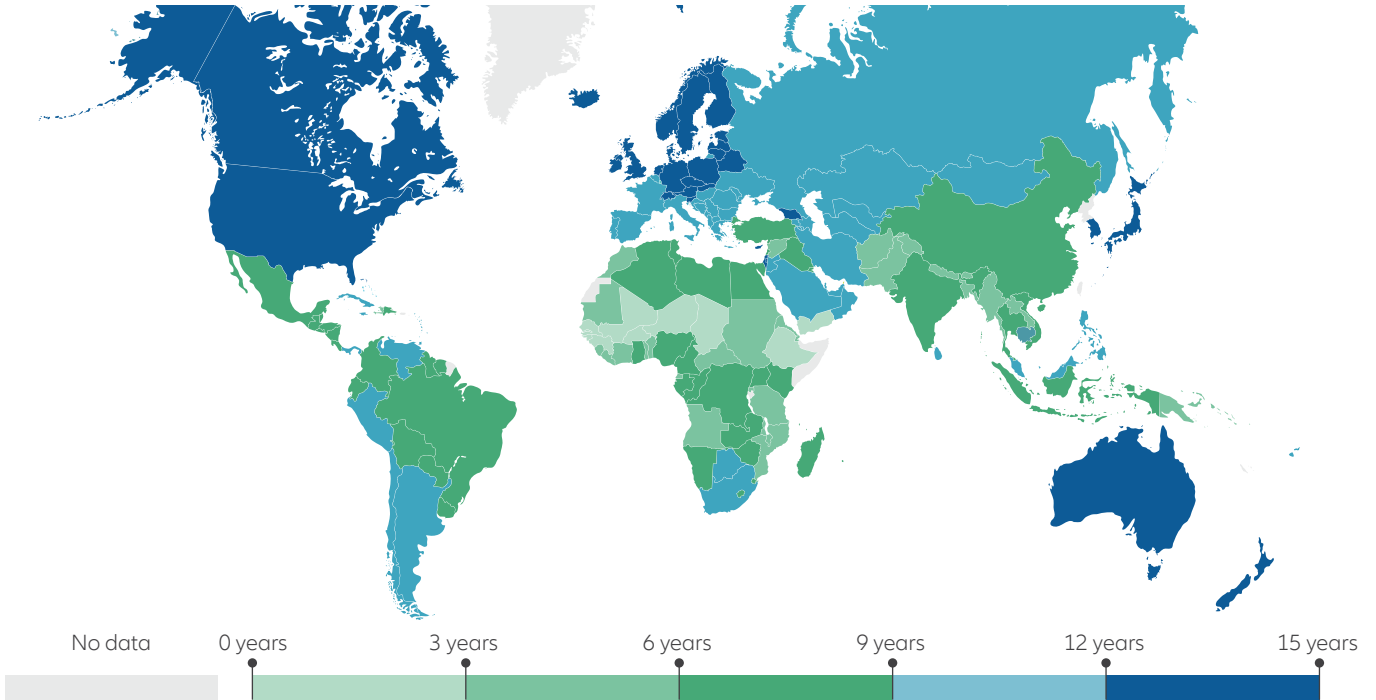


Key takeaways

- Education is critical for economic growth, but change is needed everywhere: developing countries need better access, developed countries need to reduce costs, and employers need better-skilled workers
- Promoting quality education requires tremendous investment from public institutions and private capital; in return, investors get both growth potential and the chance to improve the world they live in
- Investing in education aligns with several important UN Sustainable Development Goals, including SDG4 (Quality Education), SDG1 (No Poverty), SDG8 (Decent Work and Economic Growth) and SDG10 (Reduced Inequalities)

Around the world, there is a wide disparity in education levels

Mean years of schooling (2017)



Source: Our World in Data/Lee-Lee (2016), Barro-Lee (2018) and UNDP, HDR (2018). Graphic shows average number of years of total schooling across all education levels, for the population age 25+.

The prospective growth outlook for the education market is backed by strong global demand, but there are differences across regions. Developing countries need better access to education to meet the needs of a growing middle class, increasing urbanisation and a shift towards higher value-added industries. In developed countries, access to education is largely not the issue; rather, costs are rising and there’s a “skills gap” between what higher education teaches and what employers are demanding.

Still, there are a few education-related topics that are relevant across multiple regions – in particular, education access and education technology. Investors who allocate funds to these areas can contribute towards several SDGs – including SDG4 (Quality Education), SDG1 (No Poverty), SDG8 (Decent Work and Economic Growth) and SDG10 (Reduced Inequalities) – while seeking attractive financial returns.

For example, China’s private sector is playing a significant role in improving the country’s education access. Although China has lifted its population’s average education level in recent years, it’s not yet able to accommodate all who seek post-secondary education. This can be measured by a statistic called the gross enrolment ratio of tertiary education – which was only 48% in China in 2018, compared with 88% in the US.⁷ Since public funding for education is

constrained in China, private providers of higher education services are helping to fill the gap. Tuition fees are regulated but companies are given ample room to generate reasonable profits. This helps keep the cost of both public and private higher education in China relatively low.

Educational initiatives align with key UN Sustainable Development Goals



There are also exciting developments in the field of education technology, which can help address pressing challenges such as affordability and accessibility. But currently less than 3% of overall education expenditure worldwide is allocated to digital.⁸ To fill this gap, private education companies are stepping in – for example, by working with universities to help them develop and deliver degree programmes online. This growing field of “online programme management” reduces the cost of learning while making it easier to access. Other educational technology companies are improving the efficiency and effectiveness of learning with artificial intelligence – including with new software solutions that can analyse a student’s homework and automatically adjust the next assignments to tackle specific problems.

A growing number of publicly traded education companies

Achieving any of the SDGs will be a challenge that requires heavy participation from the public and private sector – and SDG4 (Quality Education) is no different. Fortunately, private

industry is stepping up, providing investors with an increasing number of ways to participate. Consider the number of publicly traded education companies worth over USD 1 billion: there were approximately 10 such companies in 2015, but this number grew to 30 in 2018 – and it’s expected to exceed 100 by 2025.⁹

Venture capital (VC) is playing a large role as well: in 2018 and 2019, global VC investments into education were USD 8.2 billion and USD 7 billion, respectively, up significantly from USD 4.4 billion in 2017.¹⁰ With VC the driving force behind many new initial public offerings, a growing number of education companies are coming to the public market, providing investors with a broader opportunity set.

There are many important lessons for investors to learn about investing in education – from improving access to education to exploring new technologies – but the most valuable may also be the simplest: investing in education allows investors to seek attractive financial results while aligning with the SDGs.

About the United Nations Sustainable Development Goals (SDGs)

The UN’s Sustainable Development Goals are 17 goals that were adopted by all UN Member States in 2015 as part of the *2030 Agenda for Sustainable Development*, which set out a 15-year plan to achieve the goals. The SDGs address a range of social needs, including education, health, social protection and job opportunities, while tackling climate change and environmental protection. They serve as a framework to promote prosperity while protecting the planet to achieve a better and more sustainable future for all.



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Data as at 30 June 2020

1. UNICEF, Heckman and Klenow (1997), Crespo Cuaresma, Lutz and Sanderson (2012), Thomas and Burnett (2013), Patrinos and Psacharopoulos (2013)
2. UNESCO, Leading SDG 4 – Education 2030
3. HolonIQ, Smart Estimates, January 2019
4. Ibid, Allianz Global Investors
5. Global Silicon Valley, Citi, Allianz Global Investors
6. HolonIQ Smart Estimates, February 2019
7. China Minister of Education, UNESCO; UNESCO officially defines the gross enrolment ratio as “the number of students enrolled in a given level of education, regardless of age, expressed as a percentage of the official school-age population corresponding to the same level of education.”
8. HolonIQ, 10 charts that explain the Global Education Technology Market
9. HolonIQ, 10 charts that explain the Global Education Technology Market
10. HolonIQ, USD 4.5 billion Global EdTech Venture Capital for 1H 2020

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