



ESG | RISK | STRATEGY | COMMUNICATIONS | IMPACT

# ECD FUND TEASER



*EBS Advisory has identified and endeavours to facilitate an investment opportunity, which has the potential to yield above market financial returns, as well as profound social impact. The opportunity is premised on scaling-up low-cost, centre-based Early Childhood Development (ECD) facilities in the high density, low income areas of South Africa. Scale is to be achieved in the form of investment into mixed-use, real assets (i.e. property and infrastructure). These fit-for-purpose developments will allow centre-based ECD operators to achieve efficiencies and economies of scale that enable them to operate as self-sustaining, commercially viable businesses (i.e. viable and attractive investments).*



## PROBLEM STATEMENT

Experts agree that the first 6 years of a person's life is the most important developmental period, yet ECD facilities available to parents in South Africa's townships are currently limited in their delivery by poor infrastructure and lack of access to funding.

## TOTAL ADDRESSABLE MARKET

Of the approximate 1.4m children in South Africa aged 3 – 6, the age-group who should be in ECD facilities, our estimates are that 300,000 come from households which:

- Are resident in South Africa's townships, where adequate ECD facilities do not exist;
- Belong to households with combined earnings between R7,500 and R15,000 per month through formal employment;
- Are aspirational and view investment in their child's education as a route out of their current economic threshold;
- Would preferentially procure (and are able to afford) above-average ECD education; and
- Are ideal customers for other bundled services, such as banking, funeral policies and mobile contracts, etc.

## HOUSEHOLD EXPENDITURE

The rough breakdown of household expenses, in order of spending priority, for the target demographic is as follows:

1. Rent/accommodation/water/electricity
2. Food
3. Transport
4. Airtime/cellphone
5. Clothes/personal effects
- 6. Education**
- 7. Funeral policy**

Items (6) and (7) are the first expenditures in this hierarchy which are aimed at the beneficiaries of the breadwinner. The degree to which these items are prioritised offers an important social screen for other products.

## CORRELATION

There consequently exists a commercial synergy between a household's investment in their child's education and the returns offered to any of the following service-providers:

- a. A life insurance company offering a funeral policy: 90% of funeral policy costs are comprised of claims costs, distribution costs, persistency/churn and premium collection. These can be largely reduced, using a schooling wrapper (i.e. loyalty incentive) and deduction-at-work premium collection models. In this vein, lower mortality and better health prospects also serves to reduce claims costs. EBS research shows that the safety, nutrition and health risks to small children in some of the most dangerous communities in the world, are significant causes of stress to parents. Survey responses also show that upwards of 95% of the parents at existing ECD facilities hold funeral policies for financial, cultural or religious reasons.
- b. Lower credit risk for banking, lending and mobile products through improved employment prospects: by providing safe transport, quality education and healthcare and healthy meals to their toddlers, research has shown that parents are more likely to outperform at their place of work, largely through reduced absenteeism and improved productivity.
- c. Better economic prospects for the family: quality ECD operations will increase parent-child contact time and quality, developmental outcomes for the child, and improved chances of acceptance to top primary schools.



## OPPORTUNITY

Through our partners and research, EBS has secured the following responses to existing challenges in the market:

ISSUE	CURRENT CHALLENGE	OPPORTUNITY
Willingness to pay	Currently almost all ECD operators in South Africa's townships are entry-level, offering sub-standard services with no proper meals, qualified teachers, security or health care.	There exists strong, latent demand for above-average, aspirational education for ages 3 – 6, that is safe, secure and of quality especially in areas rife with health concerns, crime, child-trafficking and sexual offenders. Currently, parents pay between R250 – R500 pm for sub-standard services, but are willing to pay between R650 – R900 pm.
Access	Land in the townships is at a premium.	EBS have secured the right to develop 90 properties in the high density informal and formal townships of South Africa.
Skills and social license to operate	The township ECD market is a tough market to penetrate due to resistance from current operators.	Incorporate existing, qualified ECD operators into the business, by providing them fit-for-purpose infrastructure and training to operate at scale.
Security	Current operators cannot provide healthcare, access to IT, play and sports facilities due to security concerns.	Fit-for-purpose facilities have been designed to incorporate safe transport (taxi service is included), safe drop-off and collection, access control, on-site healthcare, and protection of IT, catering and learning and playing equipment.

Our conclusion is that this vital sector is ripe for a disruptive model based on the following:

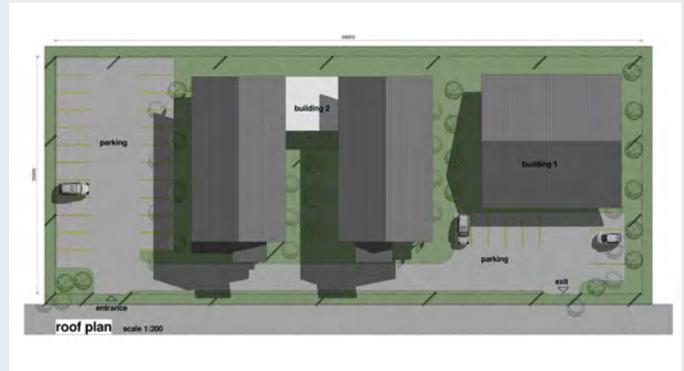
- **Gap in the market:** No-one is servicing the aspirational ECD market, i.e. offering a downscaled Curro-type model in the townships for young children.
- **Strong demand exists:** for households earning between R7,500 and R15,000 pm. Our business model is based on servicing only 10% of the current demand.
- **Over-supply of qualified operators:** There exists an underfunded yet over-supplied expertise in running ECD facilities, implying that we can cherry-pick the best skills and experience from existing operators, thereby securing social license to operate. There are over 2,500 registered ECD facilities, for example, in the Western

Cape alone, who are all needing access to infrastructure to achieve economies of scale.

- **Pricing mismatch:** A correlation exists between using a family's prioritisation of ECD as a social screen for other financial products and services, such as funeral policies, banking services, etc. Ultimately, the child is only the beneficiary of the ECD services, whereas the parent is the client.
- **Focus on the Client:** Instead of supplicating existing funding assistance to the services offered to the child, if we instead focus on the client, i.e. the parent, and the benefits which would accrue to them as a result of having a reliable, quality and safe ECD service provider within a price range that they can afford, we can outperform traditional investment models aimed at this sector.

## BUSINESS MODEL

This proposal is based on an ECD model with a proven track record. In formulating this approach, EBS worked with partners that developed this model and currently operate successful examples of such. EBS also approached the Department of Social Development to identify and visit/research other sites around the Western Cape that resembled ECD facilities with a similar operational and business model.



## OUR PROPOSAL

In order to meet this massive and important opportunity, we propose the following:

1. To mobilise corporate balance sheets to invest in this under-served markets: to service a mere 10% of the target demographic, we require to raise R700m to build 50 ECD and mixed-use rental facilities catering for 300 children each.
2. Establish an ECD Impact Fund to have a dual mandate, rewarding the fund manager for financial outperformance as well as social impact.
3. The fund manager is incentivised by carried interest comprising financial outperformance and social outcomes (i.e. social impact measured at child, parent and societal level). These outcomes will be complementary to one another and not mutually exclusive (i.e. the social return should have a material bearing on the financial return and vice versa).
4. To provide fit-for-purpose infrastructure for qualifying ECD operators: we will offer SLA's to over 300 experienced, qualified and passionate existing operators for the schools, at a scale which allows them to pay market-related salaries.
5. To establish these ECD facilities as a distribution-base for products which would benefit from a socially-screened book, through internalising externalities to improve margins on bundled products.

**FUND SIZE**  
R710,000,000



**GROSS IRR**  
10-15%



**MIXED-USE DEVELOPMENTS**  
50



**GEOGRAPHY**  
South Africa



**FUND INSTRUMENTS**  
Debt and Equity



**MANAGEMENT FEES**  
Commitment period: 1.5%  
Post commitment: 1.8%

**FUND LIFESPAN**  
10+1 years



**FUND HURDLE RATE**  
5%



**CARRIED INTEREST**  
GP pref recoupment: 10%  
Carried interest: 20%  
Effective GP:LP split: 15:85



### FOR MORE INFORMATION CONTACT

James Brice, CEO – [james.brice@ebsadvisory.com](mailto:james.brice@ebsadvisory.com)

Chesney Huskisson, ESG Analyst – [chesney.huskisson@ebsadvisory.com](mailto:chesney.huskisson@ebsadvisory.com)

**Johannesburg, South Africa:** 4Albury Office Park, 1 Magalieszicht Crescent, Dunkeld West, 2196, South Africa | Office: +27 (0) 10 880 0064

**Cape Town, South Africa:** Unit A10, Waverley Court, 7 Kotzee Road, Mowbray, 7700, Cape Town | Office: +27 (0) 10 880 0064

**Lagos, Nigeria:** 1625B, Sako Jojo Street, Victoria Island, Lagos | Office: +234 (0) 806 082 228

**Nairobi, Kenya:** Melody Gardens, Diani Road, off Ole Odume Road, Kilimani, Nairobi | Office: +254 (0) 70 517 8331

**London, United Kingdom:** 50 Brook Street, W1K, 5DR | Office: +44 730 6200 399