

## Private sector investment in South Africa's education sector: nature, extent and incentives

Extract from a paper produced by Neissan Besharati\* for the Overseas Development Institute, UK.



### Introduction/Foreword

JET Education Services has worked and continues to work with the private sector, government, international development agencies and education institutions to improve the quality of education in South Africa. In JET's early years, from 1992 to around 2002, development agencies contributed significantly to education in the country as the transition to the new democratic dispensation took place and the education sector benefitted greatly from the external support. In later years, up to about 2012, government initiated several interventions to further support transformation and growth in the education system. In more recent years, there is much greater reliance on the private sector to contribute to research, interventions and monitoring and evaluation initiatives in the education sector, mainly through corporate social investment (CSI) initiatives. This JET Research Brief focuses specifically on the last and most recent phase of funding prioritisation. In a short paper, originally developed for the Overseas Development Institute, Neissan Besharati provides a useful account of private sector involvement in the South African education system. The paper is an important contribution to the current debate in South Africa, as it highlights the extent to which local corporate funding has overtaken the first decade of international funding and, importantly, how new policy frameworks and government incentives have created a conducive environment for this trend to continue. Considering the international economic downturn in recent years and which has impacted on developing economies such as South Africa, this review of private sector involvement in education is timely.

\* The author is currently affiliated with the Regional Centers for Learning on Evaluation and Results (CLEAR), based at the Wits School of Governance.



## Executive summary

South Africa is an exceptional case study with regards to the private sector's engagement in the education sector. This has deep historical roots and is linked to the role education plays in South Africa's social and political transformation, and in providing the critical skills needed for the country's economic growth. Numerous public-private partnerships have been established over the years to address the weak schooling system. Corporations and their affiliated foundations have invested significantly in South Africa's education sector, through manifold types of interventions in support to the public system as well as through supplementary parallel activities. Funding from domestic private sector to education has now reached levels beyond the funding provided by traditional donors. Corporate social investment is increasingly more aligned to company areas of operation and facilitates a social function while also fulfilling business interests. The success of South Africa's public-private partnership and corporate investments in education is greatly due to strong policy frameworks and government incentives developed in the past decade. The experiences, frameworks and lessons from the South African context can be useful to guide the growing global debates around the private sector's contribution to development results in Africa and worldwide.

## Analysis and evidence

### Historical roots of private sector engagement

Business engagement in South Africa's education sector goes back many decades, as the corporate sector has always been at the heart of the country's economic and political transformation. In response to the tragic urban riots of 1976<sup>1</sup>, 180 business leaders gathered for a conference at the Carlton Hotel to address the plight of the disenfranchised black population. This conference led to the establishment of the Urban Foundation (UF), a foundation that pooled resources from the 80 corporations in order to provide housing and schools for poor communities. Thanks to the influence of the Sullivan Principles<sup>2</sup> in the 1980s, American companies, some of the biggest

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1 In June 1976 more than 20,000 black students took the streets of Soweto to protest against the policy introduced by the apartheid government to force Afrikaans as the medium of instruction in public schools. The clashes between protesters and police lead to the tragic death of 200–700 young people.

2 A corporate code of conduct for social responsibility introduced by Rev. Leon Sullivan, applied by US-based corporations in the late 1970s in South Africa to exert economic pressure in protest against the apartheid government.



foreign investors in the country, made clear their stance on Pretoria's discriminatory regime and provided roughly \$18 million through the non-profit sector (Dialogue, 2005) to implement social and educational activities, making South Africa one of the biggest examples of corporate social investment worldwide (personal interview, Whittaker, 2012).

## Education imperative in South Africa

Education has always been a top development priority for both the government and the private sector, with education spending in South Africa reaching 5 to 6 percent of the GDP<sup>3</sup> (OECD, 2008). The nation's economy is highly dependent on the availability of skilled labour, which is raised through a well-functioning school system. This provides a strong 'business case' for the private sector to partner with government and provide all kinds of support, interventions and development programmes to improve the quality of education in South Africa. The situation was made more acute by the apartheid system that had deliberately debilitated the schooling system of the black majority, causing South Africa to continue to have one of the worst standards of schooling in Africa and worldwide<sup>4</sup>. Therefore, in the new democratic dispensation, improving the performance of the public education system is a critical imperative for addressing issues of poverty, equality and sustainable development.

## Major public-private partnerships

In the early 1990s, 14 businesses established a partnership with the trade unions<sup>5</sup> and the black political organisations<sup>6</sup> called the Joint Education Trust (JET) to address the challenge of restructuring the country's dire education sector. Since 1992 JET has spent over R1 billion in educational programmes, policy advice and education research, continuously testing and refining school development models. Other major platforms channelling corporate resources in development have been the South African Grant-Makers Association (SAGA) and the National Business Initiative (NBI), both established in 1995. One of the flagship programmes of the NBI was

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3 For global standards this is fairly high and comparable to other prominent countries like Brazil and Australia. It is also aligned to the UNESCO global benchmark of 6%.

4 South Africa is ranked 127th among 142 countries with regards to quality of primary education in the Global Competitiveness Report (2011). In international language and math assessments such as SAQMEC (2007), PIRLS (2006) and TIMSS (2003) South Africa has consistently underperformed, ranking below other African countries with lower income levels.

5 COSATU, NACTU, SADTU.

6 ANC, IFP, OSAPO, PAC.



the Education Quality Improvement Programme (EQUIP) implemented in 500 schools throughout the country. More recently Sanlam and the NBI established the Learning Partnership to encourage the collective impact of the private sector on education. One of the biggest partnerships implemented in South Africa was the Business Trust, which had on its executive board half of the Cabinet and half of the business leaders of the country. Among its manifold programmes, the Business Trust invested R400 million between 1999 and 2005 to improve hundreds of schools across South Africa, through its Quality of Learning Project and Learning for Living. One of the most recent public-private partnership include the Basic Education and Partnership with Schools (2011), one of accords reached between social partners<sup>7</sup> in the New Growth Path, South Africa's macro-economic strategy, to produce 5 million new jobs by 2020.

## How does the private sector engage?

In South Africa, companies engage in education activities through some of the platforms mentioned above, but also independently through their own CSR divisions, or through fund-managing firms such as Tshikululu Social Investment (TSI). The majority (70%) of private sector funding for development is channelled through non-governmental organisations (NGOs), not-for-profit organisations (NPOs), charities and affiliated schools. Increasingly, however, South African companies are directly implementing corporate social investment (CSI) themselves, at times integrating these with other company divisions (procurement, marketing, customer service). Employer volunteer activities are also becoming more popular in the corporate world (Dialogue, 2005). Some of the major companies in South Africa have established their trusts and foundations separately from their business operations and dedicated entirely to managing their social investments. Many of the major American philanthropic foundations such as Ford, Soros and Gates operate in South Africa, but a number of local foundations are also present such as the Ackerman Family Educational Trust and the Donald Gordon Foundation, both established by prominent South African business leaders.

## Extent and volumes

For manifold reasons, it is difficult to measure the full extent of corporate social spending in South Africa; nevertheless education always ranks at the top of private social investments. The Cape Town based consulting firm, Dialogue, regularly

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7 Government, business, labour unions and communities

surveys a sample of some of the biggest South African companies and publishes such information in its yearly CSI handbooks. In 2012 corporate social investments rose to R6.9 billion (Dialogue, 2012) and almost all companies surveyed by Dialogue were engaged variously in education activities. Between 2005 and 2012 education constituted between 35 to 43 percent of CSI in South Africa, against funding to health or environment sectors, for example, which have been below 20 percent (Dialogue, 2005–2012). In 2012 businesses contributed R1.3 billion to different education programmes, from pre-primary to tertiary and adult education (Perold & Associates, 2012). This figures are probably underestimated, as CSI budgets do not usually include company products, services and employee time, which are normally included in foreign donors' aid budgets. Furthermore, the Dialogue surveys are mainly on large corporations and do not include the small and medium enterprises, which the Perold & Associates (2012) estimate to contribute more than R4 billion a year to education. Overall, the local corporate sector financing to South Africa's basic and higher education sector surpasses by and large official development assistance (ODA) from traditional bilateral and multilateral donors, which in 2011 and 2012 was reported to be merely between R150 to R300 million (National Treasury, 2012).

### **Learner-focused parallel provision**

Traditionally much of private sector engagement in South Africa's education sector has been through parallel provision, bursaries and scholarships to poor learners to enable them to attend affiliated private schools. There are roughly 25,000 private and independent schools in South Africa; however this is only 5.2 percent of the entire school population (Department of Basic Education, 2011). As is the case in many developing countries, private schools remain the first choice of middle-class families due to their superior quality and standards as compared to public schools. Many corporate programmes such as LEAP, Alan Gray Orbis, Metropolitan, target learners from disadvantaged backgrounds and place them in high-end schools, providing them support with tuition fees, learning materials, uniforms, transport, meals and at times also boarding and psycho-social support. Another less drastic form of support to learners suffering from weak public schooling are supplementary enrichment programmes, especially in maths, the sciences and specialised subjects, offered usually in the afternoon, on weekends and in school holidays. These are usually run at public schools after official hours or at facilities in neighbouring communities, with transport being provided at times. Support to early childhood development (ECD), which is



underresourced in the public sector, is also a popular corporate social investment<sup>8</sup>. Twenty percent of CSI in education is in ECD (Triologue, 2011). Concerns have been raised about the sustainability of such parallel private provision and the need to rather invest in strengthening the public system, which would benefit a larger number of learners in the country.

## Corporate support to the public school system

With the increasing awareness of the importance of this area, in recent years there has been greater private investment in teacher training, both pre-service and in-service<sup>9</sup>. Nevertheless, very few companies venture into more systemic school improvement in curriculum development and school governance, instead they prefer supporting well-established NPOs like READ, Class Act and Sci-Bono to undertake such work. Aside from the specialised work of JET, some companies, such as General Motors, Zennex and First Rand, have taken their education programming to higher levels of complexity by exploring alternative school development models, governance and accountability systems, teacher development and learner support, and playing an active role in influencing national and provincial education policy. The Shuttleworth Foundation has developed a large series of textbooks that have been distributed to public schools throughout the country. Only 30 percent of corporate spending is being channelled via government institutions (Triologue, 2011). Nevertheless, to provide further resources and capacity to Dinaledi ('Star') public schools, the Department of Education encouraged an 'Adopt a School' initiative, which was supported by many large companies as well as foreign donors (Department of Basic Education, 2009).

## Provision of learning resources: synergies and risks

Aside from the exceptions above, private sector interventions in the education sector are predominantly in the form of infrastructure and facilities upgrading (building new schools and refurbishing old schools), information and communications technology (ICT) and textbook provision. The McCarthy Group's 'Rally to Read' campaign, for example, sends trucks and 4x4 vehicles to remote parts of the country every year to furnish the libraries of poor schools with reading books. Similarly, oil companies

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<sup>8</sup> See for instance ECD projects of ABSA, SASOL, First Rand, Rio Tinto.

<sup>9</sup> Some good examples include teacher training programmes of Anglo American, SASOL, Rand Merchant Bank, Standard Bank, to name a few.

(Sasol, Caltex, BP) have been providing science laboratories to many schools. This also illustrates how corporate social investments are increasingly aligned to the companies' core business operations (ie. logistics, sciences and technology). Cell C provides maths revision applications as a mobile phone game to learners, and many of the South African media outlets provide educational support material, such as the Study Mate (SABC), Power Your Future (*Sowetan*) and Read Right Edition (*The Sunday Times*). Dozens of companies from all sectors – mining, petrol, financial services, manufacturing, retail, telecommunications, state-owned enterprises – are engaged in assisting schools and learners across the country, generally close to their geographic areas of operation and using their specific specialised industry expertise. Against the backdrop of a weak public system, the state has often contracted private companies as 'implementing partners' in the provision of important educational services such as providing school meals, books, learning resources and uniforms. Lucrative public tenders have however, like in many other parts of the world, also lead to serious cases of corruption, inefficiency and lack of delivery, as illustrated in the recent textbook scandal in Limpopo Province<sup>10</sup>

## Motives and incentives

From pre-1994 to today, private sector interests, motivations and incentives to engage in the education sector have been mixed. Though there is always an element of altruism and philanthropy in private giving, corporate social investments are often public relations 'window-dressing' exercises – marketing efforts to promote a good, responsible image of the corporation. Nevertheless, companies are starting to realise the long-term benefits for their own growing business to invest in social and economic development. Under the approach coined 'enlightened self-interest', companies invest in education, knowing that uplifting human capital in South Africa will also produce long-term returns for their businesses. Developing a young, well-educated and capable African population will in fact improve the available workforce, the contractors to partner with and the clientele to engage with. These are all critical for improving the country's investment environment and international competitiveness. A stable, prosperous and growing economy is important for all businesses, particularly the mining houses and the financial sector, which control most of South Africa's economy. In the same way that

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10 See for instance <http://m.corruptionwatch.org.za/content/updated-timeline-limpopo-textbook-saga>, <http://mg.co.za/article/2012-07-05-siu-probes-senior-officials-in-textbook-shame>, <http://www.news24.com/SouthAfrica/News/5-000-dumped-textbooks-found-in-Limpopo-20120807>



'what is good for America is good for General Motors and vice versa'<sup>11</sup>, one can safely say 'what is good for South Africa is also good for Anglo American'.

## Enabling the CSI policy environment

In the final analysis, enabling legislation and policy frameworks have played a significant role in engaging the South African private sector in education and development. In 2000 the South African government passed the Taxation Laws Amendment Act, which provided tax incentives for corporate donations to public benefit organisations (PBOs) working in the areas of education, HIV/Aids and assistance to vulnerable children and the elderly. A critical policy introduced by the Department of Trade and Industry (DTI) was the Black Economic Empowerment (BEE) Act (2003) aimed at transforming shareholders, management, staff, skills development, procurement, local SME development and social investment practice in favour of previously disadvantaged groups. This practically meant that companies would score extra points for spending on training and community development if they wanted to be awarded profitable government contracts through the Preferential Procurement Policy Framework Act (PPPFA, 2000). The BEE framework led the way to industry charters, corporate score cards and sustainability reports which encouraged the intensification in the last decade of corporate social investment in South Africa. Some of the industry-specific charters, such as the ICT and the financial sector scorecards, for example, require companies to contribute 0,5 to 1 percent of their profits to social development activities (Triologue, 2005). In providing licences and concessions to mining corporations, one of the first things agreed with local authorities is what the companies will do for the nearby communities. Another important impetus to CSI was given by the code of good practice outlined in the various Mervyn King Reports on Corporate Governance, which emphasised the importance of social and environmental accountability as part of the triple bottom line. Very important also was the introduction by the Johannesburg Stock Exchange (JSE) in 2004 of the Socially Responsible Investment (SRI) index, in which most large companies in South Africa have been listed and against which they are annually measured<sup>12</sup>.

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11 Notorious saying by Charles E. Wilson (1957), CEO of General Motors and US Defence Secretary under President Eisenhower

12 See more <http://www.jse.co.za/Products/SRI.aspx>

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