Sub-Saharan Africa • South Africa

Edu-Loan: Providing commercially viable financial services to support education for the poor

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Sector • Financial Services
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Summary
After decades of violence and segregation during the Apartheid era,\(^1\) South Africa was recovering and establishing an inclusive society based on equal rights and opportunities for all. For decades, public authorities neglected the education of the vast majority of its people—now referred to as “historically disadvantaged” (HD) people.\(^2\) In the new South African economy, there are significant needs for skilled workers and access to education to sustain development. However, post-secondary education is not free and most HD people do not have enough money to pay for it, nor do they qualify for traditional modes of financing.

Edu-Loan is a private company focused exclusively on post-secondary education loans. It is a for-profit company offering simple repayment options at affordable rates to HD applicants interested in advancing their skills. Since its inception in 1996, Edu-Loan has financed close to 400,000 students with loans totaling more than US$140 million. This case examines how two social entrepreneurs saw an opportunity for a profitable business venture in a niche market that would have a positive impact on HD people.

Positive Outcomes for the Poor
- Poor people can finance superior studies or a professional formation, particularly through correspondence courses
- Services are easily accessible, uncomplicated and deal with borrowers in “laymen’s language”
- Borrowers can concentrate on education, Edu-Loan paying tuition fees and books directly to institutions and bookshops
- Employers can find a virtually no-cost financing system to encourage the upgrading of skills of their employees by sending them to attend superior studies or professional formations
- Women can equally access such services, which participates in their autonomy

Key Barriers
- Still many without access to financing: to avoid defaulted loans, Edu-Loan strictly screens the applicants based on tough criteria
- Lack of private sector participation: 90 percent of Edu-Loan clients work in the public sector; private sector employers are reluctant to finance skills upgrading for their employees

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\(^1\) In 1991, South Africa emerged from Apartheid - decades of segregation and oppression by the ruling white minority. Apartheid led to high levels of violence, shrinking international investments, and very little human or economic development.

\(^2\) Historically disadvantaged people reflect all South African people whose rights and economic roles were oppressed during Apartheid including: Black people (75.2% of total population in 2000), Coloured people (8.6%), Indian people (2.6%). White people represented 13.6% of South African population in 2000.
Key Innovations

- The building of partnerships involving entire value chains around a financial system (employers, universities, public authorities, communities)
- A financial system enabling the provision of low interest rates and no deposit to borrowers

Opportunities & Challenges for Scaling Up

There is huge potential for development:

- Education is vital to the survival and growth of South African young democracy; the more access people have to education, the better off South Africa will be as a country.
- Only 15 percent of employers— including government— have made any commitment to education via a payroll deduction scheme so far; whereas lack of education in South Africa is one of the biggest social problems today

However, Edu-Loan’s range of action depends upon the following constraints:

- Marketing: clients typically discovered Edu-Loan simply because they find an office or a recruiter on a campus “by accident,” or because a relative mentioned it. Edu-Loan planned to roll-out a massive media campaign in 2007
- Product diversification to remain focused on education finance and look beyond students.
- Access to finance for the company: either Edu-Loan strengthens its own capital base or develops innovative projects for an even lower income market to maintain the interest of international investors that would continue to back credit lines

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^2 Report to South Africa MDG Report 2006