Soundbite

TOP CLASS

EDUCATION + BUSINESS = INNOVATION

In the global education industry there is now increasing talk of 'inclusive business models', especially with reference to investment opportunities across the developing world. The concept originates from the international development community which, after half a century, has finally realised that for-profit companies not only serve the rich but also have a lot to offer the two-thirds of the world's population (4 billion) that lives on less than $3,000 a year. An inclusive business model is therefore simply defined as a sustainable business that increases access to goods and services to low income communities, while, at the same time, providing them with new sources of revenue and employment.

NEW MODELS FOR THE WORLD'S POOREST COUNTRIES

While examples of these models have already been documented in numerous other sectors such as banking, housing and health, it is only in the last few years that they have started to appear in education. For example the International Finance Corporation (IFC) has documented the growth of the 'Value for Money Degrees' model which makes university education accessible to all through a combination of innovations that increase affordability and value. An example is Anhanguera in Brazil which educates 650,000 students a year on its campuses and 100,000 students online. The Monitor Group has also documented the 'Private Vocational Training at the Seam' model, which enables private vocational colleges to provide low cost, no-frills, quality further education courses.

In India, Sudiksha Knowledge Solutions is one of a growing number of innovative and ambitious for-profit ventures which provides pre-school education for children living in poverty. A woman from each local community is responsible for the daily management of each school and, in return, they receive a profit share, thereby providing school managers with an incentive to continually improve the services which they offer. Sudiksha is now hoping to develop one million pre-schools across India based on a new curriculum that children can actually enjoy.

In Zambia a different innovation has emerged under the brand name of iSchool, Zambia. This for-profit company offers a comprehensive online multi-media e-learning package which covers the whole of the Zambian school curriculum, including both lesson plans for teachers and interactive learning for students. Schools can purchase the 'iSchool in a Box' package which provides all the resources necessary to make full use of the materials, including laptops and tablets for staff and children, secure storage, power supply, internet access, teacher training, mentoring and technical support. The average cost per pupil is approximately £19 per child per year.

So why is the emergence of these new inclusive business models across the developing world relevant to the future development of education in the UK? The rate of innovation being experienced in these markets is both rapid and potentially very disruptive. This is because, to make products and services affordable to the poor, significant and not piecemeal innovations are required. Furthermore, the lack of government intervention and control in some education sectors is providing a conducive environment for innovation.

A relevant example is mobile education – enhancing educational outcomes using mobile technology, which is still in the very early stages of development in most schools in the UK. However, in a 2012 report by GSMA and McKinsey, the global market for mEducation products and services is already estimated to be worth approximately $3.4 billion and is expected to increase dramatically to $70 billion by 2020. For example in the Philippines over 500 schools are experimenting with a programme called Text2Teach which uses Nokia's Education Delivery (NED) technology to deliver video content to teachers via their mobile phone. Another mEducation innovation is Tutor on Mobile (TOM) which connects people who want to learn and acquire knowledge with experts in India through their mobile devices. This is a 'knowledge marketplace' that encourages the sharing of knowledge, and provides an opportunity for people to earn money at the same time by providing learning content.

With portable devices now rapidly evolving, capability is increasing and costs are reducing. The UK company Datawind has recently launched the world's cheapest tablet in India at a cost of only £40 (or £25 if purchased in bulk by the government). These innovations, combined with the emergence of a new technology-literate generation, mean the possibilities are now endless. Any UK-based company involved in any aspect of education would therefore do well to keep an eye on these developments.

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A sobering thought
– why the poor will pay for **minimum alcohol pricing**

It has been estimated that a 50p minimum unit price for alcohol will cost consumers £2 billion a year. This has been described as a "bonanza" and a "windfall" for retailers. In fact, this is an example of a policy that will make some people poorer without making anybody richer.

Let's say there are three brands of beer. The bottom end brand, Cheapo, retails at 35p per unit; the mid-range brand, Average, retails at 50p; and the high end brand, Premium, retails at 60p. The more expensive beers cost more to produce and are more heavily advertised than the cheaper beers. They taste better and they are perceived to be superior. Let's say the retailers make 5p profit on all three of the brands.

Now consider the effect of a 50p minimum price. Cheapo now sells for 50p and the retailer pockets 20p instead of 5p. That's a windfall for the retailers, right?

Wrong. Consumers will generally switch to higher-quality Average which has the same price. Cheapo's unique selling point was its low price. At a higher price point it can't compete with the other brands on quality, so it no longer has a place in the market. Sales of Average should increase, but that doesn't necessarily provide extra profits for the retailer.

But what if retailers adjust to the minimum pricing regime by selling Average for the higher price of 60p and pocket the extra 10p? That would be unwise since it would force Average to compete with the superior brand. Again, why would consumers pay 60p a unit for a mid-range brand when they could have a top-end drink for the same price? Average will become the new market leader at the bottom end.

Or maybe retailers would increase the price of every brand of beer. If the government forces up the price of the low-end brand by 15p with a mandatory minimum, why shouldn't they increase the price of all beers and pocket the difference? But if it was that easy to generate extra profit, there's no reason for them to wait for minimum pricing. Why don't they do it already? The answer, of course, is competition between retailers. If Tesco raises the price of its beer, people will shop at Asda. As in any competitive market, retailers have an incentive to push prices down, not up. The only way the price of the entire product category could increase would be if there were collusion but there is no evidence that this would happen and it would be illegal.

The alternative scenario is that the drinks industry collects the windfall by raising the price at which it sells beer to the retailers, but this is also implausible for the same reasons given above. The manufacturer of Cheapo could increase its wholesale price from 30p to 45p in the knowledge that the retailer has to sell it for at least 50p, but the onset of minimum pricing has not increased their production costs and a rival company could launch a budget brand and sell it to the retailer for less. There can be no "excess profits" so long as there is competition.

But if there are no excess profits, what happens to the extra £2bn that drinkers have been compelled to spend thanks to the minimum pricing? In our example, drinkers of Cheapo are badly hit by the policy. But the biggest victim is Cheapo itself which sees its customers switch to the superior Average brand.

This is the most likely effect of minimum pricing: the bottom end of the market will simply disappear. The cheapest drinks will become more expensive and they will be of a higher quality, but they will be no more profitable for the manufacturer or the retailer. The only way Cheapo could survive would be to "do a Skoda" and compete with Average on quality. That means higher production costs and a bigger advertising spend. It would no longer be a budget brand – minimum pricing will make budget brands extinct.

MINIMUM ALCOHOL PRICING MEANS HIGHER PRICES, LESS CHOICE, HIGHER MARKETING COSTS AND HIGHER PRODUCTION COSTS

Under some scenarios, it is not impossible to see supermarkets benefit from minimum alcohol pricing, but the most likely outcome is that the government will make a little more money from VAT on more expensive alcohol and that the extra sales revenue will be swallowed up in production and marketing costs for beer that consumers would prefer not to buy.

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Do free trade zones undermine *Capitalism?*

Global free trade negotiations have been stalled for two decades. Most political effort has been on more limited unilateral fixes – notably the creation of free trade zones (FTZ) to smooth the multi-stage, multi-country supply chains that have come to dominate commerce in industrial goods.

There are 3,500 free trade zones worldwide, the majority in emerging economies, where most national regulation is suspended. Policymakers typically promote them as a means of job creation, but the real purpose is to liberalise markets hindered by interest group conflict, local government corruption or ideological rigidity.

Zones are often established in the poorest parts of countries that would otherwise languish for lack of infrastructure. They often become home to multinational manufacturers producing goods such as clothing or consumer electronics, or to firms repackaging products such as cigarettes and pharmaceuticals for re-export. Thus FTZs may speed local development, as well as signaling the advantages of free markets to other localities within the country: think of the "special economic zones" in which Deng Xiaoping introduced capitalism to post-Maoist China.

The downside

FTZs sometimes make it possible for autocratic regimes to perpetuate illiberal societies – for example, North Korea – by using them to generate desperately needed foreign exchange. More commonly, FTZs can become havens for smugglers, money launderers and terrorists in search of hard currency. And these problems can discredit free trade and regulatory reform by equating the free-for-all of cowboy capitalism with free markets.

A few zones in rich countries, such as the St Regis-Mohawk Reservation in New York State that serves as a major transit point for smuggled cigarettes, illustrate the downside. But for the most part, highly industrialised countries manage to maintain civil institutions and the rule of law without undermining their attraction to investors. The same cannot be said for developing countries, particularly those with weak political institutions.

Panama's Colón Free Trade Zone, with close proximity to the Panama Canal, is one of the busiest FTZs in the world and is a beehive of illicit activity. The Panamanian military has been known to collude with importers seeking to evade regulation, getting a cut of the savings on goods otherwise subject to stiff tariffs. More ominously, it has co-operated with smugglers to transport weapons and illicit goods to private militias across South America that mix radical politics with crime. Colombian cartels and Paraguayan criminals use multiple FTZs to funnel cocaine revenues to Hezbollah in exchange for protected access to Middle East drug consumers.

FREE TRADE ZONES MAY SPEED LOCAL DEVELOPMENT BUT CAN ALSO BE A MAGNET FOR CRIMINAL ACTIVITY

Perhaps not surprisingly, organised crime often fills the power vacuum left by the absence of regulation. Aruba became a haven for the Sicilian-based Caruana-Cuntrera family, which controlled 60 per cent of all property on the island in the early 1990s. It was an ideal waypoint in the American-European narcotics trade. By the mid-1990s, Aruba's reputation had also made it a no-go zone for legitimate foreign investors wishing to avoid guilt by association. Under pressure from multinational corporations (and foreign governments) the Aruban government finally had the backbone to overhaul its laws.

The Jebel Ali FTZ in Dubai is one of Europe's largest sources of counterfeit goods. In 2008, the year I visited the zone to investigate the fake-pharmaceutical supply chain, 15 per cent of cases of seized counterfeits at EU borders were in transit from the United Arab Emirates.

FTZs also facilitate the packaging and rebranding of pharmaceuticals not licensed by the patent holder, leading to uncertain provenance and hence concerns about quality. Zones in China are also regularly implicated as transit points for bogus drugs traded over the internet.

It doesn't have to be this way

As noted above, Aruba eventually stood up to entrenched interests, implementing comprehensive background checks, tightening oversight of incoming and outgoing shipments and maintaining better inventory controls. In fact, as Aruba's FTZ became legitimate, it also became more prosperous; it is now the preferred venue for Venezuelan investors seeking relief from their country's corrupt, regulation-bound government. Aruba still has problems with inventory management, but the turnaround shows that developing country FTZs are not beyond the influence of western interests, authorities and multinational corporations•

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