

GPC Members Meeting 2018: Building Trust for Philanthropic Impact

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9:00 am – 4:30 pm

Innovations in Education

Carlos Rodriguez-Pastor, Founder, Innova Schools

DURDA: So, we're going to move on to our next session which is "Innovations in Education". And Carlos Rodriguez-Pastor, who is one of our awardees from last night with the David Rockefeller Bridging Leadership Award, is here to give us a presentation, and to share with us more about the amazing work that he's doing in Peru in education, using a private sector approach and making large-scale impact.

So, Carlos, please.

(APPLAUSE)

RODRIGUEZ-PASTOR: Thank you. Good morning, everyone. Those in the back, I'll direct you to look at the screen because I'll have a few slides to show.

I love Peru. It's a country where I'm from. It's where I spent half my life. It's where most of my business interests are still there. And I really want Peru to become a developed country. I want it to be the best place to raise a family in Latin America. I want it to be a country where there's opportunity for all.

Now, to me, Peru has absolutely everything. It's got abundant natural resources. We have mining. We have agriculture. And for those who've ever been to a Peruvian restaurant, we have amazing food. There's a little picture of a ceviche there.

And, yes, Peru has been growing quite a bit over the last 25 years; on average, about five percent, which is tremendous. Because when you go back and remember Peru just 15 years ago, our poverty rate was close to 60 percent. Today, it's less than 20 percent.

But the problem that we have is we don't have an ideal (ph) economy. We have the lowest per capita patents in the region. We have many skilled and educated workers that leave Peru and go elsewhere because they feel that that's not where they can develop their career. We lose too much of our valuable human capital.

So, my goal is to help Peru. But I had to figure out where to start. I needed to identify what was the keystone that could maybe help change the country around. So, we have a lot of options to look at.

It could be healthcare. It could be infrastructure, maybe communications. But we realized that the best way to start was to tackle the biggest problem which was education.

You can't really have a middle-class in this ever-changing economy unless you have a well-educated workforce. So, in the year 2000, Peru was ranked last in the PISA rankings. Now, for those of you who don't know what the PISA rankings are, they are these exams they give to 15-year-old kids in Math, Science and Reading Comprehension in the OECD member countries and a few other non-member countries. So, we are 41 out of 41.

As my father used to always say, when something like that showed up, is you have no downside. You can't be worse than last, right? Twelve years later, after about six percent growth in 2012, and with more countries being measured, same result; dead last.

So, as they say, Houston, we have a problem, we have a big problem. So, we also knew you don't step into something like this very lightly. You have to be aware of all the challenges.

So, we started opening our eyes and looking around and asking a lot of questions. We talked to a lot of public school officials to see what was really going on in education in Peru. And let me show you an image of a typical public school in Peru.

There it is. This is where most of the population in my country have to send their kids to school. If I didn't tell you it was a school, you may think it's a jail, right? There's fences. There's dark windows. You know, the signage is kind of falling apart.

But then what really struck us, is that already 50 percent of families were taking money out of their pocket to send their kids to private schools. So, we started looking around to see what the private schools look like. And here's an example of some of them.

We have Harvard, ok. The Harvard school, and I've talked to President Drew Faust and she says it's not affiliated with the one in Boston. If you still like the Ivies, we have Princeton, you know, a little bit of a typo there.

Now if the Ivies are not kind of your flavor, you want to go more of a West Coast thing, you can always take a look at the Stanford, and if you want something more technological, how about the Bill Gates school? And Bill says it's not his school by the way, even though it has kind of like the Microsoft Windows logo there.

But they all kind of look the same, right? They have fences. They have dark windows. It's almost like, don't come in or lock the kids in and let's not see what's going on inside, because it's probably something that's not really very conducive to the future.

Now, we're -- we're also aware that a lot of very, very smart people have lost a lot of money trying to tackle education. And last year I read a book that was kind of interesting, it's called "Class Clowns". And the title of the book is "How the Smartest Investors Lost Billions in Education." And what I knew is I did not want to be a chapter in this book.

So, we had to do things differently. And the best way I know how of trying to do things differently is try to learn from the best, and look around. Usually, when you look at a problem, there's always somebody who's already tackling it, or farther ahead or even has found the solution.

So, the first country that I looked at was Singapore. It's a country that's always inspired me because 55 years ago, Peru was wealthier than Singapore. We were just as bad in all of the indicators, whether it's -- I don't think they had PISA rankings back then. But whatever measures they had, we were close to dead last.

And Singapore had an economy that really wasn't going anywhere. But then a fellow named Lee Kuan Yew came in and was president for 30 years. And he took on the toughest challenges. And education is not something you solve in 5 or 10 years. You solve it over many, many years.

And the problem that we have in our country is that we always kick the can down the road. So, we make peace with the labor unions and toss the problem to the next guy. And few countries or few leaders are willing to tackle these issues, because you may not get the short-term political credit.

Singapore today is number one in Math, in Science, in reading comprehension, language and it's creating what the world will look like in nanotechnology and all sort of things. Imagine in 55 years what they've done. Now why can't that happen in other countries?

There's a great example of Singapore versus Jamaica. They were both kind of independent around the same time. And while Jamaica went for natural resources, bauxite and beautiful location in the Caribbean, Singapore went for the harder one; human capital development.

They send their best and brightest to the top universities in the world, asking them to come back. And today, Singapore has one of the best universities in the world. While Jamaica is a great place to visit, they're still singing Bob Marley songs but, you know, the GDP per capita is 10X difference.

We also -- I didn't know anything about education except as a consumer. So, when I want to learn something fast, I always go to TED and I found every TED Talk I can see on education and I started calling people up.

So, I got to be friends With Sal Khan of Khan Academy to see what he was doing. There's a guy up in Harlem named Geoffrey Canada, who's doing amazing things in a very difficult environment, and changing the outcomes of impoverished kids in that part of New York City.

And then I struck a friendship with a fellow named David Kelley, who is the founder of IDEO, and also the Stanford d.school. And I called up David just out of the blue, not knowing him, and I challenged him to come and help us build a network of schools in Peru.

IDEO is known for inventing all sorts of things. Just like many consulting companies, they don't take credit for it. Usually, the company that was hired -- that hired them gets credit. But David is very famous for a couple of things.

Number one is, he invented the Lavatory Occupied sign on the planes. That's the first assignment. So, whenever you see that, that's David. But he also invented the mouse. And he was Steve Jobs' best friend. And a lot of the cool things that Apple invented were done through David and his team. So, he's a terrific partner.

And we came up with four kind of non-negotiables on what our network would look like. So, the first, it had to be affordable. And affordable to us is \$100 to \$160 per month. That's the tuition.

So, this 8 million kids in K through 12 in Peru, parents who can afford to pay that; around 2 million. So, that's our target market; 25 percent of the K through 12 population.

Second, it had to have academic excellence. If we don't move the needles, we'll be just like those schools I showed you. And we're not going to feel good about anything we're doing.

Third, they had to be scalable. And this is a big, big challenge, because it's a lot easier to do one school or two schools, or to sponsor a charter school than to do hundreds of schools. You know, imagine how do you make sure that the lessons are taught roughly the same way? How to make sure that you have enough good teachers? That as you get bigger and bigger, whatever little problem you have -- you may have in one school, escalates and affects the entire network. That's a lot of the risks that we look at. So, that was very important.

And the fourth, it had to be profitable, because if it's not, then it's not sustainable. And one of the things that I've looked at over the years is the rise and -- not fall but abandonment of microfinance companies. They were the rage 15, 20 years ago. Everybody talked about them. And Nobel prizes were awarded and so on and so forth. And all of a sudden, they're not a big topic anymore because 90 percent weren't sustainable.

And when the philanthropists kind of looked at a different cause to support, they were struggling to keep up. So, to us it's very, very important this outlasts any good deed by any one person or any group of people.

We didn't just partner with IDEO. We also, you know, a very curious group. So, we talked to Khan Academy; the MIT Media Lab, Joi Ito there who's a great resource. Harvard has a project called Project 50, project-based learning for high school. Berkeley has an amazing early childhood program, and also the Ontario Teachers -- Principals' Council which was fantastic.

This is what an Innova School kind of looks like. It's the only kind of colorful part in this traditional emerging middle-class neighborhood. It's kind of like an oasis.

These are the pictures of some of our other schools. As you can see, they're bright, they're cheerful, they're kind of engaging places for kids to learn. And you see the banners, they're all in English. The design thinking, explore, design, experiment, share, which is the IDEO mantra.

And what's happened now is in 2010, we had three schools, 65 teachers, 839 students. And today we have 49 schools. We have 2,000 teachers, close to 37,000 kids. And in September, we opened our first two schools in Mexico with about 1,500 kids.

It's also important to track your progress. And there's various ways you can do that. In Peru, we're limited if we want to look at the test scores because we only measure the progress of students once, in second grade. That's it. And I think maybe part of it is because the scores are so bad. What's the use of measuring in the fourth, fifth and sixth if you have these gaping holes of knowledge so, early in your academic life?

So, the national average in reading comprehension is 50 percent. We're at 85 percent, which is similar to the top schools in Peru. In Math, it's 26 percent. We're at 64 percent, which is significantly better but still a long way to go.

We hired a company called AdvancED who -- what this company does is they measure schools all over the world, 28,000 schools. They, in a way, accredit them. There's only three that do this in Peru. It's our school and two very high-end schools. We came out in the top 25 percent.

And they don't talk to us. They go to the classrooms and watch what the teachers are doing. They talk to the students. They talk to the parents. So, it's not something you can prepare for and make a fancy presentation and just kind of take them to -- and they picked the 49 schools. We have no idea which ones they're going to visit. So, we actually love that they come every year to see how we're doing.

And another measure that we look at is 90 percent of our kids go on to higher education. So, actually, they're excited about learning. And I think they can become lifelong learners and they're doing very, very well at some of the top universities in Peru.

Not just measuring the outcome of the students, how about the teachers? So, we have a teacher track. It takes two years to become an Innova teacher. And if you don't make it in those two years, then we politely tell you to go somewhere else.

And then you can strive to become an Innova expert, then an Innova mentor and perhaps, if you want to be a principal or a regional manager, you can aspire to that. So, there's a real career track that is lacking many times in our countries.

It's very important in a country like Peru, with all the problems that we mentioned before, that values become very important. So, we keep an eye on the values we have at Innova; honesty, teamwork, innovation, diversity and humility, and we tracked this every year to see how we're doing.

And it's also very important that we have to adjust as necessary. In other words, we can't rest on our laurels. We have to see this is a work in progress. It's kind of like a living organism and we have to adjust constantly along the way. And I'll give you a couple of quick examples.

First is the sandboxes. You know, for three, four, five-year-olds -- or actually three and four-year-olds; they're a mess. If you're business person, you know, the sandboxes in 49 schools, sands all over the place, you have to get cleaning people. So we said no sandboxes.

So, the Berkeley early childhood team came and said, where are the sandboxes? We don't have them. Well why don't you have them? It's really important. Kids need sandboxes to explore, to kind of touch and feel. So, we found a very efficient way to put them in and now we have sandboxes.

Likewise, we thought it was really, really cool to have in the classrooms and the hallways all these images that our kids should play. You probably see them in some of the nurseries and, you know, kids are happy tossing the ball around. And they said, take that down.

Don't condition kids at that age to think in a certain way. Make them blank. Let them color outside the lines. Let them figure it out. This is the most creative moment in children. Why are you going to tell them how they should think, how they should act?

So, we took them down. So, it's very, very important to listen to the experts and then to make sure that when you make changes, they're for the good of the students and for the good of the schools.

Our goal is to change Peru. I know it's a lofty goal. But I'd like to do it in my lifetime. And the keystone for us is education. I think that's where it all starts. We are very aware of our challenges. And we have to think differently along the way.

By tracking our progress, it gives us an idea of what's working and what's not so we can adjust as necessary. This isn't a short-term project for me and my team. It's something we'd deeply invested in in the long term.

But I really believe that if we keep going, we stick to it, we can really make a difference for Peru. Thank you very much.

(APPLAUSE)

DURDA: (OFF-MIKE) We have time for questions.

RODRIGUEZ-PASTOR: OK. Sure.

DURDA: So, we'll take questions.

UNKNOWN: (OFF-MIKE).

RODRIGUEZ-PASTOR: It's kind of -- yes. Was there any involvement from the government from the beginning or early on? Not a single dollar or a soul that we generate comes from the government. So, it's totally independent business.

But we have to have a very good relationship with the government, both in the federal level and the municipalities who give you the permits. I think that what's really funny is that we've had visitors from all over the world, even from Singapore and Finland, which are two of the best places. Because that's how good they are; they want to know everything that's going on in education. They're always trying to learn.

But our government, you know, we've had chats with them. They come and visit. But there's so much change going on at the leadership. I think I mentioned last night that we've had four education ministers in 18 months, that it's hard to get any traction. But we share everything we do with them because at the end, it's the public sector that's going to enact the biggest change. We can kind of help push the agenda. But it would take us many, many decades for the private sector to do it.

QUESTION: Yes. Thank you so much for this really inspiring presentation. A couple of questions; when educational reform -- at least in the United States it tends to happen, we run into big problems in terms of labor unions.

RODRIGUEZ-PASTOR: Right.

QUESTION: I wonder how you address those, number one? Number two, you said that one of the keystones is profitability. What kind of rate of return are you shooting for? And how do you attract investors to your projects?

RODRIGUEZ-PASTOR: OK. So, the first one was about unions. We don't have a union. We have 80,000 employees in our whole group. And we have 70 union members.

Of our companies, 12 are in the great place to work list. And five are in the top great place to work in Latin America. I think if you treat your employees with respect, you give them the tools they need to succeed, you pay them fairly, there's no need for unions.

I have nothing against unions, but they stay away from our companies. And so far, as we keep doing a good job in Innova Schools, I don't think that's going to be a problem. They've tried it and they've failed. Because in Peru unions also have a bit of a bad reputation.

The other question was about profitability, right?

QUESTION: Yes, rate of return.

RODRIGUEZ-PASTOR: Sure. So, what we did to keep ourselves honest is when we started this project, we funded it 50 percent with our family group and 50 percent with a private equity group. Because we wanted the toughest investors, the ones that have the sharp elbows to tell us, hey, this is a -- you're feeling good but you're not making our returns feel good.

And we had our first investor meeting for the private equity fund in Innova Schools. And we told them it's going to be the longest exit. It turned out to be the earliest exit. It was a IRR north of 30 percent, close to 3X.

In terms of the operating metrics, they were closing in on a hundred million revenues now. Our schools take four years to mature. When they mature, we have EBITDA margins between 37 and 40 percent.

And the capital expenditures for each school are about close to \$5 million, which after year three, we try to lay off by doing securitized bonds against the flows of the schools. So, that's the way it works.

Similar, I guess to the hotel industry where you don't own hotels, you try to manage them. But initially you have to build the schools, fill them out, and then you can securitize the flows. So, it's a very sustainable business.

QUESTION: Thank you.

RODRIGUEZ-PASTOR: Sure.

QUESTION: (OFF-MIKE). Congratulations on your award. And your success story is so impressive, truly, so impressive.

My question is regarding the teachers. How do you train the teachers? So, who's training the teachers? And who created the program to teach them?

RODRIGUEZ-PASTOR: OK. So, we invest about 200 hours before a teacher can teach at Innova Schools, and about 160 hours per year. We have a bunch of different programs. But one of the most the ambitious projects that we have, that we're starting later this year, early next year, is the Innova Teachers College where we expect Innova to be in a bunch of different countries. And we have to have the best training for our teachers in order for the model to work.

One of the challenges that we had when we started was teacher satisfaction was not very high. And one of the complaints we had from our teachers was too many hours. I said, wait a minute, but that's what the teacher has to work, 48, 50 hours, that's -- well, it turns out that a lot of the teachers that work in public schools have two jobs.

So, the complaint was really we can't have two jobs if we work at Innova. We can only do Innova. And so, imagine if you have two jobs and you're kind of doing it halfway in each job. That's the reason some of the problems we had.

The other challenge I think with teachers is about eight years ago -- 10 years ago, I happened to be in a meeting with the President of Peru. And the Minister of Education walked in and said, "Mr. President, I have the results."

They had just conducted an exam, basic exam, basic knowledge, reading comprehension, basic Math of the 350,000 public school teachers in Peru, all 350,000. It's a big huge thing. And they were going to revamp the whole training and the meritocracy, et cetera, like sometimes you read in the papers here in the States. And the minister looks at the President and says, should I tell the results in front of this guy? Go ahead, tell him the results. Mr. President, only three percent of the teachers approved. Three percent of 350,000 professors, teachers.

And the President was a political guy, his intake was, we can't publish that. Publish 35 percent. It's still low but we can't publish that. Well, luckily, they published three percent.

So, think about this, any time a teacher presents themselves, I'm always saying, is he part of the three percent or part of the 97 percent? So, we have a problem in all places. In the States, the

bottom 25 percent performers in college end up at teachers. That's not saying there're those who can't do, those who can't teach.

Well, it's not that way in Finland. In Finland, teachers are rock stars. They don't get paid like rock stars but they feel like rock stars, because they're actually inventing the future with the kids. So, that's where we need to get to. We're a long way from there.

And one of the last things I'll mention about teachers is that we just partnered with IBM, with Watson to use artificial intelligence to determine what are the characteristics that make the best teachers for Innova Schools?

It's too early to get the data, but we have one data point which is kind of interesting. If a teacher has an ability to say I don't know, that's real positive. And that's hard for teachers. In today's world where all the knowledge is already in our search engines and in whatever -- Echo and Amazon, et cetera, you don't need to know everything. You need to know where to find it and how to look for it. So, inquiry-based is very, very important.

QUESTION: Thank you.

RODRIGUEZ-PASTOR: Any last questions?

One last thing I'll mention is I always bring with me -- because a lot of people ask how did you guys work with IDEO, what did you do? We're opening in Mexico in September. So, we did the exact same project we did in Peru with the Mexican partners, so that they would feel it was their project. I did not participate. They went through the whole six, nine months of inspiration and, you know, experimentation, et cetera.

I have the result of that which is really our business plan. I can't give copies to people but I can, you know, pass it around and let you look at the level of detail we go through before we put our first invested dollar in the project. That's the way to ensure that you don't have to relaunch things over and over.

Anyway, thank you very much.