2019 GLOBAL EDUCATION FINANCE CONFERENCE

Post-Conference Report

Kampala, Uganda

OPPORTUNITY EduFinance

CONTENTS

OVERVIEW

SESSION 1
— The Economics of Education Lending - Improving Access and Quality of Education in Low-Cost Schools

SESSION 2
— Lending Profitably to Schools: School Improvement Loans

SESSION 3
— Reducing Portfolio Risk and Dealing with Schools in Arrears

SESSION 4
— Know Your Client: Understanding the Challenges of Low-Cost School Proprietors

SESSION 5
— How Improved Education Quality in Schools Reduces Portfolio Risk for Financial Institutions

SESSION 6
— Business Case for Student Lending: School Fee Loans, Tertiary Tuition Loans, Vocational Training Loans

SESSION 7
— How to Grow Your EduFinance Portfolio: Training Loan Officers to Sell EduFinance Products

SESSION 8
— How Financial Institutions can Access Capital for Education Lending

SESSION 9
— The $24 Billion Opportunity in Education Finance: How We Estimate the Market Size of EduFinance Products

SESSION 10
— Portfolio Allocation to Education Finance

SESSION 11
— Analysing Your Education Finance Portfolio

SESSION 12
— Faster EduFinance Loan Disbursements: Credit Algorithm

SESSION 13
— Profitably Growing Your EduFinance Portfolio: How Opportunity EduFinance can Help Financial Institutions

SCHOOL VISIT

For Presentations and Discussion Notes go to: https://edufinance.org/edufin19

SOCIAL MEDIA HANDLES

OIEduFinance OIEduFinance OpportunityEduFinance OIEduFinance

KEY CONTACTS

ETAF: Andrew McCusker, Head of EduFinance, amccusker@opportunity.org
EduQuality: Renée McAlpin, Education Quality, Manager, rmcalpin@opportunity.org
Media: Martin Strals, Marketing and Communications Specialist, mstrals@opportunity.org, +44 (0) 7768599834
Credit Algorithm: Scott Sheridan, Director of Operations, ssheridan@opportunity.net

Market Research: https://edufinance.org/latest/publications/research-and-learning/

DAY 1

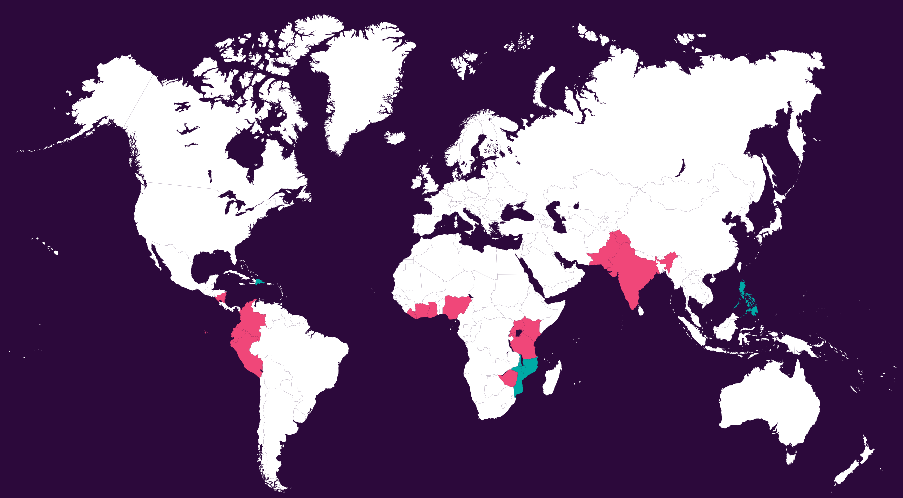
OVERVIEW

The 2019 Global Education Finance Conference brought together 33 financial institutions and 4 investors from across Africa, Asia and Latin America for three days of panel sessions, interactive discussions and a client school visit in Kampala, Uganda. More than 65 attendees participated in an collaborative structure covering 13 topics to share experiences, challenges and solutions in providing EduFinance products and services to affordable private schools and families.

33 FINANCIAL INSTITITIONS
Lending into the Education Sector Across 13 Countries

4 INVESTORS
In Financial Institions

9 EDUCATION FINANCE EXPERTS
And Education Quality Team Members from Opportunity EduFinance



THE AMERICAS
Colombia, Ecuador, Nicaragua, Peru, Dominican Republic

AFRICA
Cote d'Ivoire, Ghana, Kenya, Liberia, Nigeria, Rwanda, Tanzania, Uganda, Zimbabwe, Mozambique, Malawi

ASIA
India, Pakistan, Philippines

SESSION 1: THE ECONOMICS OF EDUCATION LENDING – IMPROVING ACCESS AND QUALITY OF EDUCATION IN LOW-COST SCHOOLS

The opening session was presented by Andrew McCusker, Head of Opportunity EduFinance.

WHAT DID WE LEARN ABOUT ACCESS TO EDUCATION?

"Access to education has improved, but quality remains a massive problem. The good news for us is the market is responding."

SESSION 2: LENDING PROFITABLY TO SCHOOLS: SCHOOL IMPROVEMENT LOANS

Attendees broke into groups, each led by a panellist, to discuss their institution's experience with school improvement lending to affordable private schools. Many attendees shared transparently regarding experiences with default in education portfolios due to their initial limited understanding of the affordable private school market when they started lending to school. Each group then presented their key discussion points:

How to best sell loans to schools. Relationships begin during the school 'scouting' process; offer financial literacy to school leaders; hire dedicated EduFinance loan officers that know the challenges schools face; prioritize client relationship management.

School Improvement Loan duration. School Improvement Loan payment terms must match the termly cash flow cycles of schools to minimize risk; consider risk of fund diversion for long tenures; evaluate opportunities to lend to the education 'ecosystem.'

School Collateral. Minimize collateral requirements with good risk appraisal; utilize a credit score to lend to segment of clients without collateral requirement; consider the value of client's business and deposit history with institution.

Managing Schools in Arrears. Assess staff ability to evaluate the specialized needs of schools as businesses; link school repayment quality to staff incentive scheme; ensure core banking system can deal with unique school repayment cycles; consider graduation pricing for schools.

School Collateral

– Minimize collateral requirements with good risk appraisal

– Utilize a credit score to lend to segment of clients without collateral requirement

– Consider the value of client's business and deposit history with institution

– Consider social guarantee options in lieu of collateral

Challenges:

– Regulation

– Tribes

– Records / Fund statements

– School Capacity

School Improvement Loan Duration

– School Improvement Loan payment terms must match the termly cash flow cycles of schools to minimize risk

– Consider risk of fund diversion for long tenure

– Evaluate opportunities to lend to the education 'ecosystem'

– Ensure product terms aligned with regulations (i.e. maximum tenor for uncollateralized loans)

– Consider overdraft facility for schools when they are starting or ending terms and require small working capital

SESSION 3: REDUCING PORTFOLIO RISK AND DEALING WITH SCHOOLS IN ARREARS

Forming three groups, attendees discussed strategies for **managing arrears, dealing with non-performing loans, and restructuring.** While operating in different markets across three regions globally, many were surprised to find the significant commonalities in experiences with addressing lending risk to schools. Institution leaders actively shared their approaches to addressing school risks early through strong relationship management, financing the full school ecosystem to mitigate risk, using a robust MIS system to track performance, and offering school leaders financial literacy training.

> ***"We believe if we are able to address the risk, we can avoid a lot of issues in the future. Having a comprehensive understanding of our market is key to ensuring a sustainable programme."***
> ***– Abiola Onakomaya, Head of Credit, FINCA Nigeria***

Dealing with Non-Performing Loans	Dealing with Risk
– Encourage client to share challenges honestly – Consider how the school ecosystem/value chains impact default – Anticipate exchange risk –Must have accurate collateral value assessment upfront – Consolidate client's multiple loans – Focus on strong relationship management as key strategy – Consider the overall quality of the school - teachers, staff, etc.	– Risk before school defaults – Address risks early – Good client relationship management solves many issues – Ensure effective MIS reports for tracking are in place – Offer or partner with organization to provide financial literacy – Risks after school defaults – Identify cause of business failure; many schools divert funds to other projects – Consider role school stakeholders play in default (parents, suppliers) – Evaluate if loan was structured wrong; proprietor may have been desperate and accepted bad terms – Ensure proper loan to value assessment; don't lend to 100% of security value – Evaluate school's ability to collect debt (student fees) – If quality of school is poor, student may perform badly and leave, teachers may leave – creates business and repayment risk

SESSION 4: KNOW YOUR CLIENT: UNDERSTANDING THE CHALLENGES OF LOW – COST SCHOOL PROPRIETORS

Four Ugandan school owners were invited to present on the difficulties they face in operating their schools, encouraging senior managers in the room to consider lending from the perspective of their school client. After hearing the challenges, attendees were invited to brainstorm possible bank solutions that could support schools to address the following challenges:

TEACHER RETENTION

Low teacher retention is common at many private schools, which affects the quality of education. Teachers most commonly cite low/delayed pay, no holiday pay, lack of nearby affordable accommodation and job insecurity as reasons for leaving. To mitigate this, Christine Kitasimbwa, Director, PAX Junior School has drafted a staff appointment letter and an HR manual. Attendees recommended financial institutions develop products that target teachers' needs for housing, medical coverage and professional development.

STUDENT FEE COLLECTION

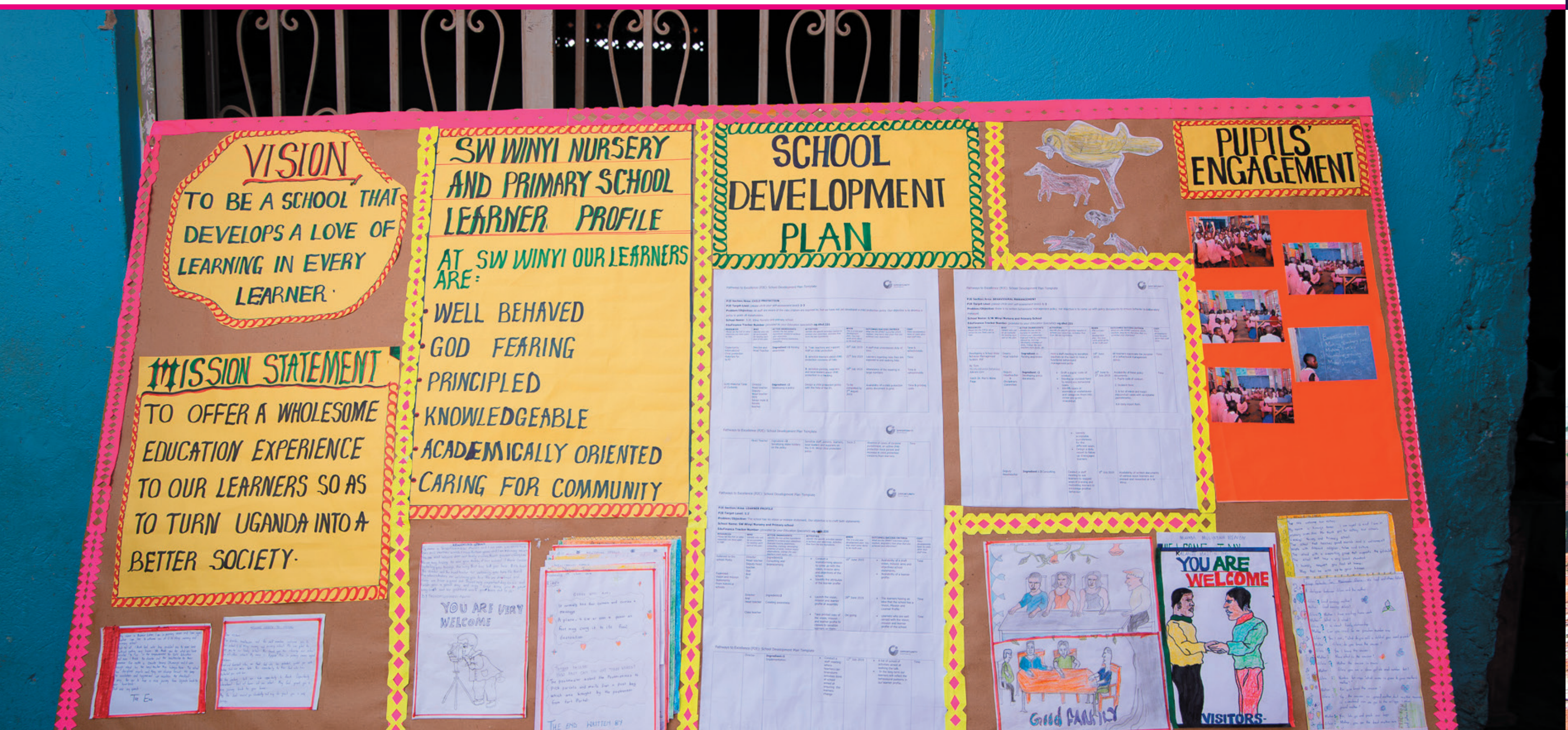
Jacob Bukenya, Director, Gayaza Nursery School clearly explains "If we get challenges with collections, we have challenges with operations." He noted that during professional leadership training workshops provided by the EduQuality program, schools are often asked by the facilitator 'how do you get to the amount of school fees you charge?' He explains some schools set fees simply based on what their neighbor is charging rather than determining the cost of giving the educational service.

PUPIL RECRUITMENT & DROPOUT

Violet Matovu, Director, Jordancrossers Primary school highlighted the challenges in recruiting new students. Parents may fail to complete the registration process and pay registration fees, or the poor network of roads around a school can make it challenging for families to access. Dropouts can also be related to fee payments or school access.

ACCESSING CAPITAL FINANCES

Moses Serwanga, Director, Golden Bell School, did not hesitate to take advantage of a room full of bankers, noting that he only sees his loan officer when his installment is due. "I would appreciate if a bank official would come and see how I am doing my business." He highlighted opportunities where banks could potentially do more to support schools, from encouraging schools to start enterprise projects to increase revenue streams to sharing market research information to help schools improve their planning and recruitment processes.



SESSION 5: HOW IMPROVED EDUCATION QUALITY IN SCHOOLS REDUCES PORTFOLIO RISK FOR FINANCIAL INSTITUTIONS

Renée McAlpin, EduQuality Manager, gave an overview of the EduQuality program, which partners with financial institutions to support improvements in school quality. She highlighted that key benefits to financial partners include new market opportunities to engage new school clients and early evidence of lower school loan default rates. Three panellists then shared their experiences with the program.

> *"Some proprietors don't have the training to manage their schools, so this EduQuality training comes in to support the schools to build their capacity and this has a positive impact on our portfolio quality."*
> ***– Samuel Kwesi Yeboah, EduFinance Officer, Opportunity International Savings & Loans, Ghana***

SESSION 6: BUSINESS CASE FOR STUDENT LENDING: SCHOOL FEE LOANS, TERTIARY TUITION LOANS, VOCATIONAL TRAINING LOANS

Attendees transitioned from discussing their own experiences in education lending to applying their experience through a case study. Groups were tasked with designing three products that addressed the needs shared by clients in the case study (School Fee Loans, Tertiary Tuition Loans, Vocational Training Loans). Group discussions highlighted that for many financial institutions, the product design process often overlooks the client perspective and moves quickly into product terms.

> *"As bankers, we are quick to want to offer products without understanding why the product is needed. Let's start with the 'why' to drive education product development." **–Terrence Mugova, CEO, Educate Zimbabwe***

EduFinance Product Design (Case Study)

Key Needs:
– Reducing absenteeism
– Improving income
– Match repayment with cash flow

Design Feature:
– Monthly payments
– Disburse direct to university/college
– Duration is semesterly / termly
– Results availed or payment
– No collateral
– Offer fewer restrictions / guarantor
– Reduced rate vs. SFL (cost of delivery is lower)

Institutions:
– Primary / secondary
– Coaching
– Vocational training (6-12 months; 1 instalment)
– Informal employment
– No collateral
– Bite sized payment
– Withhold results from student until payments made

Strategies to Improve School Fee Loan Growth

– Improve customer engagement
– Target product to broad potential customer base
– Duration to coincide with academic calendar
– Longer repayment duration
– Increase minimum loan size
– Increase risk appetite
– Work with non-profit to market the loan product
– Increase incentives to staff
– Challenges requiring post-dated cheques
– Increase tie-ups with schools
– Tie up with private providers of exam training and coaching (combined loans)
– Target loans to causes targeting increase in demand vocations
– Eliminate final loan repayment fee when early

SESSION 7: HOW TO GROW YOUR EDUFINANCE PORTFOLIO: TRAINING LOAN OFFICERS TO SELL EDUFINANCE PRODUCTS

EduFinance Technical Advisors Juan Vega and Julius Omoding used the last session of the day to bring some levity while acting out two skits of 'best' and 'worst' scenarios for selling education finance products to schools and parents. While entertaining, the skits also highlighted the type of interactive, engaging and practical training the EduFinance Technical Assistance team can provide to financial partners in order to build the skills and knowledge of managers, loan officers and risk staff providing education finance products. While the comprehensive training modules cover client relationship management is highlighted as the essential component of successful lending.

"Building and maintaining relationships with the proprietors fosters better understandings of their needs and prevents delinquency. Know your client, not just on a piece of paper but as a person."
– Julius Omoding, EduFinance Senior Technical Assistance Advisor, Africa

DAY 2

SESSION 8: HOW FINANCIAL INSTITUTIONS CAN ACCESS CAPITAL FOR EDUCATION LENDING

During the first session on Day 1 when considering areas of greatest interest, attendees identified ‘attracting foreign investment’ as the most popular topic. In line with this expectation two guest speakers were invited to present on the aims and ambitions of their investment funds, followed by a Q&A session with attendees concerning specifics terms, eligibility criteria and fund limits.

Marietta Feddersen, Senior Technical Assistance Specialist, Blue Orchard Finance presented the Regional Education Finance Fund for Africa (REFFA)

Nirav Khambhati from Kaizen Private Equity explains the aims and ambitions of their fund as well as the technical details of their investments to date

SESSION 9: THE $24 BILLION OPPORTUNITY IN EDUCATION FINANCE: HOW WE ESTIMATE THE MARKET SIZE OF EDUFINANCE PRODUCTS

During this session, attendees learned about EduFinance’s approach to market research, from Hannah Hilali, EduFinance Project Management Associate, providing financial institutions with local, relevant primary data on EduFinance product demand as well as current and projected penetration of affordable private schools and school-aged populations in their region. After quizzing attendees on the percentage of children in private education by region around the world, Scott Sheridan, Director of Operations, presented EduFinance’s recently published findings in the ‘$24 Billion Opportunity for Education Finance’ report, which provides global, regional and country projections estimating the market size for EduFinance products and how this can inform financial institutions portfolio allocations and sales projections.

“While the African economy continues to expand, its population is growing faster and over half of the anticipated growth in global population between now and 2050 is expected to occur there. Governments cannot possibly invest enough in desperately needed capacity and this has led to strong growth in the private education sector.”
– Scott Sheridan, Director of Operations, EduFinance

SESSION 10: PORTFOLIO ALLOCATION TO EDUCATION FINANCE

After interacting with the ideas of market demand estimates for EduFinance products, attendees were asked to apply their critical thinking to the next step in determining how a financial institution approaches the launch of an EduFinance portfolio. One attendee shared his financial institution's pro-active approach to selling.

> ***"Sometimes we have to create the [market] potential, not just consider what is currently available. We have lots of focus group discussions with school owners to help them understand how education financing can help improve facilities."***
> ***– Syed Sajjad Ali, CEO, SAFCO***

After organizing into three groups, attendees were asked to consider the following and outline the factors to be considered under each:

EduFinance Relative Risk vs Other Sectors

– EduFinance risk doesn't equal other sectors

– Lack of market research

– Collection /repayment of SME – Lower Risk

– Liquidity - small institution - Delay

– School staff training / quality / integrity – Higher Risk

– School income predictability – Higher Risk

– Process > private schools easier / internal development - Delays / Lower Risk

Portfolio Allocation in Education

– Have to make EduFinance a priority

– Early in product life, allocation may be smaller; Increase over time

– Important to segregate portfolio data across end market clients

– Segregating portfolio by industry allows to assess relative performance and risk across industries

– Base/Primary data exists to break down market size by industry; Determines breakdown of economy

– Some specialist education lenders allocate 100% - (India, Nigeria)

– For diversified lenders, allocation decisions driven by end market demand. Pakistan has 30% growth YoY in capital demands for education

– Portfolio allocation can consider social returns; Education is high

– Consider share of household budget spent on education

– Informal schools / EDC centres are hidden

– % allocation was determined by results of the EduFinance market research (Pakistan 3-4%)

– Consider sub-allocations to different levels of education: early grade, primary, secondary, tertiary

– Consider social need by level of education

– Some financial institutions set total portfolio limits (30%), then split by product (i.e.): Loans to schools (20%),school fee loans to parents (5%) and loans to teachers (5%)

– Portfolio allocation decisions are impacted by funding sources and duration of debt

– Guarantees influence profitability

– Some governments consider education lending as a consumer product

Operating Costs

– Pre-rollout / rollout costs

– Market research costs

– Capacity building costs

– Testing and piloting

– System configuration

– Administrative related costs

– Recruitment

– Compliance

– Integration

– Concept development costs

– Marketing and promotion

– Incentives - all stakeholders

-– Administrative costs

– Provision expense

– Finance / capital costs

– Capacity building costs

– Opportunity cost for existing products

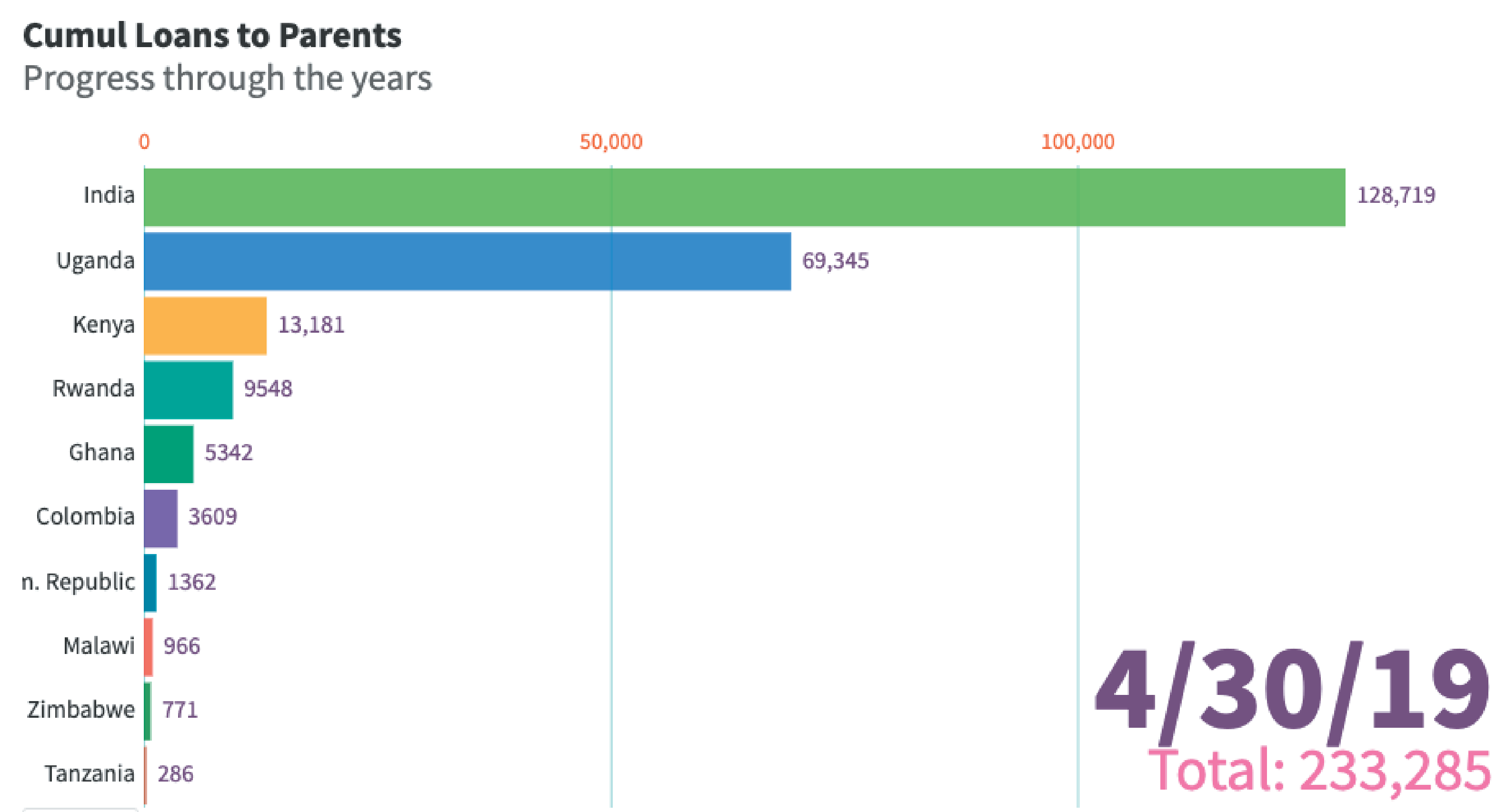
– Margin

– Financial education costs (client)

– Monitoring

SESSION 11: ANALYSING YOUR EDUCATION FINANCE PORTFOLIO

An interactive session on data analytics and business intelligence highlighted the cumulative global lending and impact of EduFinance partners to date - with over 230,000 loans disbursed to parents and over 9,000 loans disbursed to schools. Attendees were then challenged to consider the ways in which EduFinance's monthly EdPack Dashboard can assist their management team with closely monitoring sales trends, portfolio allocations, risk and opportunities to best ensure a high quality EduFinance portfolio. Those partners already receiving the monthly EdPack were also invited to share ways in which EduFinance could enhance the EdPack to meet more of their portfolio analysis needs.



SESSION 12: FASTER EDUFINANCE LOAN DISBURSEMENTS: CREDIT ALGORITHM

Some of the strongest interest expressed by attendees came during the presentation and live demonstration of the EduFinance Credit Algorithm. Scott Sheridan, Director of Operations, demonstrated how we use complex systems and algorithms to produce a credit scorecard that include details of the risk of delinquency for both School Improvement Loans and School Fee Loans. Attendees then had the opportunity to test the live algorithm on a tablet during the session.

BENEFITS TO FINANCIAL INSTITUTIONS

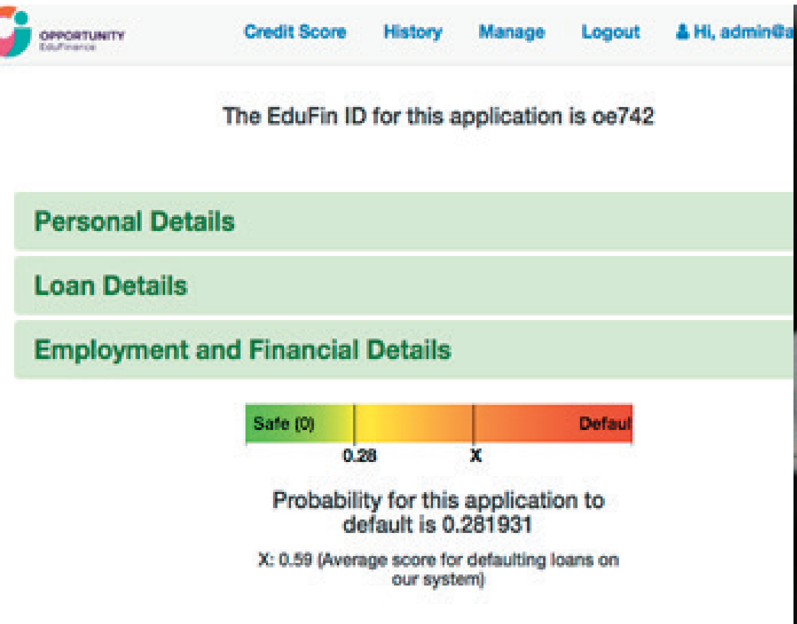
RISK INDICATOR

SECURE SYSTEM

PERFORMANCE MANAGEMENT

FAIR OUTCOMES FOR CLIENTS

> *"Turnaround time is one of the biggest challenges in processing the credit applications, with the algorithm from EduFinance helps us process these applications much more quickly."*
> ***– Alex Ahabwe, Education Finance Manager, Opportunity Bank Uganda***

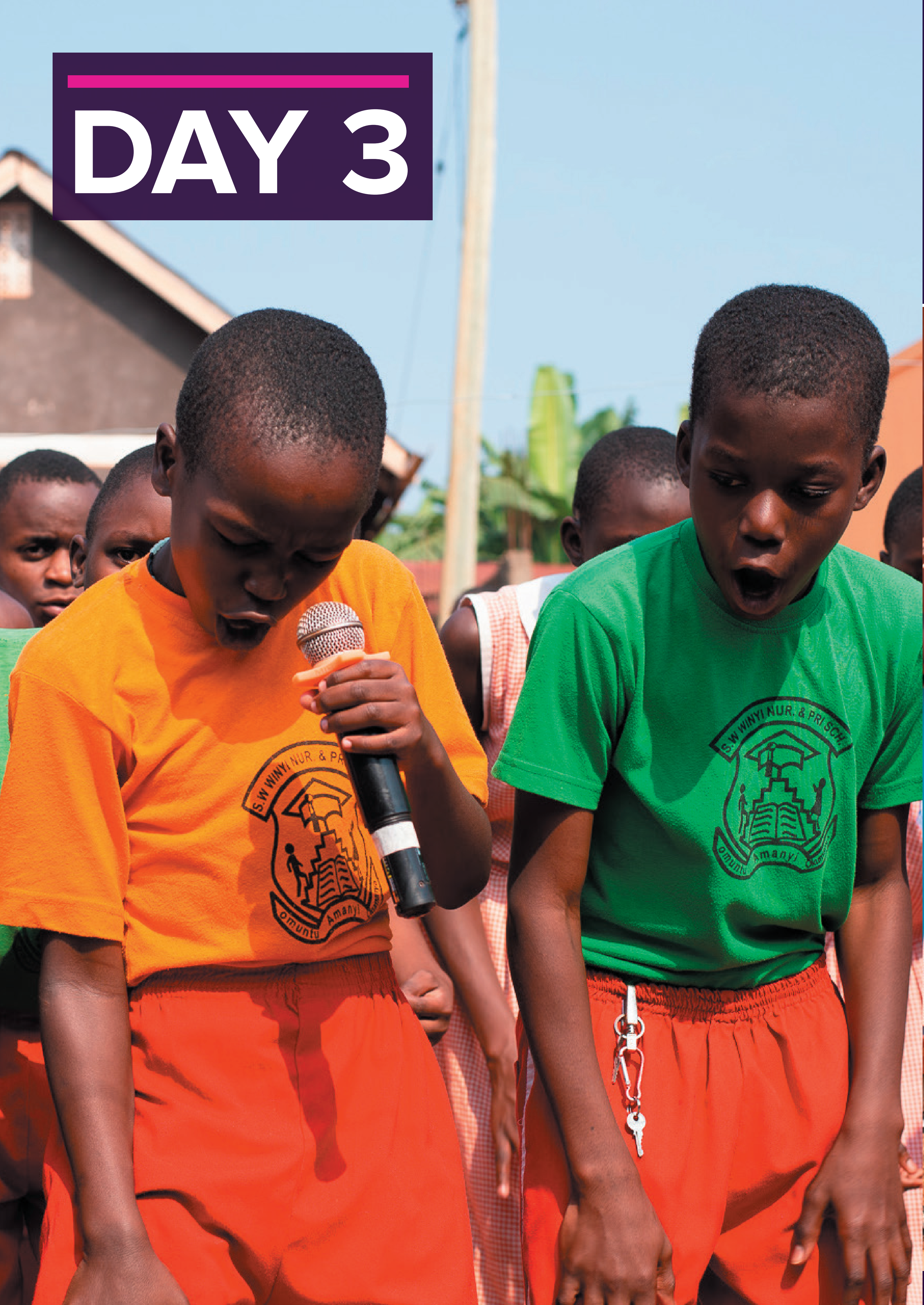


SESSION 13: PROFITABLY GROWING YOUR EDUFINANCE PORTFOLIO: HOW OPPORTUNITY EDUFINANCE CAN HELP FINANCIAL INSTITUTIONS

During the final session on Day 2, Lukas Wellen, Director of Financial Products for EduFinance, reviewed the full suite of services the EduFinance Technical Assistance team offers financial institution partners, including market research, product design, staff training, data and business intelligence and credit algorithms. EduFinance partner ADRA Peru then shared their recent experience with EduFinance technical assistance to develop a portfolio of new education products.

> *"EduFinance helped to reduce the amount of time spent in evaluation, as well as developing new products that are tailor-suited to the needs of their clients. Working with EduFinance has been highly beneficial."*
> ***- Belinda Gomez, CEO, ADRA Peru***

DAY 3



SCHOOL VISIT

During the final day, conference attendees visited a local partner school S.W Winyi Nursery and Primary in the Kampala Primary School Cluster which is co-ordinated by EduFinance Education Specialist Annet Wandera.

Financial partners were able to learn how the school has benefitted from each aspect of the EduQuality program, in which 1,377 schools are currently enrolled. The program is implemented through 231 cluster networks of local affordable private schools that work together to share common challenges, best practices and develop solutions supported by our in-country Education Specialists.