



FINANCING THE AFFORDABLE NON-STATE EDUCATION SECTOR

Lessons learned and future strategies
for education finance



OPPORTUNITY
EduFinance

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OVERVIEW

In May 2021, the EduFinance Technical Assistance team brought together senior management from 54 financial institutions across Africa, Asia and Latin America for a series of virtual interactive workshops facilitated by 11 EduFinance expert facilitators. More than 120 attendees participated in the workshops covering experiences, challenges and solutions in providing EduFinance products and services during the pandemic and beyond.



52 FINANCIAL INSTITUTIONS

and **2** investors across
21 countries



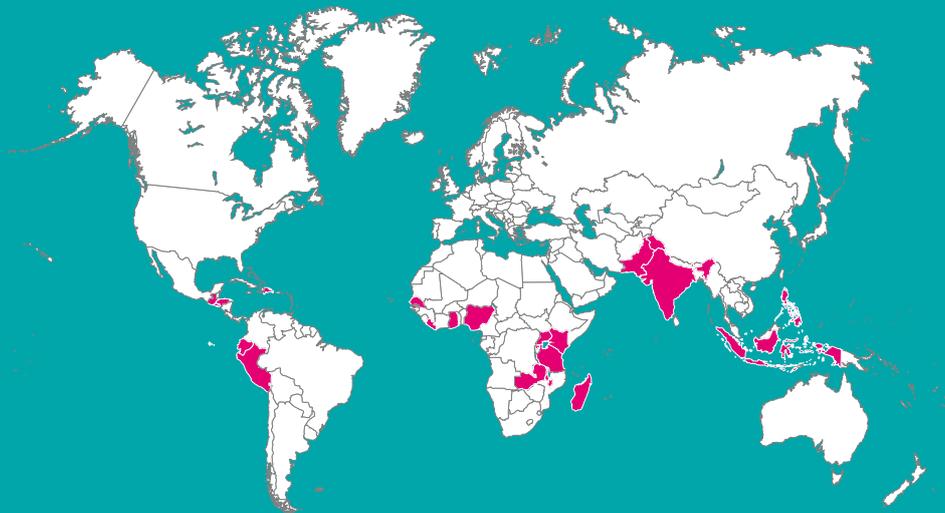
8 VIRTUAL WORKSHOPS

Over **4** days



11 EDUFINANCE EXPERTS

Facilitators from Africa, Asia,
Europe and Latin America



THE AMERICAS

Dominican Republic, Ecuador,
Honduras, Peru, Guatemala,
El Salvador

AFRICA

Ghana, Kenya, Liberia,
Madagascar, Malawi, Nigeria,
Rwanda, Senegal, Tanzania,
Uganda, Zambia

ASIA

India, Indonesia, Pakistan,
Philippines

“ For me, these sessions have definitely reiterated, and even might have made our partners realize that they are not alone, that they are standing with many others like them across the globe which is vital. ”

– **Ommara Raza Ali**, Senior Technical Assistance Advisor,
Opportunity EduFinance



EXECUTIVE SUMMARY

Before the pandemic began, the education sector was perceived as a rewarding market by many financial institutions, a factor that helped EduFinance grow its financial institution partners from 11 financial institutions to 71 in under 5 years. However, the pandemic has adversely affected the sustainability of the sector with school closures, lockdowns, and reductions in household income affecting schools' abilities to maintain sustainable businesses. Nevertheless, despite the challenges of the past 15 months, financial institutions have continued to show a willingness to support the affordable private school sector and there is optimism about post-pandemic opportunities.

Opportunity EduFinance's Technical Assistance Facility (ETAF) supports access to affordable education by working with financial institutions that provide financial products to the education ecosystem. The ETAF team is made up of finance experts based in Europe, Africa, Asia and Latin America who provide a variety of technical assistance and expertise. To date, the ETAF team have worked with 71 financial institutions in 25 countries who have collectively disbursed over US\$413mn in loans.

Opportunity EduFinance estimates the affordable Education Finance market as a **US\$36 billion global opportunity** for financing loans to affordable private schools and the families who

use them. Besides these two loan products, other opportunities include financial products for teachers, suppliers and vendors, education savings products and school fee insurance.

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The workshops focused on three key questions:

- What was the operational experience of financial institutions during the first year of the COVID-19 pandemic?
- What were the strategic changes that financial institutions employed to address the challenges during that period?
- What are the strategies and market opportunities for education finance going forward?

The key finding of the workshop was that there was no one-size -fits-all strategy that worked. Interestingly, there was no typical country-wide strategy and approaches and solutions differed among financial institutions in the same country. Instead, similar strategies were employed across different regions and depended more on the target market and institutional capacity of the financial institutions than on the country itself.

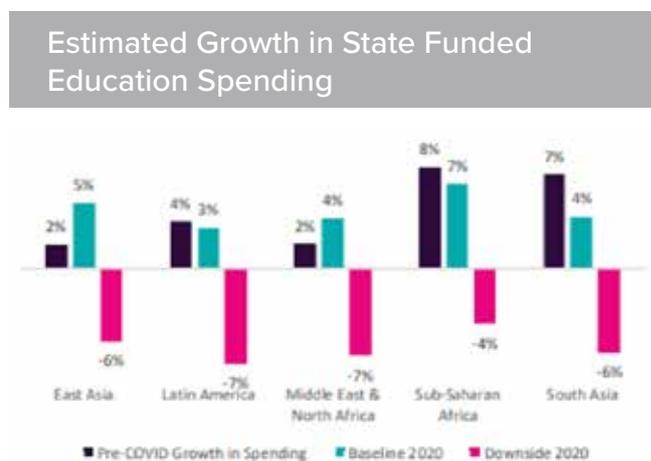
The following report discusses the responses to key questions in more detail, highlighting successful strategies and lessons learned from

financial institutions that navigated education finance portfolios through a year of unprecedented school closures and market uncertainty. Following analysis of the strategies and experiences discussed, EduFinance puts forward the following recommendations for future strategies for education finance:

- **Growing and rebuilding EduFinance portfolios:** Market segmentation studies will help financial institutions grow or rebuild education portfolios and understand which segments should be focused on during periods of uncertainty. Underwriting must be adapted and alternative methods of credit assessment may be more useful than relying on historical data. Refining digital marketing strategies will help financial institutions increase outreach.
- **Diversifying holistic product offerings** Diversification of products will enable financial institutions to continue to support the education needs of clients while diversifying risk during school closures. EduFinance recommends exploring products that cater to the entire eco-system such as financial services for teachers, suppliers, vocational and skill development institutions as well as savings and insurance products.
- **Digital financial services to enhance customer relationships:** Partnering with Fintechs or developing app-based solutions addresses significant pain points for parents and schools. An additional advantage is that it provides financial institutions additional insight into a school's cashflow, which helps in assessing the risk profile and repayment capacity. However, investments into such products can require significant investment or internal capacity building. Financial institutions can start by offering trainings virtually using social media or by hosting webinars. Valuable trainings on business planning, cash-flow analysis and stress-testing enhances client relationships while improving the resilience of the client's business.

- **Partnerships to expand outreach and increase competitiveness:** It is important to invest in partnerships that help financial institutions stay competitive in an increasingly digital market. EduFinance sees significant partnership opportunities in the following areas: co-lending with commercial banks to increase outreach, partnerships between traditional brick and mortar financial institutions and fintechs to upgrade credit scoring solutions and increase outreach, and partnerships with mobile money operators, agent networks and other digital payment channels that will enable financial institutions to diversify product offerings and offer flexible payment solutions.

Despite COVID-19 related challenges, the growing, unmet demand for non-state education is expected to pick up in the short- to medium-term, especially given the reductions in public spending on education as countries struggle with the economic burden of the pandemic. Opportunity EduFinance appreciates the important role that financial institutions play in filling these significant financing gaps and hopes that the findings and recommendations presented in this report will encourage more public and private investment into the affordable private school ecosystem.



Source: World Bank (2020)

“My key takeaway was that education is a priority and should never be compromised. I learned that we (the world) are in this fight together; my perspective was broadened!”

Njideka Nwabueze, Group Head Education Sector, Sterling Bank, Nigeria

1. EDUFINANCE GLOBAL INSIGHTS AND REGIONAL TRENDS

EduFinance partner disbursements slowed dramatically when the pandemic started, but picked up in the first quarter of 2021.

Monthly Sales (Constant Currency USD, Value)



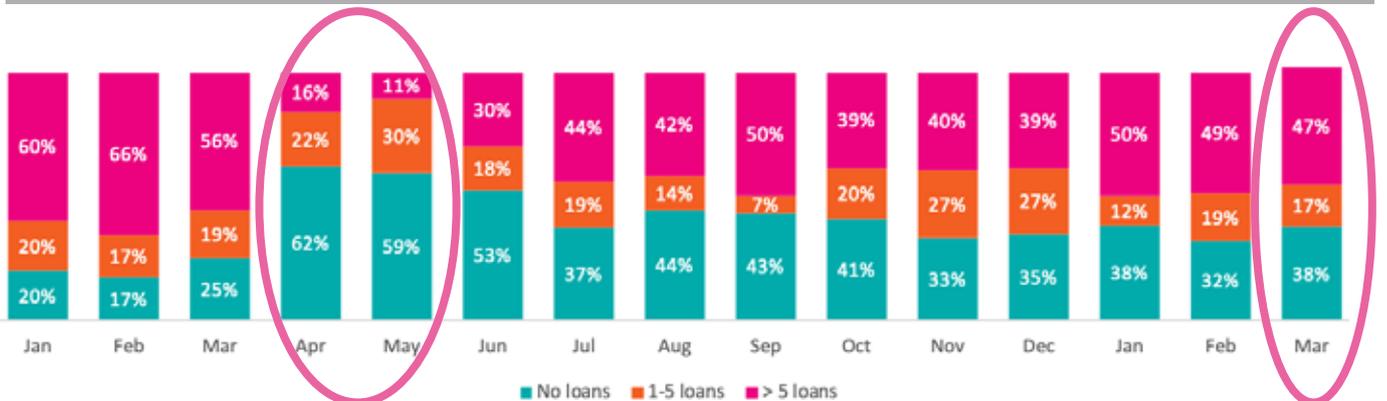
Monthly Sales (Volume)



January 2020 was a peak in terms of value and volume of loan disbursements. From April to May 2020, almost all activity stopped. The remainder of

2020 saw mixed performance with many financial institutions starting to lend again, but many others did not.

Proportion of FIs Disbursing Loans



In April and May, just 16% and 11% of Financial Institutions were making more than 5 loans per month. In March 2021, some financial institutions remain hesitant, but others have picked up. The

first three months of 2021 have shown promise – while value and volume remain below 2020 levels, it is rising and materially higher than the end of 2020.

INSIGHTS FROM EDUFINANCE PARTNERS ON SCHOOLS

Loss of income

Perceptions of decreases in school income differed across regions, but most partners had noticed reductions between 40–80% depending on the size of the schools and the demography it catered to.

In East Africa, some schools had to convert into rentals or chicken farms to generate enough income to survive.

In South Asia, schools have been closed on and off for more than one calendar year. Schools were mostly closed in late March 2020; schools began to reopen towards the end of the year, but have recently been closed again due to second wave of COVID-19. **Kashf Foundation** noted that “schools are facing financial difficulties as a result of significant fee reduction through substantial drop-outs.”

Online learning



“A lot of schools had no idea how to conduct online classes, teachers were not trained, and children did not have laptops.”

– Namita Raja, Head of Credit, Auxilo Finserve, India

Across all regions, financial institutions reported that affordable-private schools were not ready for the transition to e-learning. In East Africa, financial institutions reported that only high-end schools were able to keep students engaged through e-learning.

In South Asia, financial institutions noticed that schools in different areas were affected differently. Schools in urban areas or secondary cities found it easier to adapt and sought financing for digital transformation. On the other hand, most rural schools were unable to provide digital learning as they lack access to internet and the majority of pupils do not have access to communication devices.

Financial institutions in Latin America and the Caribbean reported similar findings; low-income schools did not have access to technology and neither did teachers nor the students. In the Caribbean, financial institutions reported that schools had to learn quickly how to use free learning and communication platforms and that they conducted short WhatsApp video calls with four students at a time.

Financing Needs of Schools

In previous EduFinance research, *The Impact of COVID-19 on the Affordable Non-State School Sector*, investments in remote classes or

e-learning was the most cited need for financing. The workshops revealed a similar trend with the only other most requested need for financing being working capital to cover operating expenses during school closures. Discussion

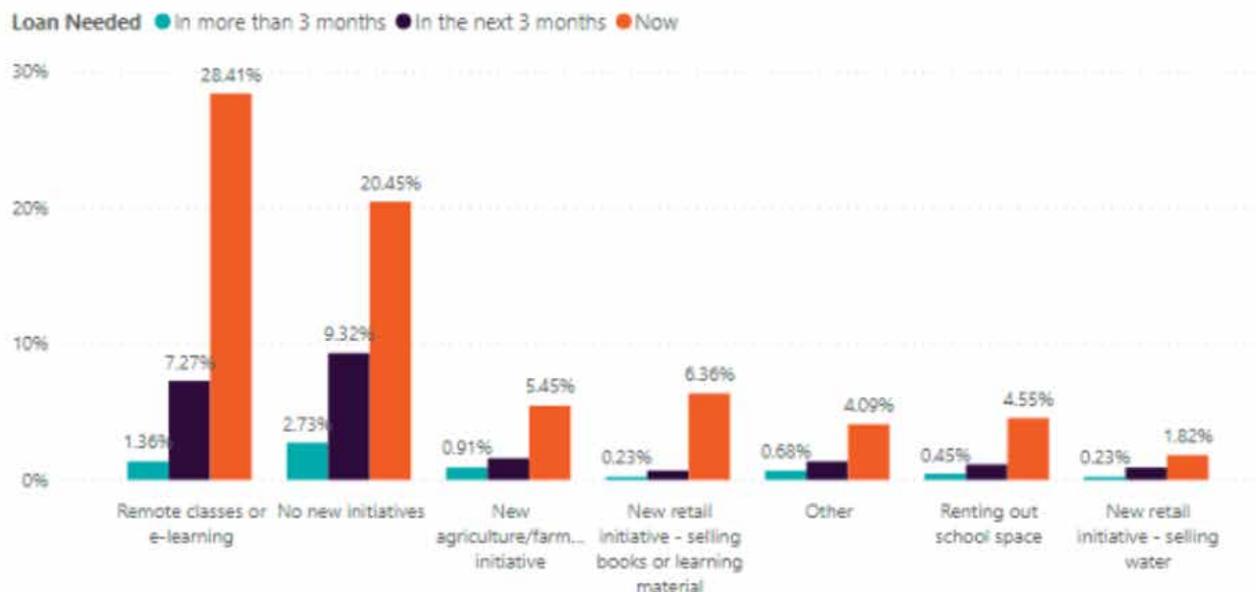
Sabeen Younas,
Senior Manager – PPAF Projects,
Pakistan Poverty Alleviation Fund

“We have experience managing schools in rural areas. Last year was difficult for everyone to comprehend. With time we learnt how to tackle the issue. Village schools don’t have access to internet and don’t have access to technology. We started with group study and small initiatives like WhatsApp groups. Then we started printable workbooks. Demand of e-learning has improved, all our schools are demanding to set up computer labs and for internet.”

revealed that schools in urban areas or catering to middle-income families were more likely to start e-learning initiatives in comparison to rural schools or very low-cost schools. One of the

main reasons for this was that both schools and students in these communities didn't have access to devices or data. This pattern occurred across all regions globally.

Loans Required



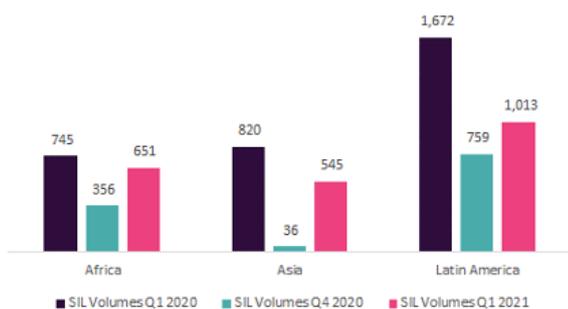
Source: Opportunity EduFinance (2020)

In East Africa, many financial institutions noticed a demand to finance technology for schools and teachers. Some financial institutions met this demand, but most were more cautious. One partner cited that “the demand for finance was high, but supply was low” at the beginning of the pandemic as financial institutions thought that e-learning would not be effective. This mindset changed by December 2020 as e-learning became more widely used.

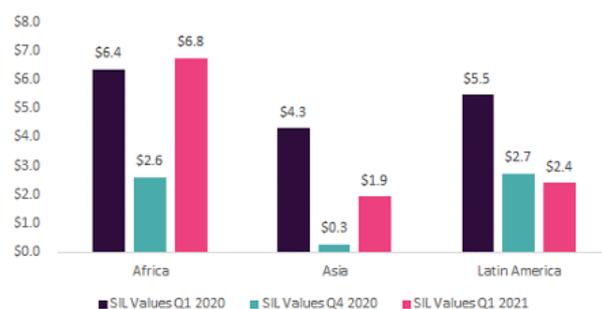
Disbursement and collection trends

Education finance disbursement trends have picked up in the first quarter of the calendar year but are yet to reach pre-COVID-19 levels. Deeper discussion with EduFinance partners revealed mixed disbursement trends. However, the overriding factor where upward trends occurred is the reopening of schools as well as some incidences of government relief programmes or other strategies.

SIL Quarterly Volumes Disbursed



SIL Quarterly Value Disbursed



In Africa, many financial institutions stopped disbursements during lockdowns and school closures, before starting again as economies reopened. Other financial institutions offered only top-up loans for working capital, This trend is also seen in the 52% decrease in disbursements in Q4 2020 compared to Q1 2020. As of Q1 2021, The number of disbursed School Improvement Loans (SIL) in Africa are only 13% lower than in Q1 2020. However, they are already higher in value, indicating the disbursements of larger ticket size loans. This figure is influenced by new partners reporting on our platform, but also signals a trend that could move disbursements towards pre-pandemic levels.

In Asia, the decrease in disbursements to schools was the most pronounced with a decrease of 96% in Q4 2020 compared to six months earlier. One partner in the Philippines reported a significant decrease in demand as an estimated 45% of private education providers closed operations. Disbursement trends in Asia have begun to pick up and are now at 66% of pre-COVID-19 levels. Some financial institutions have continued to pause all disbursements while others are disbursing cautiously.

Latin America and the Caribbean also saw a significant drop in disbursements similar to Africa at a decrease of 55% in Q4 2020 compared to Q1 2020. In South America, one financial institution reported a drop in disbursement but noted that the schools that still required financing primarily needed it to buy technology. Similar to Africa and Asia, disbursements have picked up slightly in recent months. However, the value of loans disbursed decreased, indicating smaller loan sizes.

Collection efficiency of outstanding loans differed depending on the market segment and operational

area. In many countries, moratoriums and grace periods have masked impact on PAR and a clearer picture will only become apparent once these finance measures come to an end.

INSIGHTS FROM EDUFINANCE PARTNERS ON PARENTS, STUDENTS AND TEACHERS

Financing needs of parents, students and teachers

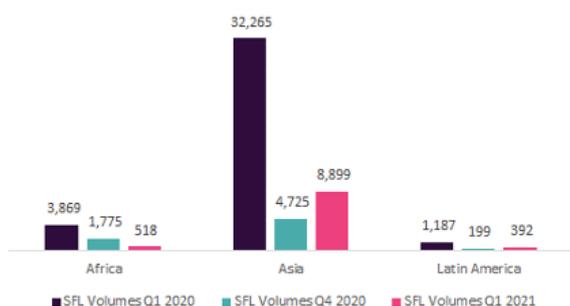
Many financial institutions reported an increase in parents and students seeking financing for technology. This trend occurred globally. However, some financial institutions reported that demand for finance actually decreased due to drops in family income. Families that would have sought financing for e-Learning gadgets for all their children could now only afford one for all their children to share.

Interestingly, in Latin America, demand for saving products increased during the pandemic and parents were more likely to save for education than to take a loan. One reason for this is that parents are reluctant to take on additional monthly repayments when income is volatile, but are able to save small amounts each month.

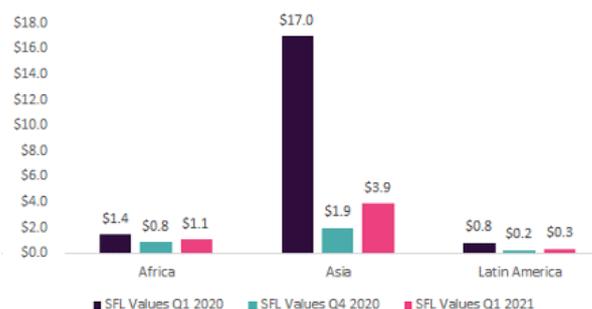
Disbursement and collection trends

There were mixed trends reported by partners, some of them reported an increased demand for e-Learning gadgets as schools went online. In East Africa, several partners therefore introduced emergency loans for parents and teachers. In South Asia, financial institutions reported that the demand for school fee loans reduced, but with still some demand as schools required parents to pay a portion of the fees due. Other financial institutions stopped all disbursements during lockdowns.

SFL Quarterly Volumes Disbursed



SFL Quarterly Value Disbursed



“ We didn’t stop disbursements because stopping disbursement meant we stopped our members hopes and dreams.”

– Sugeng Priyono, Operations Manager, KOMIDA, Indonesia

Teachers: one partner in South East Asia reported no change to disbursements to teachers. The teacher loan product is disbursed to certified teachers who receive a quarterly subsidy from the government. Because the subsidy continued throughout the year, the bank managed to scale financing to teachers during the pandemic while keeping its portfolio at risk low.



Afsheen Farooq,
Education Finance Manager, Kashf Foundation (Pakistan)

“When the pandemic hit, we were finishing the first year of the Opportunity EduFinance EduQuality programme and had to shift the final seminar from face-to-face to online. We provided training to schools on how to continue teaching and learning with low technology and how to maintain finance and cashflows and save for worse case scenarios. The schools learnt new skills and became comfortable with the software. We equipped them with the skill, knowledge and comfort level with the support of EduFinance.

However, one of the challenges with shifting the medium to digital was that parents and students don’t have the necessary equipment. They don’t have tablets or phones or the resources to buy them. If they do not have the resources, then the schools are unable to shift to e-Learning even if they want to because the end user doesn’t have the resources.”

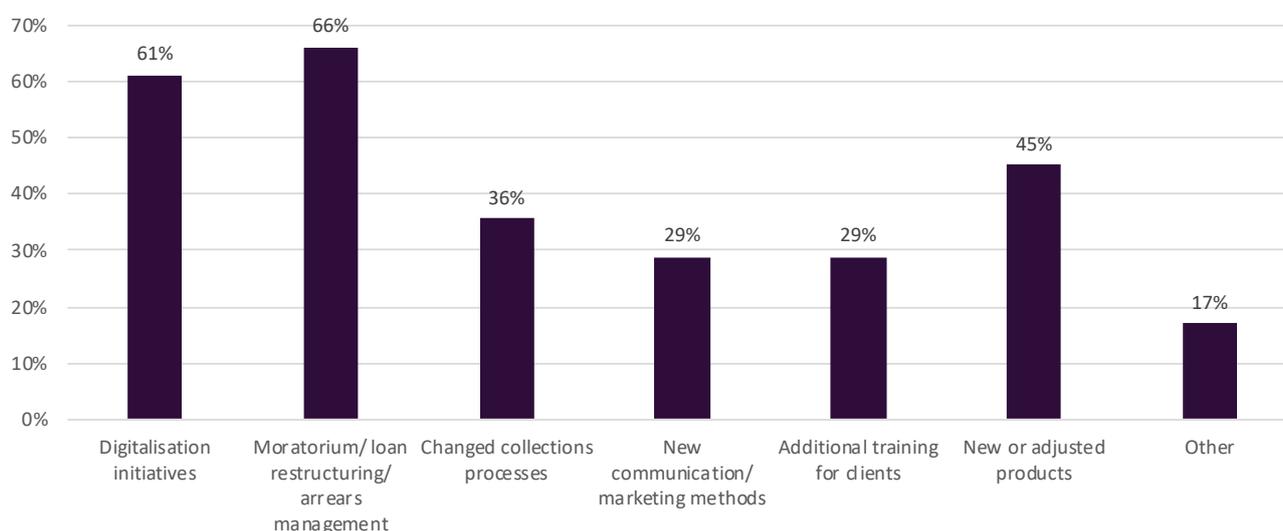
2. STRATEGIC CHANGES AS A RESPONSE TO COVID-19 CHALLENGES

Attendees to the workshops were asked what strategic changes they had made in their financial institution to address the challenges of COVID-19. The most commonly chosen option was 'moratorium, loan restructuring or arrears management' (66% of the responses), followed by digitalisation initiatives (61%) and product changes (45%). A significant number of respondents also mentioned that they changed their collection processes (36%), introduced new communication and marketing methods (29%) and that they provided additional training for clients (29%).

“The pandemic was an opportunity to completely transform our business model from traditional infrastructure finance to a school relationship model.”

– Anand Krishan
COO, Indian School Finance Company, India

What strategic changes did your financial institution make during COVID-19?



“Smart digitalisation to suit the size and capacity of the financial institution, segmentation because the pandemic hasn’t affected everyone equally, and product adjustments... What I see is that the customer was heard, and that financial institutions answered.”

– Juan Vega, Senior Technical Assistance Advisor, Opportunity EduFinance

Customer Support

Across all regions, partners focused on communication with existing clients. Financial institutions took up the role of communicating practical information on social distancing, safety, school reopening, stress testing to their (EduFinance) clients. Many financial institutions increased the bandwidth of their call centres and social media response so that customers could have their concerns easily addressed without having to travel to branches. When in-person interaction was possible, financial institution staff conducted Standard Operating Procedure (SOP) awareness sessions and distributed masks and sanitisers. Some financial institutions also offered scholarships for client’s children funded by money from investors and internal CSR support:

Musoni Kenya: provided training programmes on financial management and stress testing to schools. The emphasis was to be a partner that works together in stressful times.

EdFin Microfinance Bank Nigeria: helped clients digitalise by negotiating with telecommunication companies and device providers to reduce prices for schools by up to 70%. This brought the price down to US\$15 per child to use the device that was preloaded with data and educational content. EdFin also shared videos on WhatsApp with clients on safety measures.

ASPIRE Dominican Republic: trained school proprietors and teachers to use online platforms (zoom, google classrooms).

Coopeclof Dominican Republic: organized a lottery and offered incentives to clients to maintain their repayments and their saving goals.

Disbursements

Financial institutions took a mixed approach to disbursements. The following types of disbursement trends appeared across the regions:

- Did not stop disbursements at all
- Offered new loans or top-up loans but only to existing customers
- Offered different loan products to different



**John Robert Okware, CRO,
Opportunity Bank Uganda**

“At Opportunity Bank Uganda, we created a WhatsApp group for all school proprietors for information sharing and counselling. We arranged face-to-face workshops with proprietors to discuss the pros and cons of the different relief options. This helped open up their minds for different options for repaying their loans.”

customers. For example, financial support for online learning in large cities and working capital in small cities and rural locations

- Stopped all disbursements for anywhere between 3 – 12 months depending on the severity of COVID-19 in the country and the timing of economies reopening.

Collections

There was no one-size fits all approach and financial institutions in the same country took different strategies depending on their size and target market. Examples of collection strategies across regions were:

- Offer moratoriums in line with government mandates or official grace periods
- Waive the interest accumulated by clients during the moratorium period
- Loan restructuring to lengthen tenor and reduce instalment amounts
- Reduction of interest to help schools recover
- Allow customers to pay only the interest and defer the principal repayment for a pre-agreed length of time
- Change the loan repayment collection frequency to match changes in school fee collections

- Restructure a second time when schools reopened to allow clients to pay loans of faster when cashflows stabilised
- Where financial institutions offered group loans, the number of members attending group meetings was reduced
- Offered one-time regularisation scheme for customers to bring accounts up to date with all charges waived

Knowing the needs of customers in different market segments was key. Different sectors and different geographies in the same country were affected differently by the pandemic. Collecting data on clients and profiling what type of clients would be worse affected or needed loan restructuring allowed financial institutions to act proactively in the pandemic.



Three types of intervention were introduced during the pandemic: refinancing, restructuring and pay as normal. “It’s a sector that we believe in and one that is usually lucrative. We believe there is a way round the challenges that we are having.”

**– Chilufya Mwamba,
Head Business Development and Marketing & Communications, EFC Zambia**



“We made the decision to reduce interest rates and to change collection methods to be in line with cash flows of schools. Schools used to receive fees termly or quarterly, but this changed to monthly to match the reduced incomes of parents. One of the initiatives which has helped disbursements go back up in 2021 is that the government of Lagos created an education fund with a low-interest rate specifically to help schools recover what was disbursed through financial institutions. If that initiative wasn’t there, we would still have uncertainty.”

– Bunmi Lawson, CEO, EdFin Microfinance Bank Nigeria



“School’s cash flow has improved with reopening so now there is less need for restructuring. Some schools have even come back and said they want their loans back to the way they were before. For these schools, we will reduce the lending period so that they can pay their loans back quicker. For schools that haven’t recovered, we are thinking about how we can waive interest to help them recover.”

– John Robert Okware, CRO, Opportunity Bank Uganda

“Our strategic focus was on “emphatic” portfolio management. Across our entire portfolio we listened to our clients and agreed on repayment schedules aligned to their reduced earning capacity. We built a weighted model to understand the likelihood of loan recovery considering geographies, sectors, and other factors. We didn’t have access to government support but were able to offer grace periods of 6–12 months using our internal resources.”

– Katty Kanashiro, Business Manager, ABACO Peru

Digitalisation

Unsurprisingly, almost all financial institutions mentioned digitalisation as a strategic initiative used to address the challenges of COVID-19. The nature of digitalisation depended on the size and handling capacity of the financial institution and the target market it served.

Many financial institutions also increased the use of mobile banking, mobile payments and agent

banking to help with loan repayments. This meant that clients did not have to travel into branches, minimising the health risks for staff and clients, and increasing efficiency. This was especially useful in regions that experienced lockdowns where loan officers were not allowed to travel to villages.

“Our success was based on accepting that the crisis was there to last. Accepting meant that we couldn’t do anything but innovate. One of our challenges was changing our operational model from paper to digital. We changed our credit applications so that clients could apply for loans on our website and all documentation could be sent virtually.”

– Luis Perez, COSAMI Guatemala

Mobile wallets

Several partners had either developed mobile wallets during the pandemic or scaled their existing product:

- **AB Bank Zambia** – launched a mobile wallet and partnered with mobile operators a few months before the pandemic. Business continuity plans focused on using these initiatives to encourage clients to repay their loans through mobile operators and their mobile wallet. The bank is preparing to launch a digital savings product in 2021.
- **Mobilink Pakistan** – the pandemic forced people to use mobile platforms as markets and shops were shut. There was a big increase in mobile payments. Even people who had never used mobile platforms before were forced by the pandemic to open accounts, make payments digitally using Jazz cash wallets or other providers. Support was provided for clients on how to use their mobile wallets and use them to

pay for groceries or to apply for loans. Mobile platforms meant that clients didn’t have to travel and increased safety for the whole community.

Marketing

The shift to digital marketing and social media began before the pandemic, but has become more pronounced and is expected to last. Digital marketing that was successful was client based and the medium of delivery (WhatsApp, Facebook, Google, TikTok) suited the needs of the clients.

- **Facebook, Peru** – marketing for Education Savings was done using Facebook. The financial institution offers a series of financial literacy trainings, tips and videos through its page.
- **TikTok, Indonesia** – a financial institution used dance competitions and challenges to spread awareness of its savings product. The winner receives savings as a prize. TikTok is a medium used a lot by the institution’s target market.

Ioann Fainsilber, Co-Founder Pintek

“Pre-COVID, many schools required much face-to-face interaction. With COVID-19 much of our go-to-market strategy was digitalised. We found it a lot easier to do webinars and could reach out to a higher number of schools in one meeting, instead of doing one-to-one marketing. It was possible to group 20 or so educational institutions and suppliers in the same time slot and we could reach out to remote areas, which we normally wouldn't cover. The sales efficiency grew significantly, and the cost of acquiring new clients decreased, making our approach a lot more scalable.

Unfortunately, that wasn't the case for our B2C portfolio. We have tried to reach clients through advertisements on Facebook and Google. However, there were a lot of consumer lenders who were bidding on the same key words, which made imarketing through these channels quite expensive. My advice for digital marketing depends on what the rest of the industry is doing. Are there a lot of other lenders that are bidding for the same key words aggressively? Also, is Facebook or Google the right place to find your target market and is that where they want to be reached? The key to digital marketing is to first figure out who you are trying to reach and then what medium they want to be reached by.”

Staff support

There was a shift from seeing loan officers as dispensable and that incentives were to be based on the number of loans disbursed, to offering more holistic support for staff and changing incentives to focus on customer relationships. Some initiatives that were mentioned were:

- Pay salaries upfront and reimburse for vaccinations
- Switch to online work and increase communication with staff – daily online meetings to update on progress
- Change incentives for field staff to motivate them, also change the financial rewards and incentives for field officers and managers.
- Provide online trainings and psychological support for staff to ensure business continuity

Product changes

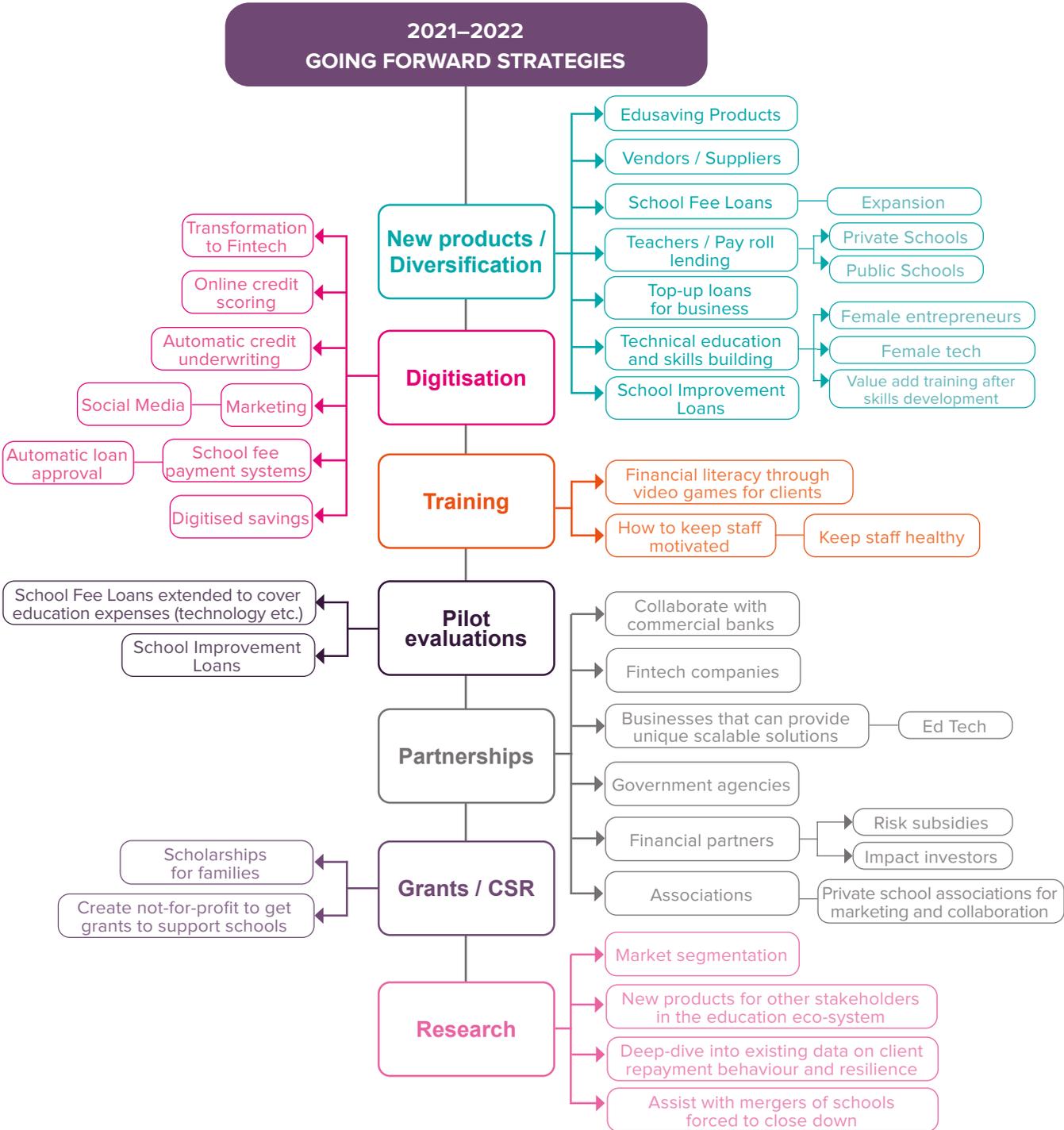
To address the new needs of clients during the pandemic, financial institutions launched new products or tweaked existing products. Cosami Guatemala, for instance, developed an instant loan so that clients could buy technology. Parents

could access a loan up to US\$1,200 with approval within 30 minutes. The feedback from the clients was very good and PAR is still close to zero. However Cosami noted seasonality in the demand for the product.

Other partners in Latin America reported conducting market segmentation to offer give customised services and products to different types of schools such as refinancing to allows clients to finish active projects, working capital to schools that needed the pay their bills on time, and credit to help schools could combat COVID-19 (for instance to pay for masks and equipment).

In South Asia, financial institutions noticed that schools in different areas were affected differently. Schools in urban areas or Tier 1 and 2 cities found it easier to adapt and sought financing for digital transformation. Many financial partners provided top-up loans or created emergency loans for such existing customers. Another approach was followed by Taleem Finance Company in Pakistan, which redirected its focus to parent's enterprises. Its business loans meant that parents could maintain some cashflow stability and that they were able to pay school fees to keep their children in education.

3. FUTURE STRATEGIES FOR EDUCATION FINANCE



The financial services sector creates value for customers by solving monetary challenges in their lives and the pandemic has clearly created more challenges for many customers. For education finance this has created an environment for innovation in the two most prominent loan products used globally: School Improvement Loans and School Fee Loans. It has also increased the urgency to explore financing beyond these two main options and diversify products to cater to the needs of the entire ecosystem by offering a full suite of financial services.

We have seen an increased emphasis on recognising and addressing the importance of teachers, schools and students having access to data, plus digital devices and knowing how to use them. Even when schools reopen and full-time face to face teaching resumes, the demand for eLearning is expected to continue. Many families in the countries where our partners operate spend on additional tutoring for their children outside of school fees and technology may be able to fill this learning gap. Additionally, some schools will have closed their doors permanently during the pandemic and we may see a situation where government schools are over capacity, while the supply of private education has reduced significantly. When schools are allowed to fully reopen, investments will be needed to reinforce the supply side and add over **66 million seats** over the next five years.

GROWING AND REBUILDING EDUCATION PORTFOLIOS

Zone wise mapping and market segmentation

COVID-19, lockdowns and school closures have not affected all schools or communities equally. It is important to understand which segments have been worse hit and which segments may still be profitable during the next phase of the pandemic. It is likely that smaller schools or schools catering to very-low-income communities will have been worse affected. However, there may be other reasons for weak outlooks such as schools being placed in a rural or remote locations, technical competence of a schools' management and access to government funding or relief programmes.

Market segmentation studies and sector wide analysis of the education sector can help financial institutions grow or rebuild their education portfolios and understand which segments should be focused on during the coming periods of uncertainty. Segments to focus on in the short- to medium-term seem to be higher education, TVET, youth entrepreneurship and primary education. It is important to understand the reasons why some schools have survived this far into the pandemic while others have shut their doors permanently. Finding these reasons will help financial institutions devise strategies to (re) roll out their EduFinance portfolio.

Obviously, EduFinance products and strategies should not be developed in isolation of the target market. Deeper qualitative research enables financial institutions to understand which product characteristics suit what type of customers and what their real challenges and needs are beyond numbers and statistics. This knowledge can also be used to reassess a financial institution's processes and risk management. For instance, risk can be lower by offering longer-term loans and annual grace periods, as that allows loans to follow the income flow of schools.

Alongside market segmentation, other straightforward local market research is recommended that can help grow and rebuild portfolios:

- Zone mapping, to understand which schools and communities have connectivity and can therefore provide eLearning (and needs loans to purchase digital equipment and software)
- Deep dives into existing data to understand which EduFinance clients have a higher repayment capacity or more resilient businesses than others. Some financial institutions found out that lower loan amounts are actually higher risk than larger credit sizes.
- Pilot evaluations of products that have been tested during the pandemic and whether set-up adjustments should be made once normality returns.
- Explore the closure of non-repaying schools with the view to assist potential mergers and acquisitions by other private schools.
- Research into the needs of other actors in the affordable private school ecosystem such as teachers, support staff, vendors and suppliers to the school and the ecosystem.

“We mapped the expected impact of COVID-19 by zones so that we could focus our actions on different zones accordingly. Our key strategy has been to keep our planning flexible throughout the whole year”

– Dania Soriano, SanMarquena Honduras



“It is important to do market research, know the regulations, gather the information needed to develop the product and mitigate risk. Conducting good research is key”

– Belinda Gomez, ADRA Peru

Credit scoring and alternative metrics

Most EduFinance partners lend to clients who do not have adequate credit history, financial statements or collateralizable assets. To overcome this, some financial institutions have deployed credit algorithms and scoring models that predict the probability of default of a client based on past data. However, historical data has become weaker during the pandemic because of ongoing credit moratoriums, loan restructurings, grace periods and recurring lockdowns. This means that credit algorithms have lost accuracy in reflecting the capacity and willingness to repay a loan of potential clients.

Due to the pandemic, schools and parents struggle to show stable cashflow over the last period. This, and weakened credit scoring models result in financial institutions increasingly requiring solid collateral to obtain loans. This results in many schools and parents being excluded from accessing loans due to a lack of collateralizable assets.

Alongside, assessing the current capacity to repay a loan, it is recommended to use alternative indicators to assess the credit worthiness of potential clients given the absence of reliable past data. These indicators can focus on the resilience of the client’s business, access to alternative revenue streams, guarantors in place of collateral, and the entrepreneurial and business skills of the client. Psychometric modelling can also be useful to assess the personality and resilience of the client, these include assessing the clients “locus of control”, impulsiveness, perceptions of others, and trustworthiness. For schools, it can also be important to assess the time the client spends on

parent engagement, which is expected to positively affect income generated from school fees.

Marketing

Digital marketing increased in importance during the pandemic and is expected to continue to be an important part of financial institutions’ marketing strategy. Many partners think that they will start using a two-pronged approach of continuing with traditional marketing, while strengthening and deepening the outreach of digital marketing efforts.

Four main approaches were discussed for digital marketing: paid-for advertisements, social media outreach and support, webinars and branded apps. Webinar trainings and social media are a useful and cost-efficient way to market new products to larger audiences and to remain engaged with current clients virtually. Training content delivered through social media and webinars can add value to clients, especially when focused on business planning, stress-testing scenarios and financial resilience. These trainings can help to build trust by clients in a financial institution in the absence of face-to-face interactions. Other recommendations on building trust include showing facts to the audience, such as the number of financed clients by the institution and testimonies from market leaders.

When devising a digital marketing strategy, it is important first to talk to the clients the marketing is intended to reach, as well as financial institution staff with knowledge of the target market and industry stakeholders like associations. Questions for such qualitative research should focus on **1)** the pain points of the clients, **2)** the competitiveness of the product, **3)** the messaging that the client

will respond to through digital communication and **4)** the most effective medium to reach clients.

A final remark on digital marketing is that mainstream media such as Facebook and

Google can be expensive if many organisations are bidding for the same type of words. In some markets, pinpoint words like “loan”, “credit” and “EduFinance” loan have become too expensive.

“The potential of Pakistan’s education sector to transform the socio-economic dynamics of the country remains untapped due to the limited availability of finance needed by private schools and technical educational institutions for scaling their operations. MMBL envisions a financially empowered Pakistan and through the School Loan, MMBL wants to play its part in strengthening access to education for all.”

– Ghazanfar Azzam, CEO, Mobilink Microfinance Bank (MMBL)

DIVERSIFYING HOLISTIC PRODUCT OFFERINGS

Diversification of products can enable financial institutions to continue to support the education needs of clients while diversifying risk during school closures. EduFinance has seen an increase in demand globally for the following products, financial institutions are recommended to explore such options:

Teacher loans can be used to finance the technology and professional development needs of teachers. Partnering with sustainable schools also opens up payroll lending to financial institutions. Funders could also target teachers that combine working in private and government schools. This increases the size of their target market.

Tertiary and vocational loans provide funding for short and long-term technical courses for senior students. Underwriting is recommended to focus on the earning potential of students when they complete their skill development courses. More practical courses such as computer and technical skills are therefore deemed easier to finance. Partnerships with tertiary and vocational institutes can help with client acquisition and risk management.

Supplier financing helps to increase outreach by creating partnerships between financial institutions and the suppliers to schools (uniforms, school canteen food, books and technology). By partnering with suppliers, there is an opportunity to source cheaper equipment for the education sector. Some financial institutions could help schools decrease their purchasing costs of technology by 25-50%. Other possible partners are EdTech companies and creating a financial product that bundles electronic devices pre-loaded with education apps (a tablet with zoom, access to a repository and learning tools



Abel Ovenseri, Head Corporate Strategy, LAPO, Nigeria

“We decided to move beyond just School Improvement Loans and School Fee Loans. For the education system to work you need to holistically work with everyone in that ecosystem and ensure that all businesses working to expand the frontier of education can be kept up and running. For education to work post-COVID, all these businesses must be strong and that is our next priority.”

for instance) . These products could be offered to schools, parents or teachers.

Savings products help families cover unexpected shocks without taking on debt (which might not be sustainable during difficult times like pandemics). Savings products for education have increased in demand as the pandemic has increased client perceptions of the importance of safety nets.

EduSave appears more in demand in somewhat better-off markets, where clients have higher financial literacy. Alongside saving products to cover income shocks, goal-based savings products

are also popular and help families put money aside for children to continue their studies into higher education.



“Rural women need to be able to save on a daily basis. It’s too difficult to wait a week or a month. For women, the savings demand is always related in some way to education.”

– Rekha Kulkarni, CEO of Mann Deshi Bank India

Insurance has increased in importance for many families during the pandemic, although usually less important than credit and savings. One product is for instance to insure education. This helps parents to be sure that there will be a continuity of

school fee payments if they cannot work anymore. Insurance could be linked to EduSave and credits (as long as you save or have an outstanding credit, we will pay school fees in case you lose your job/business, for instance).

“If there are a million loan customers then there will be a billion savings clients, and those clients will also need insurance for the next crisis.”

– Juan Vega, Senior Technical Assistance Advisor, Opportunity EduFinance



DIGITAL FINANCIAL SERVICES TO ENHANCE CUSTOMER RELATIONSHIPS

Apps and platforms, like **SchoolPay** in Uganda or **Finwego** in India, that help schools track cashflows are useful for both schools and financial institutions. The majority of school income comes from enrolment/term fees, sales of uniforms and books, and payments for other services such as school meals, transportation, dormitories and examinations. The main outflows for schools are salaries followed by other expenses such as rent or mortgage payments, utilities, maintenance and equipment. Many affordable private school owners have limited knowledge of finance and accounting. Creating an easy way to do this helps school owners manage their businesses and gives financial institutions visibility of cashflows and repayment capacities. Offering these tools for free can be a good marketing tool allowing financial institutions to onboard clients and mitigate some of the risks involved with lending to schools. Such Apps provide for instance insight in inflow peaks, which helps building a loan repayment plan. A finance platform can also help schools to see when parents are likely to pay, for instance at the start

of the month when they received their salaries or when business income tend to be higher.

Financial institutions could also create their own platform. The type of platform depends on three things: **1)** the needs of the customers, **2)** the technological capacity of the financial institution, and **3)** the resources the financial institution has to invest in the initiative. By speaking to customers, financial institutions build an understanding of what the challenges are that schools have with keeping accurate financial records. To keep costs down, the prototype could start as a free Excel-based account management template, alongside a user training for the schools, to test the approach before developing a stand-alone platform. This development path has been done by several ETAF-partners.

When creating digital services, user-experience is key. EduFinance research shows that most affordable private schools do accounting manually. Simplicity, usability and usefulness will be essential for schools to trust the platform and

to keep them reporting to it. Testing the product with the users is essential during the product development stage, as are trainings.

Additionally, schools and parents can be assisted through apps and platforms to improve school fee collections. Pre-pandemic, school fee payment was a pain point. Parents would often have to travel to the schools to pay in cash or show a bank's payment slip, which cost time and money. With lockdowns and school closures, it's been

even more difficult for parents to pay school fees and almost all schools have seen a drop in school fee collection. Developing app-based solutions can address this pain point for parents allowing them to pay through an app or by using mobile wallets. An additional advantage is that it provides financial institutions additional insight into a school's cashflow, which helps in assessing their risk profile and repayment capacity.

Several EduFinance partners developed or scaled edtech and fintech solutions for the education sector during the pandemic. For instance, Sterling Bank in Nigeria, Mobilink Microfinance Bank in Pakistan, and Pintek in Indonesia:

Sterling Bank Nigeria:

- **EduBank Platform:** platform that provides financial and non-financial services to education stakeholders. One challenge for schools is collecting school fees and reconciling the collected fees digitally with their records. The platform handles this issue by enabling efficient school fee collection alongside invoice handling and pay-roll management.
- In partnership with the organisation "One million teachers", the app has training programmes to equip teachers with the right tools for capacity and career development and to drive learning outcomes in schools. The app covers pedagogy, effective communication and preparation for certification examinations.
- **EdPay Platform:** Sterling Bank developed a school fee loan collection platform that allows ease of payment of school fees by parents at a low interest rate to partnering schools (school fees are paid upfront to the school).

Mobilink Microfinance Bank (MMBL), Pakistan:

- **JazzCash:** Together, MMBL and its sister concern Jazz (Pakistan's largest mobile operator and digital company) operate the largest digital mobile wallet in Pakistan, JazzCash that brings essential payments and branchless banking services to customers across Pakistan. Through JazzCash, customers can also conveniently make educational payments to schools, colleges, universities digitally.
- **The Jazz Smart School Program:** MMBL's parent company VEON is a strong supporter of women empowerment and the education of girls. The Jazz Smart School Program was launched by Jazz under its sustainability program in 2017. It introduced a smart learning solution to the traditional schooling system through a digital learning platform. The program uses mobile technology to improve teaching quality and accountability with techniques such as app-based performance dashboards and web portals to track results and improve student learning outcomes.

Pintek Indonesia:

- Pintek developed software to help the schools invoice digitally and increase school fee collections efficiency. Through the platform, parents can pay school fees through a host of payments channels even when schools were closed.

PARTNERSHIPS TO EXPAND OUTREACH AND INCREASE COMPETITIVENESS

Partnerships allow financial institutions to increase their outreach and develop specialist products outside of their areas of expertise. If the financial institution does not have the internal capacity to develop the digital platforms mentioned above, partnerships with fintechs is useful. Such partnerships can also help with increasing outreach and upgrading credit scoring solutions and accessing alternative repayment capacity indicators such as a client's utility payments and social media use, alongside typical credit bureau checks.

Other partnerships that can be commercially interesting for financial institutions to explore are co-lending opportunities. EduFinance is seeing more of these partnerships appear in different regions. By partnering with larger commercial banks, that usually lend higher loan amounts at lower interest rates, smaller financial institutions can act as a co-lender or sourcing partner and earn a fee. Typically, the smaller financial institution would keep a minimum of 20% of the loan on its books and 80% on the partner commercial banks. This collaboration increases outreach and financing for smaller or down-market schools, which are not a commercial banks typical target market.

Lastly, the pandemic has accelerated the trend towards digitalisation as it became a necessity for

business continuity rather than a strategic push for innovation. It is likely this trend will continue in the post-pandemic period as convenience of use will continue to drive customer choice. Partnerships with mobile money operators, agent networks and other digital payment channels help to facilitate loan repayments. Such partnerships will also enable financial institutions to diversify product offerings and offer flexible payment solutions to match the potentially volatile cashflows of customers. An example regards instant loans, which some ETAF-partners offer by white labelling fintech services to their customers. However, a main challenge in operationalising such partnerships is a lack of flexible technology and in-house knowledge. It will be increasingly important to invest in both to stay competitive in an increasingly digital market. Finally, for financial institutions whose mission statements are centred around financial inclusion, it is important not to lose sight of the end customer and devise strategies to ensure that digitalised products will find their way into the hands of the most marginalised, especially women in low-income communities who are typically less digitally literate and lack access to devices and data. One approach to help low income/illiterate people use digital approach is to provide usage trainings and use straightforward screens (including spoken instruction options).



Njideka Nwabueze
Group Head Education Sector, Sterling Bank Nigeria

”The advice I would give is that you need to speak to the customer to create a product that is valuable and sustainable. You need to speak to the market segment before you introduce a new product. That is rule number 1. You are creating the product for them. You are not creating the product for yourself or your staff. You need to speak to the customer even more during COVID-19 and find out what their needs are and offer them solutions that meet those needs. Secondly, partnerships are important. They say, “you can’t go far until you’re going with somebody”. Partnership is key, it gives you the landscape to really scale the solution you’ve developed.”

APPENDIX

EduFinance response to FAQs

Q: In your experience of education finance projects in different countries, which country has performed the best and worst and what were the reasons?



Hannah Hilali, Technical Assistance Advisor, Opportunity EduFinance

One of the findings from the workshop was that all countries were impacted and there wasn't one country where the whole industry was impacted less. Interestingly, strategies differed among financial institutions in the same country. We did see similar strategies employed across different regions and that depended more on the target market and institutional capacity of the financial institutions than the country itself. The financial institutions which reported successful strategies focused a lot of customer care and support, transforming themselves from a funder to a funding partner. Financial institutions took up the role of communicating practical information on social distancing, safety, and school reopening. Many financial institutions increased the bandwidth of their call centres and social media response so that customers could have their concerns easily addressed without having to travel to branches.

Market segmentation was also important to understand which schools or parents were going to be the worst affected and which still had capacity to repay their loans. This could be based on their geography, demography or other factors. . Many of our senior management participants reported that their institution had tweaked existing products for the new needs of customers or launched new products. There was an increase in demand of clients that required financing for working capital or emergency loans to tide them over during lockdowns. The majority of EduFinance partners spoke of how they had adapted their products and processes to suit the new needs of their customers during the pandemic and responding quickly and empathetically was a successful strategy employed by many financial institutions.

Q: What strategy was the most impactful in helping the low- and middle-cost private school segments keep their businesses afloat?



Sakshi Sodhi, Senior Technical Assistance Advisor, Asia, Opportunity EduFinance

These segments witnessed a multitude of adaptations whose culmination was vital to the sustenance of schools' businesses. Among others, regulatory relief packages were key to the process – these included, extending moratoriums to schools, and credit restructuring facilities to financial institutions. Several financial institutions also offered a variety of relaxations, such as, extension in loan tenures, flexi-repayment options, interest waivers, discounts and top-up loans – to name a few. Expectedly, there a sharp increase in CSR allocations towards these segments as well. More interestingly though, even the schools – perhaps not to be seen skiving – were seen favouring ingenious alternate business continuity strategies, such as, renting out vacant spaces as parking lots, or even for farming in some parts of Africa.

That said, from a non-financial standpoint as well, these segments endured a large scale transition to the 'online model', which, although still in nascent stages in certain economies, prioritised digitization of curriculum, remote/ online delivery of education, teacher trainings, and upgradation of tech infrastructure. Schools have also widely adopted alternate technological means to ensure continued engagement with the students and their parents/ guardians – most common of them being, use of social media and chat platforms such as 'WhatsApp' to stay connected, migration to 'Google Classrooms' or similar other platforms, digital delivery of worksheets, as well as organising various online workshops.

All in all, these segments, with due credit to all the key players, their novel strategies and concerted efforts, have shown tremendous resilience and admirable growth during these difficult times.

Q: What strategies can increase client acquisition using digital marketing?



Juan Vega, Senior Technical Assistance Advisor, Latin America, Opportunity EduFinance

Ask clients their main needs, priorities and problems. Analyse your findings and present this in a short and easy to understand way. Remember that your product is an "answer to the client's problem". Using social networks like WhatsApp direct communication, Facebook -paid campaigning, Google ads, and direct mailing to reach your potential clients with your solution.



Antonella Abategiovanni, Technical Assistance Advisor, Opportunity EduFinance

The use of digital marketing to increase branding and client acquisition must be a series of strategic actions. Customers use digital channels for different aims and profiling your audience will help to devise and structure your marketing strategy. Once you know which platform your customers use and why, we can focus on personalized acquisition ideas (What is their buying intent: inspiration vs value)?

The choice of which marketing platform to use to advertise is really dictated by your customer profile. The temptation to be present in all the available means is very high but not effective to increase visibility. We might want to address our efforts in the top 2-3 platforms which our customers visit more frequently. For example, we could target youth and Vocational Loans or EduSave through Facebook or Instagram; however can we use the same channels to market a loan product to a school proprietor?

Client profiling goes hand to hand with segmentation and we want to run targeted marketing campaigns to observe customer behaviours. Having Insights and data is important to enable us to make informed decision in our acquisition strategy (Google Analytics is one such tool). We need to ask what channels brought us more new customers? What worked better in one campaign than another and why?

Last but not least, let's also observe client acquisition cost to understand how much we are spending in recruiting a customer and how long it will take for us to recover that investment.

Q: What support is recommended for the schools who were affected by COVID-19?



Julius Omoding, Senior Technical Assistance Advisor, Africa, Opportunity EduFinance

While every school was affected by COVID-19 generally due to closures which affected enrollment, and teaching staff, the impact varied from one school to another for a number of reasons:

1. Governance structures
2. Readiness to cope with abrupt changes and disruptions
3. Adoption to online learning tools
4. Communication with students, parents and key stake holders

As a result, the support needed by schools varies but broadly speaking we would like to propose the following ahead of any financial assistance or would recommend that financial assistance followed the following technical expertise:

1. Governance / Structural review – governance will need to be enforced across all education establishments to ensure consistency in operations and the ability to enforce accountability. Under governance we would also have compliance with Government authorities to avoid future penalties which could hamper future progress or the reputation of the school.
2. Engagement with parents and key stakeholders to understand the current needs especially affordability which will drive enrollment in the immediate future.
3. Readiness for hybrid models of teaching such as mixing face-to-face and online platforms and the ability for both teachers and learners to use these tools for maximum benefit.



Hannah Hilali, Technical Assistance Advisor, Opportunity EduFinance

Alongside financial support from financial institutions, schools will also need assistance with school reopening, parent engagement and adhering to new operational guidelines. Many financial institutions offered additional support to their clients using social media, WhatsApp and webinars which helps to maintain customer loyalty and improve the resilience of clients' businesses.

If a financial institution does not have the resources in-house to conduct trainings, Opportunity EduFinance can help. The Education Quality team at Opportunity EduFinance, a team of expert education specialists from Africa, Asia, and Latin America, created a **Crisis Response Toolkit** last year to help schools with the current crisis and school closures.

The Crisis Response Toolkit is available publicly on the EduFinance website (<https://edufinance.org/covid-19-response-toolkit>) Guidance on school reopening

is currently available in English, Spanish, Kinyarwanda, Kiswahili, Bahasa Indonesia, and Urdu alongside other tools to help schools offer remote learning, engage and support parents, manage finances and conduct business planning in the pandemic.

Q: How can financial institutions lend to educational institutions when most schools report loss in their income?



Ommara Raza Ali, Senior Technical Assistance Advisor, Asia, Opportunity EduFinance

As rightly stated by Malala Yousafzai, “One child, one book, one pen and one teacher can change this world.” Education is the key to alleviate poverty in any country. The majority of affordable private schools are sustainable and get a good return on investment through running evening academies, tuitions, agriculture and other additional sources of income. This is one of the reasons why the non-state school sector has grown so much in the last two decades and there has also been an expansion of chains of schools under franchise models.

The COVID-19 pandemic has disrupted education and most affordable private schools had limited capacity and a lack of necessary equipment to be able to conduct digital classrooms. Moreover, the students of such schools do not have the digital devices to avail online education. It is essential for financial institutions to do zone wise mapping to identify zones which have connectivity and can offer digital classrooms if students and schools are provided with loans to purchase necessary equipment twined with trainings to offer digital classrooms.

Many countries like Pakistan are facing exponential growth of population which requires expanding existing schools and opening new schools. Additionally, rural-urban migration is also on the rise which will generate new demand for school education in urban centres. Taking into account all these factors, intrinsic demand of new schools already exists. However, like many other business sectors, one of the major challenges currently facing the education sector globally is the lack of funding. It can be addressed if financial institutions’ come forward, identify different target market segments of schools to develop a deeper understanding of low and medium private schools’ market along with their financing needs and capacity to repay. This requires much-needed improvements which include developing customized and innovative lending products customized to cash flows of different segments, recruiting and training of staff, adopting digitized learning methodology and assessing loans using behavioural analysis and psychometric modelling. Thus, building a more inclusive society to promote, sustain and revive the education sector during the pandemic and enable schools to sustain through the financial crunches during the pandemic.

Q: What are the key challenges we should look out for in this sector?



Sachin Kumar, Senior Technical Assistance Advisor, Asia, Opportunity EduFinance

While the education finance sector offer immense social business opportunity, there are a few challenges and risks that one should take note of which are linked with the sector. The risk management team of financial institutions generally reviews risks such as political risk, competition risk, and regulatory risk on a

periodic basis and inform the management appropriately. Similarly, there are a few internal risks and challenges that financial institutions grapple with. They are market segmentation, designing customer focused financial products and processes, costing and pricing, credit underwriting and modelling. OI, through ETAF, works closely with its partner FIs in anticipating such risks and challenges, and prepares strategies to manage them.



Mathieu Fourn, Opportunity EduFinance

The main things to look out for in the sector when lending to schools are:

1 Macro-environment:

- a) Regulation from government: New Standard Operating Procedures required for schools from local or state governments will drive new needs from schools in terms of financing (social distancing – more infrastructures, equipment, sanitaries) and expertise/capacity (training of teachers on new of teaching, social distancing, decrease of teacher/ pupil ratio...)
- b) COVID-19 waves: The pandemic is far from over and several waves are expected to hit and affect different countries so following this crisis cycle closely will be key.

2 Micro-environnement:

- a) Focus on the new sources of revenues for schools and their strategy for revenue diversification.
- b) Segment your portfolio of clients and look out for short term vs. long term for schools.
- c) During and post crisis, customer relationship is more important than ever.
- d) Emergence of Fin-tech and digitalisation: This is the biggest opportunity coming from the crisis and each education player should take a part in it.



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