

# Banking ON Education

## Dar es Salaam, Tanzania

In 2016, CapPlus researchers in Dar es Salaam, Tanzania, examined the size and nature of the low-cost private schools serving the city's children. Our top-line findings show that private schools dominate the pre-primary market, want to borrow **\$130 million** over the next three years, and will conduct cash transactions in excess of **\$264 million** in that same time frame. This demand for finance creates an opportunity for financial service providers.

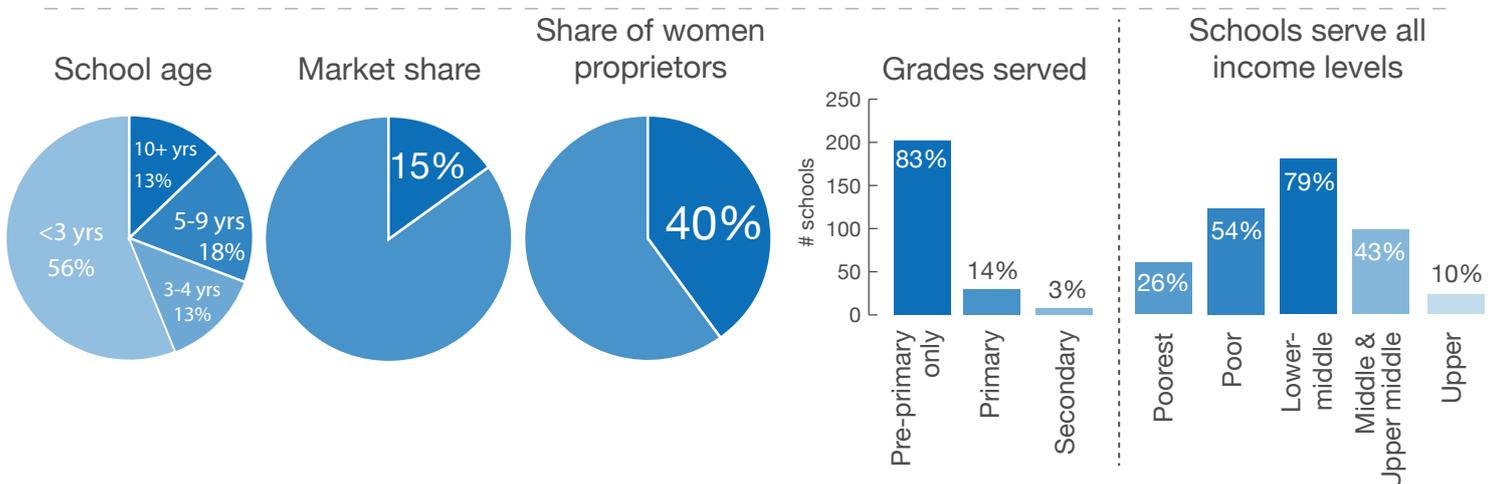
### **FINDING 1: Market opportunity is in pre-primary schools**

The government requires all children to have one year of pre-primary education before entering the primary level, yet does not offer pre-primary schooling, creating a business opportunity that private schools are seizing. No similar market gap exists at higher levels—in 2016 the government renewed its commitment to providing free public education from primary through the lower secondary level, which brought more children into public schools. Furthermore, paying private primary or secondary tuition would absorb 48% of the average household's income, which combined with the availability of state-run schools explains why 83% of the sampled schools serve only pre-primary students. The students attending these schools come from families with a broader range of incomes than in other cities studied. Eighty-five percent of sample schools operate as sole proprietorships or partnerships, and only 9% are in school chains, most of which have just two or three schools.



### **Quality and improved financial management are important to the**

surveyed schools: 72% acknowledge they need to improve their teachers' skills and 84% need to improve their financial management skills. This provides an excellent opportunity for financial institutions to bundle credit—which schools clearly need—with financial management training and education quality enhancements. The latter two could be provided through partnerships, and be a pre-condition for financing. These investments would have long-term positive impacts on the education, economic equity, and career potential of Tanzania's children, especially girls.



These schools are young. Private schooling at the primary level was forbidden before 1995 and at the secondary level before 1978. As a result, 69% of schools in our sample were formed in the last five years and the estimated 20% annual growth rate is the highest of the five cities we studied.

### **FINDING 2: Many schools in Dar es Salaam are profitable**

We estimate that up to 80% of all Dar es Salaam private schools are sustainable, with higher profitability rates for registered private primary and secondary schools. The profitability analysis indicates that schools need at least 50 students to cover costs.

Few schools have adopted formal management tools: only 39% of the schools use formal accounting methods, 75% report erratic cash flow, and 84% want to improve their financial management skills. All three conditions may be explained by the limited tenure of many schools. A financial institution could require business management training as a condition of finance.

### **FINDING 3: Dar es Salaam’s private schools need financial services**

Private schools in Dar es Salaam are underbanked. Lack of credit was the most severe challenge identified by the school proprietors.

Thirty-six percent of unregistered schools would like to borrow in the next three years to buy land and undertake new construction. Forty-five percent of registered schools would like to borrow to finance renovations, and expand labs and libraries. Interestingly, 55% of schools already own their premises, and land is hard to find, making it a relatively low priority.

Overall, we estimate **\$130 million** in total demand for credit among low-cost private schools over the next three years. We likewise estimate that these schools will execute more than **\$264 million** in cash transactions, creating further opportunity to cross sell account and payment services.

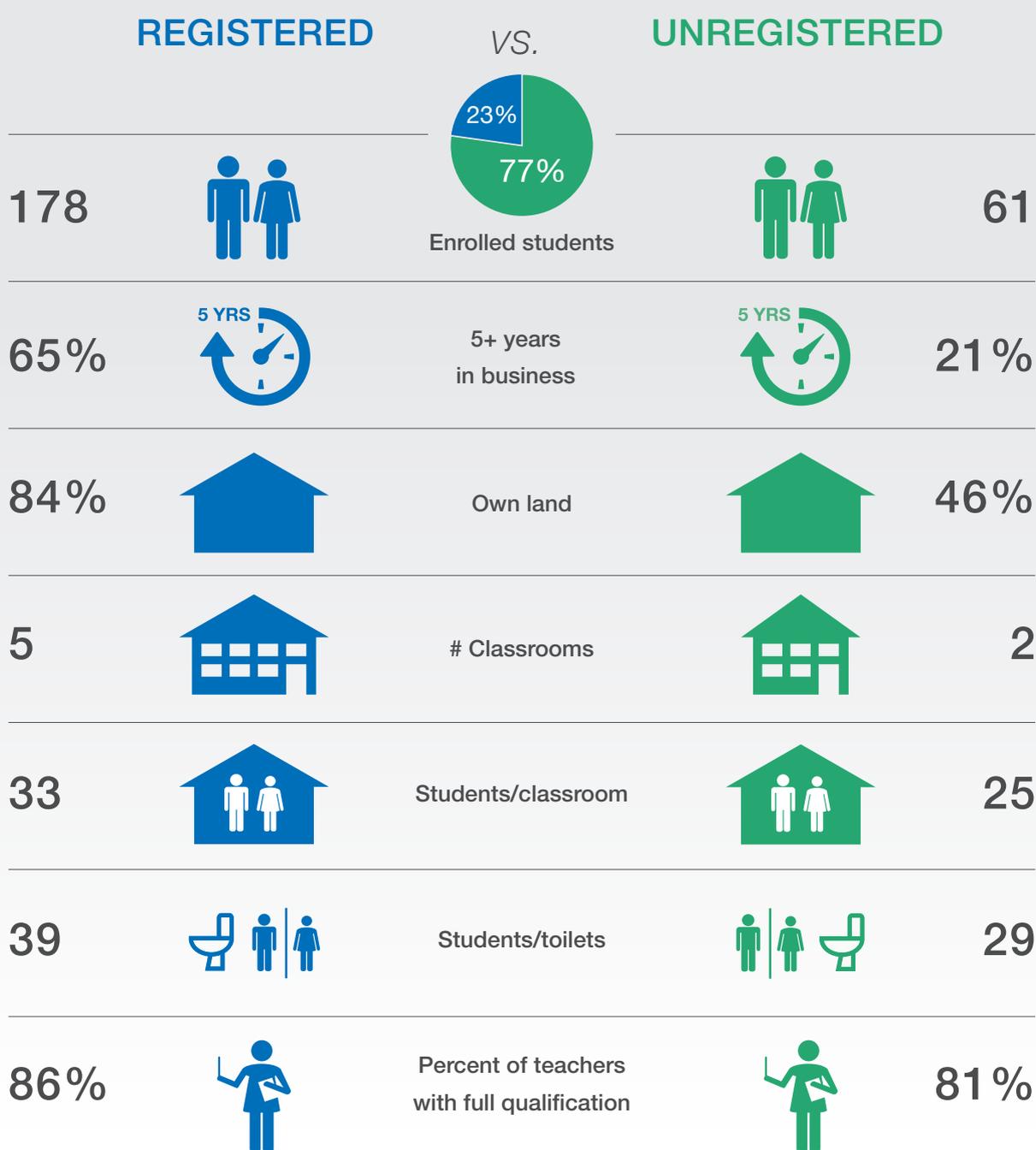
DEMAND FOR \$130 MILLION IN CREDIT



## FINDING 4: Private school regulation is rigorous

The market dynamics described above also affect the regulatory environment. A mere 23% of schools in our sample are registered, but when viewed by level 70% of the primary schools in the sample are registered, as are 86% of the secondary schools. This wide discrepancy exists because the government does not regulate pre-primary education. Private primary and secondary schools, in contrast, are subject to strict government standards which make it very difficult to operate unregistered schools, since their pupils are prohibited from taking government exams. The education ministry nonetheless considers registered private schools and pre-primary providers as complementary to the public system.

Within this context, there is a wide discrepancy in the size and facilities between unregistered and registered schools, since primary and secondary schools are usually registered and many times larger than pre-primary schools.



## **CONCLUSION: Dar es Salaam's private pre-primary schools offer financial institutions an opportunity to grow with the market**

Dar es Salaam's low-cost private school sector is providing children with critical access to early childhood education. These young institutions are still in the process of establishing themselves as providers of safe, local, affordable, high-quality education for children, and many more are opening each year. Regulators acknowledge their importance in meeting the government's requirement for all children to receive at least one year of pre-primary education.

To expand their schools and improve learning outcomes, the schools need credit. Enhanced access to finance would allow private schools to transition from focusing on day-to-day needs to making larger investments in their facilities and in education quality—investments which will allow the private school market to mature and stabilize.

A current opportunity exists for financial institutions, as 31% of the schools are more than five years old, representing almost 1,000 schools across the city that have proven their sustainability. The financial institutions that provide services tailored for the schools now will be well-positioned to dominate as the private school sector expands and matures.

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## **METHODOLOGY**

*In 2016, CapPlus researchers led by Dr. Joanna Härmä conducted a census to identify all the private schools in two typical low-income areas in Dar es Salaam. They identified 327 private schools and surveyed a representative sample of 212 school proprietors. School owners answered questions about enrollment, registration status, income, expenses, banking relationships, accounting practices, staff qualifications, and facilities. Researchers also interviewed representatives of the Ministry of Education, Science, Technology and Sports, and the private school association, TAMONGSCO. Peter Hinton conducted the financial analysis. Profitability estimates include the assumption that schools in existence for three years or more are covering their costs, hence are profitable.*



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