Banking ON Education

Nairobi, Kenya

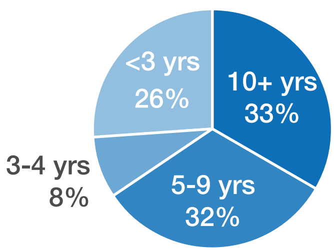
In 2016, CapPlus participated in market research in Nairobi, Kenya, to understand the size and nature of the low-cost private pre-primary and primary schools serving the city's children. Our findings document that 60% of Nairobi's children are educated in private schools, and those schools want to borrow **$556 million** over the next three years. The schools will also handle around **$360 million** in cash transactions in that three-year time frame, creating an opportunity for financial institutions to cross sell account services and payment solutions.

FINDING 1: Nairobi's private school market is large and profitable

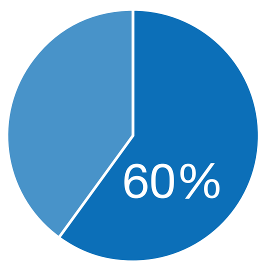
An estimated 5,400 private schools educate more than 700,000 school children in Nairobi—60% of all school-aged children. The Nairobi government expresses a strong commitment to educate all of the city's school children, yet does not have sufficient capacity in the public schools, especially in low-income communities. Private schools are filling the gap, particularly with schools serving the primary level. The city government views private schools constructively and is establishing a new public-private partnership for pre-primary education.

Private schools in Nairobi are having a huge impact on long-term learning *given the number of students served and the dominance of schools focusing on early childhood education. It is therefore critically important to invest in the quality of education delivered to children at all socio-economic levels, especially girls. Financial institutions in Nairobi can partner with education experts to help school customers improve learning outcomes as a complement to or condition of finance. Such services allow private schools to solidify their status as essential partners in ensuring that all Nairobi's children receive a high-quality education.*

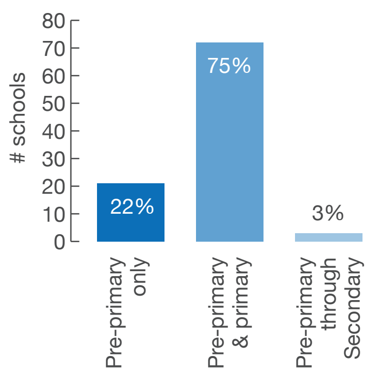
School age



Market share



Grades served



**The study focused on pre-primary and primary schools. Secondary schools may be under-represented.*

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Two-thirds of private schools in Nairobi have been in business for at least five years, whereas 26% of schools opened within the last three years as part of a recent wave of growth. Approximately half of all private schools are owned by sole proprietors or partnerships—a far lower percentage then seen in other cities. Twenty-six percent of the schools are community schools, which are usually founded and initially run by parents, and the remainder are run by faith-based or nongovernmental organizations. There appears to be no difference in school quality across the different organizational types. Thirteen percent of proprietors own more than one school; with only one exception those chains include just two or three schools.

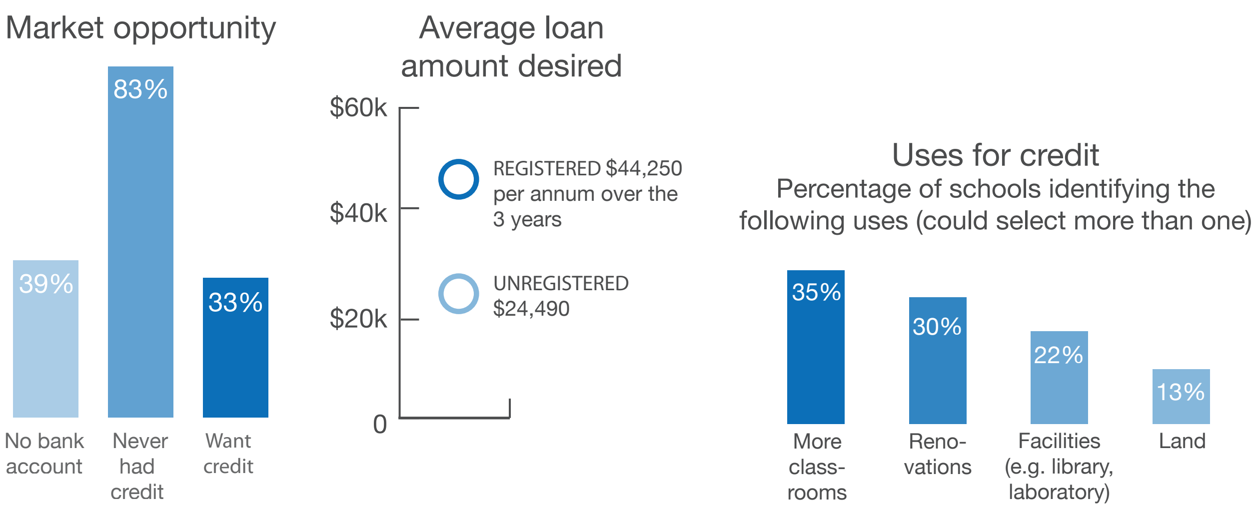
Overall, our analysis suggests that as many as 82% of schools may operate profitably. Small and young schools may operate at a loss, as profitability is tied to enrollment levels of at least 50 students.

FINDING 2: Nairobi's private schools need financial services

Thirty-two percent of the surveyed schools would like to borrow in the next three years, driven by the desire for additional classrooms, renovations, and enhanced facilities such as laboratories or libraries. Purchasing land is a lower priority. Overall, we estimate **$556 million** in total demand for credit among low-cost private schools over the next three years.

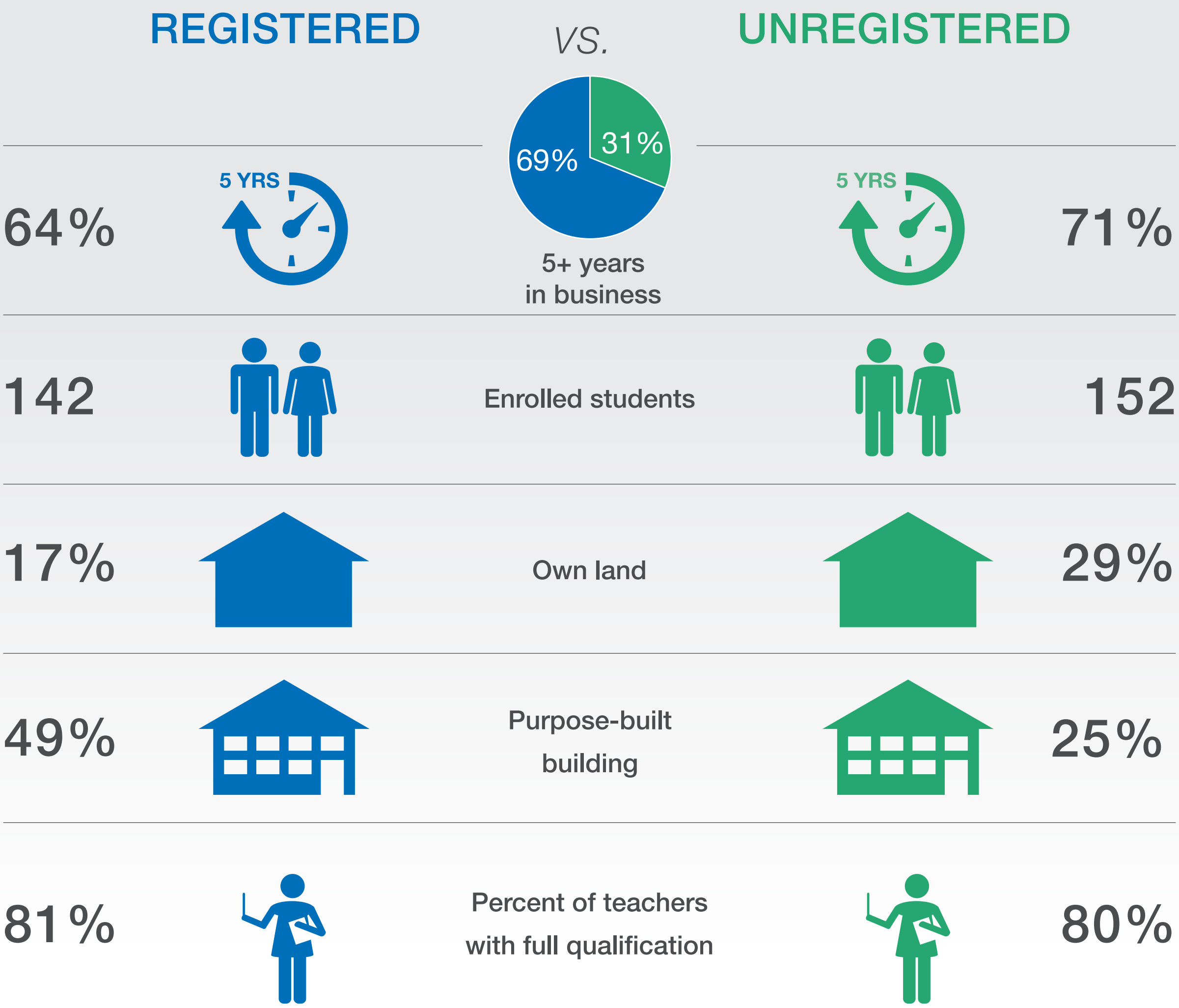
Payments also represent an immediate opportunity in Nairobi given the high adoption of mobile money across Kenya. Although cash remains the most widely accepted payment of school fees, 44% of the schools accept deposits into their bank accounts and 24% accept mobile phone payments. In fact, 20% of the registered schools *only* accept payment by mobile money or check. Given this, school-specific transaction services such as daily mobile fee payments could be of immediate interest to schools. Digital payments directly into a school bank account could improve schools' cash flow stability—an issue that proprietors name as their most severe challenge. We estimate an opportunity to facilitate **$360 million** in cash transactions over three years.

DEMAND FOR $556 MILLION IN CREDIT



FINDING 3: Education regulators are supportive of private schools

Sixty-nine percent of private schools in our sample are registered, and an additional 13% have initiated the registration process. Consistent with the government's positive view of private schools, the government provides registered private schools with $9 per enrolled student per year to purchase textbooks, which acts as an incentive for private schools to become registered. Beyond government subsidies, some competitive advantages seem to come with registration status. For instance, registered primary schools charge fees around 2.5 times more than unregistered schools, and registered pre-primary schools charge nearly 4.5 times as much as unregistered.



Note: This image uses averages or medians for each category. Decimals are rolled up or down to the nearest whole number.

CONCLUSION: Nairobi's private schools are ready and able to borrow for the purpose of expanding schools and improve education

Nairobi's low-cost private school sector is ready for finance: the median school age is eight years, more than 80% of the schools are profitable, and most schools are registered. Furthermore, the government recognizes the importance that low-cost private schools play in filling the growing demand for education in low-income communities.

A combination of credit and other complementary financial services will allow these schools to improve the quality of education they provide. Given the emphasis on early childhood education, these schools are in a position to affect long-term learning outcomes. Financial institutions can leverage their position as credit providers to require quality enhancements such as teacher training and investments in learning resources—both of which would enhance a school's reputation and allow it to grow enrollment commensurate with quality.

For more information, please contact CapPlus CEO **Lynn Pikholz** at **lynn@capplus.org** or Peter Hinton, Co-Lead Affordable Education Finance, at **peter@capplus.org**.

Visit our website at **www.capplus.org**

METHODOLOGY

In 2016, CapPlus partnered with the Nairobi City Council and Ark's Education Partnership Group to survey 96 proprietors of private schools located in six economically diverse wards. The partnership was established to avoid conducting two similar surveys among the same set of schools; the Nairobi City Council/ Ark study was conducted to inform the proposed public-private partnership for pre-primary education. Our partners focused on early childhood education. School owners answered questions about enrollment, registration status, income, expenses, banking relationships, accounting practices, staff qualifications, and facilities. The school findings were complemented by interviews with experts on Kenya's education environment.

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