School's In: Opportunities in Financing Schools

Like all small businesses, private schools need capital to build infrastructure, run their operations, and improve education quality. CapPlus' on-the-ground market research on low cost private schools in five African cities found **cumulative demand for more than $1.3 billion in finance** over three years from both registered and unregistered schools. The total rises to $2.5 billion in six cities when including Deepen's market research in Laghos.

Both education providers and some financial institutions have already stepped up to serve this new and growing customer group. CapPlus conducted a quantitative survey and qualitative interviews with financial institution managers in developing countries to understand lending practices to social enterprises.

The bottom line, from a financial institution's perspective? **Schools make good customers and the opportunity is large, but banks are serving only a miniscule portion of the market.**

The bank managers consider schools good small business customers. All but one say schools are no riskier than the average small business, and some see schools as less risky. Their reasons include:

- Education is a growth sector
- Demand goes deep - even poor parents find a way to pay for private schooling
- Schools provide many opportunities to cross-sell and their finances are stable

School lending is not without risk, however. The most frequently cited ones are:

- Inadequate collateral and difficulty to foreclose
- Cash flow is dependent upon school quality, which financial institutions can't easily assess

To compensate for these risks, most financial institutions lend mainly to:

- Schools registered with the national government education ministry
- Larger, more established schools
- Borrowers who can provide personal collateral

In addition, the financial institutions serve schools reactively, and do not have school-specific products and processes in place.

CapPlus believes that achieving financial stability is a key precondition before school proprietors can focus more attention on improving education outcomes. This provides a clear opportunity: **financial institutions can capture more market share and achieve faster growth if they develop an integrated set of services tailored for the private school segment.** We propose three reasons why:

1. **Untapped market opportunity** - unregistered schools represent between 36 and 77 percent of the total private school market, depending on the city. Many unregistered schools are well-establishes: 30 percent of the 532 unregistered schools interviewed by CapPlus have been in business more than five years, many enjoying reputable standing and tacit government support
2. **Room to differentiate** - schools' unique needs present opportunities for financial institutions to stand out in the marketplace
3. **Lower risk and enhanced social benefit** through improved school business practices and education quality, developed via partnerships with outside experts

Proactive institutions will design products for schools, develop complementary services like deposit mobilization and consumer finance products for school staff and families, and establish partnerships to improve the quality and management of the schools they serve.

Financial institutions do not have to do this on their own. Banking experts including CapPlus and CapPlus' education partners like the IDP Foundation are already working with financial institutions to successfully serve this growing segment, while building stronger, higher-quality schools.

To learn more about partnering with CapPlus and to receive our full report, contact Frances Toomey-Mys, Director – Capacity Building, at ftoomey-mys@capplus.org.

Download a case study on the IDP Rising Schools Program, in partnership with Sinapi Aba (Ghana), at www.capplus.org/publications

Register now for our first webinars of 2017

The New Market Opportunity in Financing Low Cost Schools | 02 Feb. 11am GMT
Introduction to Analytics for SME Banking | 23 Feb. 11am GMT
Advanced Analytics: Origination and Risk Management | 23 Mar. 11am GMT

Registration opening soon:
Key Topics in SME Finance Sales | 20 April
Low Cost Schools: Presenting CapPlus Case Studies | 25 May
Incentives for SME Officers: Building Goals to Best Serve your Clients | 22 June

Staff changes at CapPlus

We are thrilled to introduce Fran Toomey-Mys, Director - Capacity Building (above) and Alkis Theodhori, Senior Associate (right), our newest team members. Ms. Toomey-Mys is a development finance expert who brings over 25 years' experience building and growing financial institutions' financial and business development services to micro, small and medium-sized enterprises to our team. Her experience includes implementing projects funded by DFID, the WorldBank/IFC, USAID, and the Bill and Melinda Gates Foundation.

Ms. Theodhori has supported the formulation, management, and implementation of all youth employment project activities for the International Labour Organization in the West Bank and worked with entrepreneurs at Alpha Bank, a commercial bank in Albania.

Finally, we are saddened to announce the departure of Jessica Alfaro, who has worked with many of you dating back to the days of SBBN, our pioneering network of financial institutions dedicated to serving small and medium businesses. Jessica was a dedicated and enthusiastic driver of our peer exchange events and a valued representative of CapPlus at our webinars and many in-person events. We wish her great success in her future endeavors.