



Low Fee Private Schools in low-income districts of Kampala, Uganda



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Executive Summary

CapitalPlus Exchange (CapPlus) prepared this analysis for financial institutions in Kampala to provide insights on the market opportunity represented by low-fee private schools. The report includes:

- Description of the size and nature of low-fee private schools in the city, covering topics such as the schools' general characteristics, legal status, infrastructure, management, current use of banking services, profitability and growth trends
- Estimated demand for financial services – including loans – by profitable registered and unregistered schools that have at least a three year operating history

The report focuses on pre-primary and primary schools, but also includes data for secondary schools, although to a lesser degree.

Private schooling has become the prominent provider of education in Kampala. It is estimated that there are **2,282 private schools of all levels**, serving 502,040 pupils, with year on year increase in the number of schools averaging over 6%. Since the previous year, this year's enrolment has increased by nearly 8%. **Private schools are serving all levels and account for an estimated 84% of all school enrolments**, from the pre-primary level (100%), to the secondary levels (77%). At the primary level, private schools account for 84% of enrolments.

The greatest growth opportunities are within the pre-primary levels where only 27% of children are enrolled in school and in secondary schools where only 74% of children are currently enrolled. Nonetheless, growth among primary schools will likely continue, especially considering population growth. **The demand for finance will thus continue to be strong, especially for school improvement activities.**

This study covered about one-fifth of the city, finding 464 schools, of which 438 (94%) are private schools, 22 are government schools, and 4 are government-aided but privately owned schools. From the sampling frame of 438 schools, **223 school proprietors were surveyed to understand their business models, the challenges they face, and their desired improvements.** An unusually large **64% of schools are government-registered and 68% operate in their premises they own.** Nearly three quarters have purpose-built buildings, and 89% of teachers are duly qualified (see Table 2 below.)

This is an extremely strong market, overseen by an unusually favourable regulatory regime as government attitudes and policies appear much more favourable than in other countries.

The vast majority of sample schools (91%) are run as private businesses under an individual proprietor or a partnership of a few individuals.

Private schools are unbanked: within the sample, **half of registered schools and only 22% of unregistered schools have a dedicated bank account and only 18% have accessed any loan to date.** This, in conjunction with the size of the market in Kampala, means that there is great scope for extending banking services to schools. It is also likely that if borrowing became more attractive, more schools would invest in school improvement as only ten respondents (4.4%) reported no desire to improve their schools.

TABLE 1: ESTIMATED DEMAND FOR LOAN FINANCE OVER 3 YEARS IN KAMPALA

Purpose	Total USD, millions	Mean per school per annum USD, thousands
Expansion/ infrastructure	\$96.5	16.1
Working capital	\$62.3	10.4
Staff loans	\$5.0	
Total	\$163.8	

It is estimated that **there are approximately 1,875 pre-primary and primary schools** that are potential clients for lending services. Demand from an individual school in a given year is an average of **\$17,295** for registered schools and **\$11,756** for unregistered schools. Taking into account inflation and also continuing growth in the private schooling sector, it is estimated that there will be a total demand of \$163.8 million over the next three years in Kampala alone.

In addition, it is estimated that financial institutions could capture up to 40% of all current cash transactions. This comprises school fees plus amounts spent on uniforms, materials, examinations, and meals, which equates to a ratio of 1.8 times the fees charged for registered schools and 1.5 times for unregistered (see Tables 1 and 14.) Over a 3-year period this equates to \$272.8 million or \$42,000 per school per annum.

In summary, we estimate the market potential serving pre-primary and primary schools in Kampala to be:

- \$163.8 million in loans over three years
- \$272.8 million in cash transactions

TABLE 2: BASIC CHARACTERISTICS OF SAMPLE SCHOOLS BY REGISTRATION STATUS

School category	Numbers of schools	Average enrolment	Own school premises (land)	Run as private business	Purpose-built building	% Teachers qualified
Registered Schools	142 (64%)	278	103 (73%)	130 (92%)	121 (85%)	91%
Unregistered Schools	81 (36%)	183	48 (59%)	73 (90%)	42 (52%)	84%
All schools	223	220	151 (68%)	203 (91%)	163 (73%)	89%

School category	Established before 2011 (more than 5.5 years old)	Have a bank/micro-finance bank account	Accessed bank/micro-finance loan	School has been turned down for a loan	Plan to borrow in the next 3 years	Irregular cash flow (fee payments)
Registered Schools	122 (86%)	74 (52%)	28 (20%)	17 (12%)	88 (62%)	50 (35%)
Unregistered Schools	30 (37%)	18 (22%)	11 (14%)	5 (6%)	41 (51%)	31 (38%)
All schools	152 (68%)	92 (41%)	39 (18%)	22 (10%)	129 (58%)	81 (36%)

School category	Average loan desired per school	Numbers of profitable schools	Average annual fee, primary level	Average total costs to households
Registered Schools	\$17,295	142 (100%)	\$160	\$291
Unregistered Schools	\$11,756	65 (80%)	\$179	\$274
All schools	\$15,092	207 (93%)	\$165	\$284

Introduction

This is one of the first studies to look in depth at the low-fee private schooling market in Kampala, the capital of Uganda. The research has uncovered a startling degree of private schools in Kampala, unrivaled by any location that is documented at the current time: 84% of primary school enrolments and also 84% of all enrolments from the pre-primary level through to the upper secondary level are in private schools. The Kampala private school sector is also characterized by an unusually large proportion of registered private schools: 64% of schools.

The vast majority – or 96% - of study respondents expressed the need to improve their schools. The market has undergone significant growth to date, to the point where possibilities for enrolment expansion at the primary level may be limited, though there is continued room for increased enrolments at the pre-primary and secondary levels. Nonetheless, at all levels there is likely to be ongoing demand for school improvement. Enrolments at sample schools increased overall, with some schools losing pupils and others gaining but achieving overall 7.7% growth from 2015 levels.

The analysis for this report suggests that up to 93% of schools are profitable, based on responses from schools indicating profitable operations and/or schools that have been operating at least 3 years. There is a strong drive to expand existing schools and strong demand for borrowing to finance school development projects. This report estimates that there is likely to be demand from around 1,875 profitable pre-primary and primary schools serving all levels, of \$163.8 million over 3 years.

The report is organised into seven key sections which start with the background to the study, followed by a section on the basic characteristics of sampled schools, followed by a discussion of school management and school quality control. The next two sections deal with school finances and schools' use of banking services and the third addresses the demand for borrowing, followed by the conclusions that address potential uses and implications of the findings.

Background to the Kampala Study

Methodology and Rationale

This research was conducted in the context of growing interest in the potential of the low-fee private school sector in African and Asian countries to increase access to quality education. The sector is filling gaps in government education provision, particularly in low-income areas, often characterized as informal settlements. These usually-small neighbourhood schools are providing parents and children with a service that they value, but could often benefit from improvement if funding were available. The sector also generates employment, mostly as teachers but also in non-teaching roles, thus also contributing to the local economy. The research project was designed to provide information needed for local financial institutions working with CapitalPlus Exchange to design banking and lending services specifically tailored to schools to help them invest and improve.

Data collection was carried out in 2016 by a team of local researchers overseen by the lead researcher/consultant as well as an experienced fieldwork supervisor who has worked on all other studies in this series. The same research/consulting firm was contracted to conduct the research in Tanzania, Zambia and Uganda, although the fieldwork teams are by necessity entirely local and therefore different.

No significant issues arose during the conduct of the research as the lead researcher had carried out similar work in other Sub-Saharan Africa cities and was intimately familiar with the adaptations and/or potential modifications needed for different localities. Time was allowed from the outset to make these changes and to train local staff accordingly.

The lead consultant and fieldwork supervisor travelled to Kampala to provide training for the research team and to oversee the data collection which spanned three weeks. Training took place using a seminar format on the first Monday, with further familiarization with the questionnaire and role-play (mock interviews) taking place on the second day. The third day was dedicated to piloting the questionnaire in the field, with the team coming back together in the afternoon to discuss the experience, lessons learned, and any changes that would be needed on the questionnaire. As in other study areas, some slight differences were found in terminology or in aspects of the education system, which meant that small changes were needed to the questionnaire. The pilot, school listing, and all school

interviews were carried out using the 'Survey To Go' software on small, mobile phone-sized tablet devices.

After making final modifications to the questionnaire, the main fieldwork began with four days of school listing. The researchers split up to cover all of the neighbourhoods that made up the selected research areas of Kawempe, Makindye, Rubaga 1 and Rubaga 2. These areas were chosen as being typical of low-income neighbourhoods in Kampala based on the local knowledge of the research teams. Fieldworkers were instructed to walk every street and alleyway, or to ensure that all schools were found and listed through careful questioning of multiple local people.

Using this tried and tested methodology of hunting for schools, a total of 464 schools were found, of which 438 were non-government schools, defined as not receiving any funding from government. From this sampling frame of 438 private schools, a random sample of schools was selected and by the end of the allocated days for interviewing (8 days), 223 school proprietors had been interviewed. To get a good range of experiences of private schools the aim was to get over 200 interviews, with the numbers of schools drawn proportionally from the neighbourhoods where schools were listed, resulting in a sample of 51% of all listed private schools.

Uganda's population of around 35 million is growing at a rate of 3.03% per year and Kampala, where this study was conducted, has a population of 1.6 million¹. The education system consists of three distinct levels, firstly the pre-primary years, referred to as baby class, middle class and top class. There are then seven primary grades, and 6 'forms' of secondary school: four years for lower secondary school culminating in 'O-level' examinations, and two years of upper secondary schooling ending with 'A-level' examinations. According to the Annual School Census 2015, all pre-primary schooling provision was in the non-government sector, while the government has since 2007 been working to universalize access to secondary schooling. However, with a gross enrolment ratio of 27 at the pre-primary level² and 74 at the secondary level³, many children are still

¹ Using the 2014 census figure projected forward to 2016 on the basis of 3.03% growth per year. Republic of Uganda National Population and Housing Census 2014, available online at <http://unstats.un.org/unsd/demographic/sources/census/wphc/Uganda/UGA-2014-11.pdf> accessed 26th September 2016.

² Available online at <http://www.education.go.ug/files/downloads/Abstract%202015.pdf> accessed 26th September, 2016.

³ Uganda Bureau of Statistics (2013) Uganda National Household Survey 2012/2013. Available online at: http://www.ubos.org/onlinefiles/uploads/ubos/UNHS_12_13/2012_13%20UNHS%20Final%20Report.pdf accessed 26th September 2016.

not in school. The gross enrolment ratio for the primary level in Kampala is 108.7⁴, which is better than for the rest of the country, but it shows a continued problem of children outside of the official age range being enrolled at the primary level.

REGULATING THE PRIVATE EDUCATION SECTOR

The lead researcher and fieldwork supervisor met with a senior official at the Ministry of Education, Science, Technology and Sports to discuss oversight of the private schooling sector in Kampala. The official estimated that there may be three times as many private schools as government schools (this research finds that there are 25 times as many), and when asked why there were so many more private schools, he stated that this was due to historical issues of land ownership. He stated that by the time the government realized that many more schools were needed, “all the land was taken over. They didn’t wake up to the need until much too late, and purchasing land is difficult in the private sector.”

It should be noted, however, that separate from this conversation, the researchers were told about Shimoni Demonstration School and Teacher Training School which catered to more than 2,500 government school pupils in the centre of Kampala. It was an old school with a good reputation which the government decided to give to a private investor who moved it to another location. After the move, the school’s reputation deteriorated and it lost most of its students. The land that it used to inhabit has been fenced off by the private investor and has remained undeveloped and unused since the school’s relocation. This incident, if true, gives another perspective on the lack of land for government schools.

Having established that there is a large and thriving sector of private schools in Kampala, the Ministry official was asked about the relationship between the government and private school proprietors. He stated that the government is supportive and that they work with the private sector, as evidenced by the Ministry having a “full commissioner for private schools with a full staff. It is a full department.” He stated that the private schools are definitely needed to fill the gaps in government provision. He further stated that there are minimum standards that all schools should observe and that many do not live up to these norms, and that the government works closely with these schools advising them on how to improve.

⁴ HH survey, see note 3

When the purpose of this research was explained, the official seemed ambivalent, saying that if international partners want to help with education then they should support the government schools. He also expressed the view that some private schools are exploiting parents, however ultimately it was agreed that private schools are really needed as they make education more accessible. When it was explained that the purpose of Cap Plus's work is to work with locally-owned schools and to build capacity within the country and encourage registration of schools rather than working, for example, with a single foreign-owned chain of private schools, he agreed that the planned investments are a good idea for Uganda.

The official was asked why there are so many unregistered schools, to which he replied that many cannot provide the minimum requirements and so do not come forward for registration. In addition, he stated that the Department lacks the person-power, vehicles, and resources necessary to visit schools – a common issue facing most ministries where private schools are thriving. Overall, it was clear that the Ministry wants private schools to live up to standards higher than those prevailing in government schools, which lag behind desired minimum standards.

Researchers also met with another senior officer in the Department who oversees private education. We were provided with a copy of the regulations for the establishment and registration of private schools. Of note, **Ugandan regulations are flexible** on paper as well as in practice. In other countries there are greater disparities between regulations and practice. For example, country regulations usually set minimum land requirements while in practice schools often become registered without meeting the land requirement or other requirements. In Uganda **there is no minimum land area** that a school must have; according to the official, the area must be “sufficient” and **what is “sufficient” depends on the type and size of school that the proprietor intends to operate**. The official specifically stated that a small school for 20 pupils is very different from a large school running several streams per grade level. There are also **different requirements for urban and rural schools**: urban schools are less likely to have extensive play areas while rural schools, where land is cheaper, can reasonably be expected to provide more outdoor space.

Registration is a two-step process. Schools must apply to get a license, which requires the filing of certain documents as listed in the booklet we were given. Licenses can be issued very quickly, even in the same day, when the file is complete. **Schools are expected to apply for a license within the first year of operation**, which, again, is more practical than in other countries where schools are expected to seek registration even before commencing operations. Once licensed, schools may commence operations and apply for

renewal of the license after two years. It is customary that **schools apply for registration after several years of operation**, by which time the necessary minimum infrastructure is more likely to be in place. Upon registration, schools then receive a registration number.

The official was asked if schools are ever closed down due to poor standards; the response was only rarely. The Department works closely with schools and advises them where they need improvement to reach the minimum required standard. They are given a period of time in which to comply with the improvement plan, “but inevitably the inspectors tend to come back much later than they intend, due to insufficient staffing and resources for the department.” This means that schools have even longer time to comply, in practice. This process of “giving chances” will go on for a considerable period before the Department will take the decision to close down a school.

Overall, the Ministry and its way of functioning is more positive than in other countries. The second official was asked if the regulatory regime for private schools was positive and effective; the answer indicated that they do their best, but may not be entirely streamlined and efficient. The flexibility and realism in approach is particularly noted, allowing for different types of facilities for large and small, rural and urban schools. In practice, at least one school proprietor, as well as the representative of the association (see below), stated that there is corruption in the registration process and that bribes will make the process much easier. This is a common problem in Sub-Saharan Africa and many other regions as well. In summary, the regulatory environment in Kampala appears much more positive and realistic than in other study sites, yet with room for improvement.

THE PRIVATE SCHOOL ASSOCIATION

The lead researcher and fieldwork manager met with a representative of the Kampala Primary Schools Head Teachers Association, KAMPSHA. Through this meeting we learned that there is no large association exclusively for proprietors of private schools in Kampala, unlike in other cities where private schools have flourished. KAMPSHA is an association for all primary schools, including government schools. The interviewee stated that the heads of all types of schools come together in this association to learn from one another and to stage sporting, arts, music and dance events. They engage in extracurricular activities together through this association.

Despite also having government members, he stated that the association advises and protects its members and that peer learning and mutual supervision takes place. We asked

if there is a need for protection from government interference; the answer was that it is extremely rare for the government to take very strong action against schools so this function is not particularly needed.

The interview illuminated areas where government-private school interaction could improve. The government was said to charge the same taxes to all private schools, irrespective of the size or the income level of the school. As in other countries, the list of government taxes was long, including registration renewal, local service tax, sign post tax, van tax (even if the school does not have a van), and property rates. It was reported that the total tax bill can amount to between 6 and 9 million shillings per year (\$1,778 – \$2,667).

The interviewee characterized the government attitude as “unfriendly,” and “overcritical” of private schools, which is “damaging to morale.” This runs contrary to feedback that the researchers heard from others. He further pointed out that the government only runs five schools in the zone of Rubaga and that they charge 80,000-100,000 shillings (\$23.70-\$29.62) per term in fees, which is very close to the fees charged at the lower end of private schools. He further stated that “parents don’t like government schools anymore.... despite having better teachers, they do not achieve anything. Parents are now extremely results-oriented and want to see learning going on... Parents are now very desperate to access private schools and they come to bargain on the fees, asking for reductions and suggesting what they can actually afford to pay. I welcome parents to bargain like this.”

He estimated that there are up to 20 private schools for every government school and that it appears to be a government policy not to bother with building any new government schools and that they are unwilling to dedicate the necessary level of financing to education⁵.

However he was able to confirm some of the information gathered at the Ministry of Education; namely that there is no minimum requirement for land, and one **can establish a school on rented land. There must be “permanent” buildings, and there must be toilets.** There must also be enough **qualified teachers** (government registered/certified teachers), and the **Head Teacher must have at least a diploma in education.** He added that only very poor schools opt for untrained teachers, which is born out in this research.

⁵ The respondent’s assessment was very accurate, though in fact this study finds that there are an estimated 25 private schools for every government school, and it is indeed clear that government policy is not orientated to providing more / sufficient government school places.

He reported that the **process to become registered is very difficult**, but that it **becomes easier if one is willing to pay bribes**. He also believes the majority of schools to be unregistered, which is not supported by this research. He stated that schools will usually run for around five years on a license before finally having achieved the necessary level of development to become a fully registered school. The researchers concluded that despite certain difficulties and a degree of corruption reported in connection to the registration of private schools, **it appears that the environment is more positive in Kampala than in many other places** studied.

The interviewee was asked about the development of the private schooling market in Kampala, and he reported that private schools started to appear in the 1970s. The trend gathered momentum in the 1980s, but things really changed after 1990 with an acceleration of growth. **Now, “many people are looking at it only as a business and it’s damaging education. Many schools don’t have the right focus.”**

Overall it appears that the size of the Kampala private schooling market would warrant a greater degree of private school association development, with associations catering to more specific types of schools. Two other associations were named by the interviewee, one large and dealing with a wide range of schools and perhaps unable to be of use to lower-fee private schools, and one very small, local association:

- Uganda National Private Educational Institutions Association. This body includes up through tertiary level institutions.
- Lubaga Division Private Schools Association

Sample Schools: Basic School Characteristics

The study's purpose was to collect data on a large enough number of schools to develop a thorough understanding of how low-fee private schools function, the challenge the proprietors face, and how their business models work. For this reason, four low-income areas of Kampala were chosen using the local knowledge of the research team. These research areas include Kawempe, Makindye, Rubaga 1 and Rubaga 2.

- In total, 464 schools were found of which **438 were private schools**
- Of these 438 private schools, **223 schools were surveyed**, serving all levels from crèche and pre-primary to upper secondary level
 - 175 serve the pre-primary level
 - 150 serve the primary level
 - 28 serve the lower secondary level
 - 24 serve the upper secondary level
- **126 (or 57%) are 'nursery-primary schools'** serving pre-primary and primary levels
- **47 (or 21%) serve the pre-primary level only**
- **26 (or 12%) serve secondary levels only**
- The remaining 11% of schools serve various other combinations of levels
- **142 (or 64%) are registered** schools
- **81 (or 36%) are unregistered** schools
 - 80 out of 126 (64%) nursery-primary schools are registered
 - No secondary level-only schools are unregistered, and the only 2 schools serving primary through secondary levels combined are both unregistered
- 163 (73%) operate in **purpose-built school buildings**
- **151 (68%) own the land** the school is occupying
- **203 (91%) are run as individual, private businesses**
- Only 52 schools (23%) report membership of any association of proprietors of private schools (28% of registered schools and 15% of unregistered schools)
- Overall average school enrolment is 220, but 278 for registered and 183 for unregistered schools.
- Most growth in school numbers has taken place after 2005: 49%

While the majority (91%) of schools are owned by individual proprietors or partnerships of private individuals who are operating the school as a business, a few schools (13, or 6%)

are run by faith-based organizations with the remaining 7 schools run by the community or a corporation (Table 3).

TABLE 3: SCHOOL OWNERSHIP TYPE, BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Individual proprietor(s)	109 (77%)	65 (80%)	174 (78%)
Partnership of individual proprietors	21 (15%)	8 (10%)	29 (13%)
Faith-based organization	8 (6%)	5 (6%)	13 (6%)
Corporation	1 (1%)	0	1 (0%)
Community	3 (2%)	3 (4%)	6 (3%)

Ownership of multiple schools by the same proprietor is rare, as shown in Table 4. One school under a faith based organisation's ownership reported 20 other schools in the organization, and two schools reported being under the Diocese of Kampala that owns 80 other schools. No other large chains of schools were found during the research.

TABLE 4: SAMPLED SCHOOLS THAT ARE PART OF A CHAIN, BY REGISTRATION STATUS

Additional schools under same owner	Registered	Unregistered	All schools
4+ additional schools	5	0	5
3 additional schools	2	0	2
2 additional schools	4	1	5
1 additional school	14	7	21

In Kampala, as in Lusaka, by far the **most common** type of school is the **nursery-primary school** as 57% of all schools serving these levels only. Some schools serve pre-primary only (21%), which is not surprising since the government does not provide service at this level, and most secondary schools are stand-alone secondary schools (93%). Only two schools serve secondary as well as lower levels (Table 5).

TABLE 5: DISTRIBUTION OF SCHOOLS BY LEVELS SERVED AND REGISTRATION STATUS

	Registered schools	Unregistered schools	All schools
Nursery-primary	80	46	126
Pre-primary only	16	31	47
Primary only	18	4	22
Pre-primary – lower secondary	1	0	1
Pre-primary – upper secondary	1	0	1
Lower secondary	3	0	3
Lower & upper secondary	23	0	23

There has been strong growth in private schooling in the last ten years. Table 6 provides the numbers of surveyed schools opening in five-year periods, with by far the largest numbers of schools opening in the most recent period. This is especially (and predictably) the case with unregistered schools: new schools tend to start without being registered and only eventually apply for registration. While some schools from earlier periods may have opened and then closed down, it is nevertheless significant that the number of schools established in the last five years is approaching double the number from the five preceding years. **Over 70% of schools have been in operation for over five years.**

TABLE 6: DISTRIBUTION OF SCHOOLS BY YEAR OF ESTABLISHMENT AND REGISTRATION STATUS

Year of establishment	Registered schools	Unregistered schools	All schools
2011-2016	20 (14%)	51 (63%)	71 (32%)
2006-2010	26 (18%)	12 (15%)	38 (17%)
2001-2005	22 (15%)	10 (12%)	32 (14%)
1996-2000	29 (20%)	3 (4%)	32 (14%)
Pre-1996	45 (32%)	5 (6%)	50 (22%)
Total schools	142 (100%)	81 (100%)	223 (100%)

Registration with the Ministry of Education is important for schools to operate legally, and all schools are expected to register after first becoming licensed. In practice (see Table 7):

- 64% were found to be duly registered, with a further 13% applying (this is a very high percentage compared to other cities with large numbers of private schools)
- 13% reported no imminent intention of applying
- 13% had at least registered with lower levels of government; however schools are meant eventually to become registered with the Ministry of Education

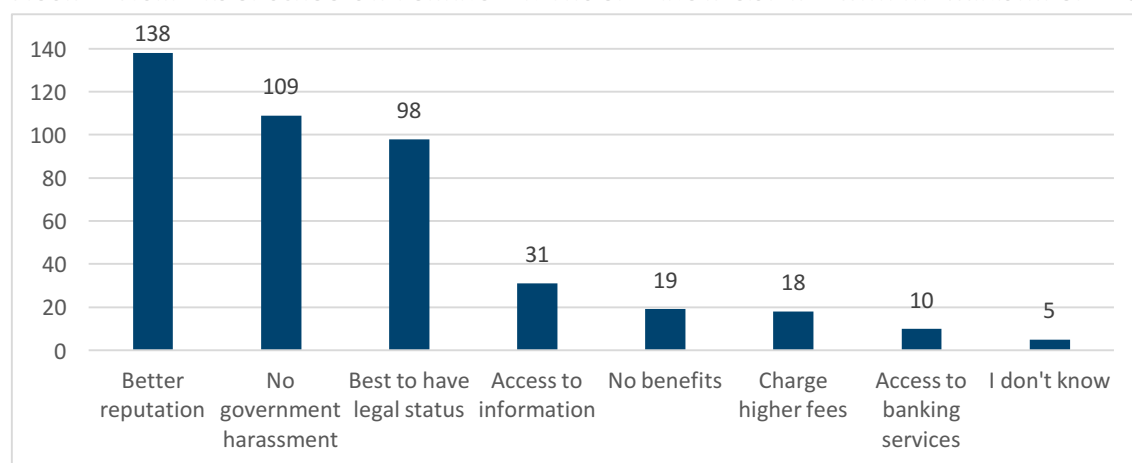
TABLE 7: DISTRIBUTION OF SCHOOLS BY REGISTRATION STATUS*

	Number
Registered, Ministry of Education	142 (64%)
Applying for registration, Ministry of Education	28 (13%)
Registered with Division Education Office	21 (9%)
Registered with the District Education Office	8 (4%)
Unregistered with Ministry of Education, no application in progress	28 (13%)
Registered with Ugandan Business Registration Bureau	5 (2%)

*Some schools fall into multiple categories and are double-counted in this table

Proprietors report several benefits of becoming registered (Figure 1), most commonly gaining a better reputation in the community, followed by ending their problems with government authorities. Many proprietors also felt that it was important to be operating legally.

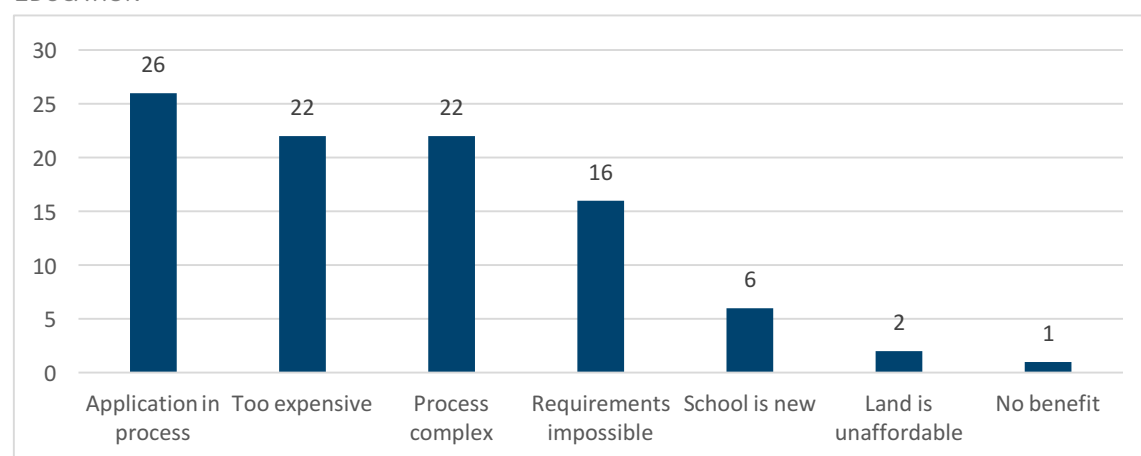
FIGURE 1 NUMBERS OF SCHOOLS REPORTING BENEFITS OF BEING REGISTERED WITH THE MINISTRY OF EDUCATION



Of the 81 currently unregistered schools, the reasons given for not being registered were (Figure 2):

- 22 (28%) stated that applying for **registration is too expensive**
- The same proportion reported that the **process is too complex**
- 16 (20%) stated that the **requirements were impossible to fulfil**
- Just 6 (8%) stated that the **school was very new** and so had not started the process yet

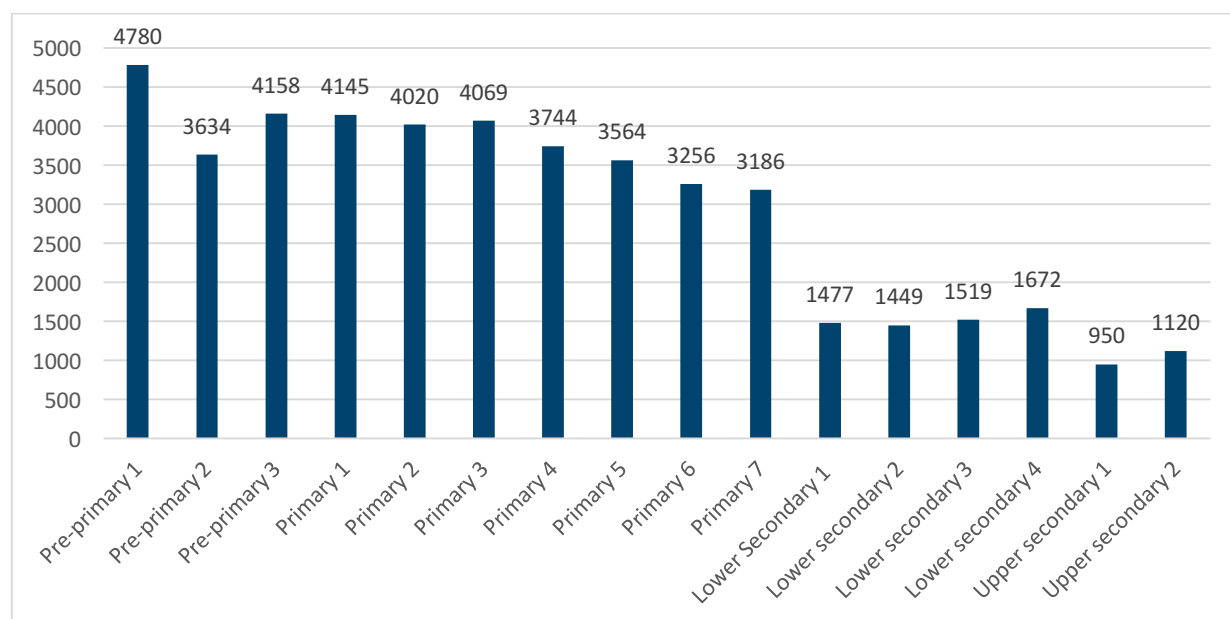
FIGURE 2: NUMBERS OF SCHOOLS REPORTING REASONS FOR NOT BEING REGISTERED WITH THE MINISTRY OF EDUCATION*



*some schools declined to respond to this question while some offered multiple responses

Figure 3 shows the total numbers of children in each grade level across all sampled schools. The 214 schools in the survey that provided enrolment data had a total enrolment of 47,125 pupils, and the largest share are in the first year of pre-primary, followed by the third year of pre-primary. As in other countries, the numbers tend to tail off as the grade levels increase, however the decrease is not terribly large. It is also common for the numbers to reduce at key transition points: from primary to secondary, and from lower secondary to upper secondary. It is likely to be an increasing trend that young families are now starting their children's education at a private school without even trying government schooling first.

FIGURE 3: TOTAL ENROLMENTS BY GRADE LEVEL



Fewer than a quarter (23%) of schools are members of any association of private school proprietors. Membership is more common amongst registered schools (28%) than unregistered schools (15%). The development of associations appears to be relatively low in Kampala, especially considering the large numbers of private schools found. The key benefits of membership are provided in Figure 4, including peer learning amongst proprietors, organizing teacher training, facilitating communication with the government and protection from punitive government action, and group solidarity.

FIGURE 4: NUMBERS OF SCHOOLS REPORTING BENEFITS OF ASSOCIATION MEMBERSHIP

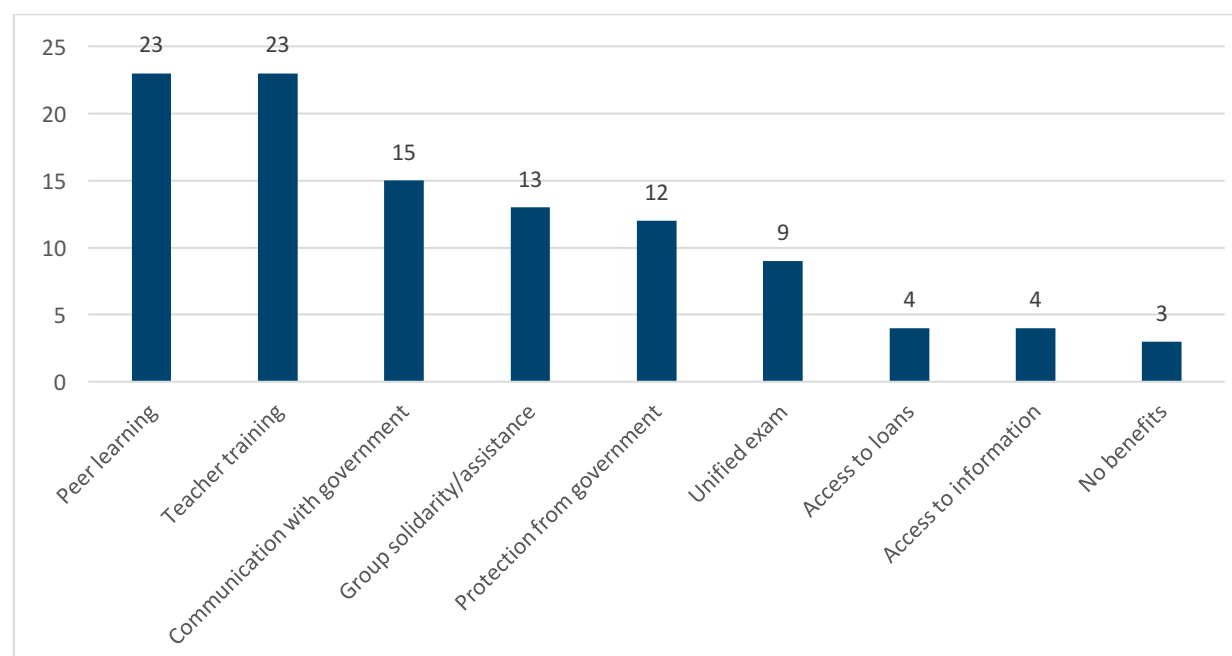


Table 8 provides an outline of the key facilities provided at schools by registration status. It shows, surprisingly, **unregistered schools having an advantage over registered schools in provision of drinking water, having fewer pupils per toilet, and fewer pupils per classroom.** However registered schools better equipped in all other areas, including basics like furniture, computers, and laboratories.

TABLE 8: SCHOOL FACILITIES, BY REGISTRATION STATUS

	Registered schools	Unregistered schools	All schools
School provides safe drinking water	71 (50%)	47 (58%)	118 (53%)
Mean number of toilets for pupils to use	6.5	3.7	5.5
Pupils per toilet	52.3	32.6	45.1
Mean number of all-weather classrooms	7.2	4.9	6.4
Schools with fewer than 3 classrooms	19 (13%)	17 (21%)	36 (16%)
Pupils per classroom	51	30.6	43.6
Mean number of working computers	3	0.3	2
Number of schools with no working computers	97 (68%)	72 (89%)	169 (76%)
Schools with a laboratory	28 (20%)	1 (1%)	29 (13%)
Schools with at least some available library books	110 (78%)	55 (68%)	165 (74%)
Enough suitable furniture for pre-primary level	64 (65%)	43 (56%)	107 (61%)
Enough suitable furniture for primary level	63 (63%)	26 (52%)	89 (59%)
Enough suitable furniture for lower secondary level	25 (96%)	N/A	25 (96%)
Enough suitable furniture for upper secondary level	20 (87%)	N/A	20 (87%)
Has a source of electricity	130 (92%)	65 (80%)	195 (87%)

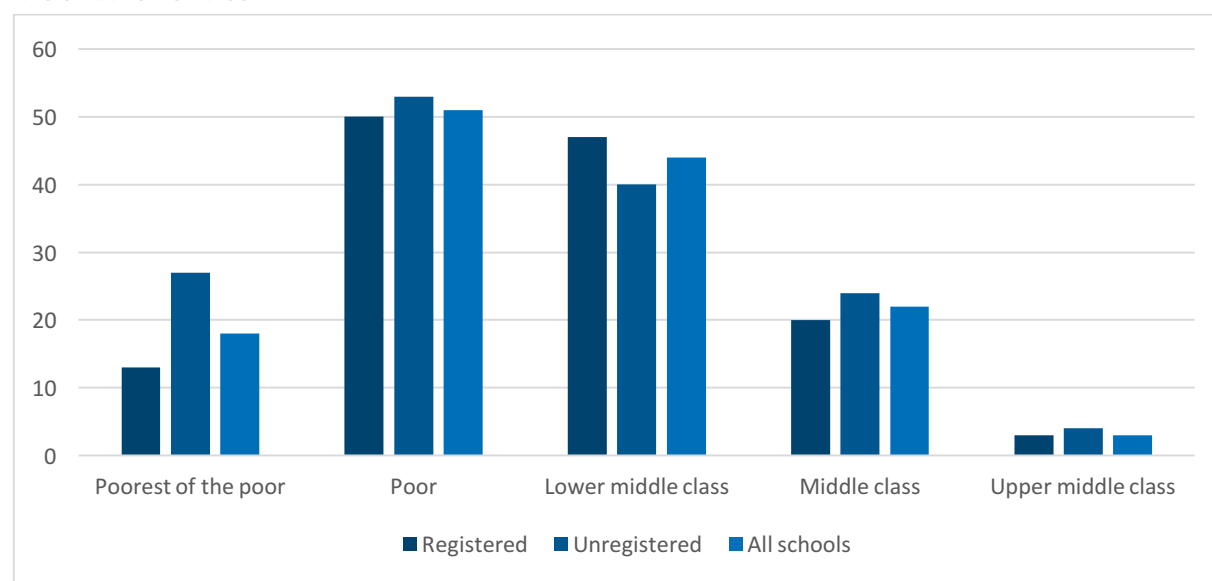
Table 9 provides the types of physical improvements to school facilities needed as reported by school proprietors (not based on the researchers' observations). **Very few of each school group said that no improvements were needed**, with the largest number by far, 53% and 50% of the sample, reporting a need for renovation of classrooms as well as building additional classrooms. Of note, there are few large differences in proportions of registered and unregistered schools reporting various needs except in renovating classrooms and new facilities. Registered schools felt more need for laboratories, which is unsurprising since virtually all of the secondary schools are registered schools.

TABLE 9: REPORTED PHYSICAL IMPROVEMENTS NEEDED TO SCHOOLS, BY REGISTRATION STATUS

Type of improvement needed	Registered	Unregistered	All schools
No physical improvements needed	4 (3%)	6 (7%)	10 (4%)
Additional classrooms	71 (50%)	41 (51%)	112 (50%)
Renovation of classrooms	85 (60%)	34 (42%)	119 (53%)
Renovation of other areas of the school	61 (43%)	32 (40%)	93 (42%)
Proper, permanent building	62 (44%)	32 (40%)	94 (42%)
New facilities (labs, libraries, toilets, sports equip)	69 (49%)	25 (31%)	94 (42%)
New teaching-learning materials	43 (30%)	24 (30%)	67 (30%)

Proprietors were asked what two main socioeconomic groups use their school the most. The **majority reported that they serve the poor**, followed by the lower middle classes. Next comes the poorest of the poor, with cheaper unregistered schools much more likely to serve such families (figure 5).

FIGURE 5: PERCENTAGES OF PROPRIETORS REPORTING SERVING PUPILS FROM DIFFERENT ECONOMIC GROUPS, BY REGISTRATION STATUS



In terms of competition with other schools to attract students, the result is clear, with around 85% of proprietors reporting that there are **many nearby schools and that competition is tough** (Figure 6). Fewer than 10% of proprietors felt that they were not in competition with other schools to attract pupils.

FIGURE 6: PERCENTAGES OF PROPRIETORS REPORTING HAVING TO COMPETE WITH OTHER SCHOOLS

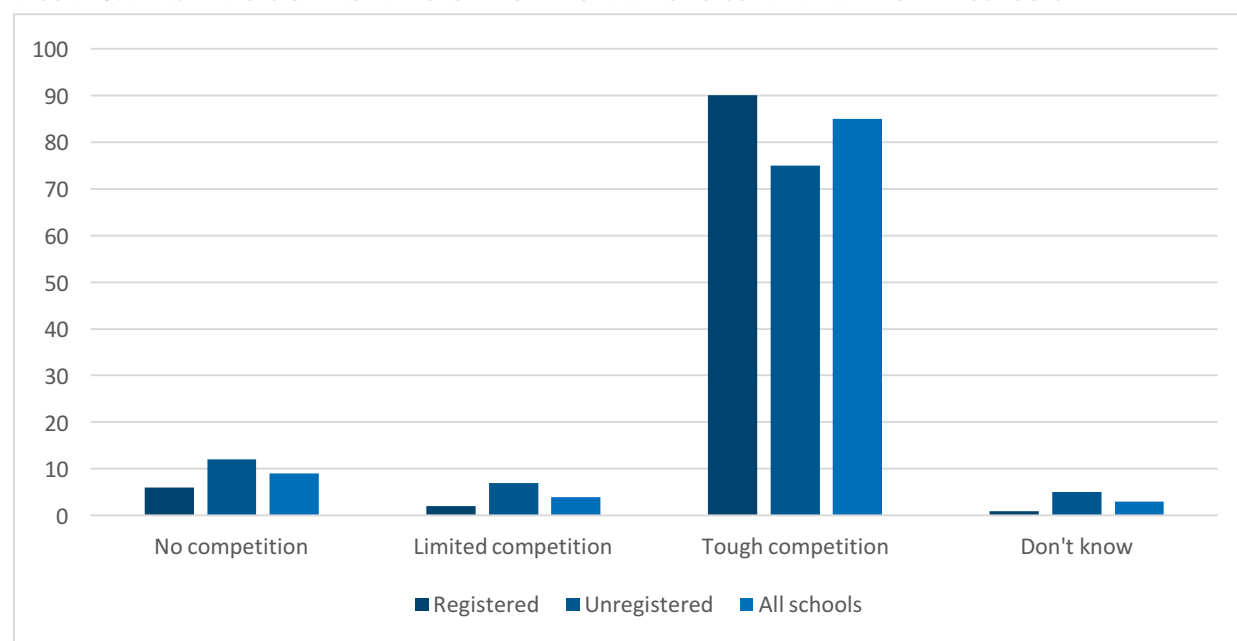


Table 10 shows the schools that have grown or contracted based on their enrolments from last year (2015) to the current school year (2016). Many schools did not provide data for both years, so the table draws only on those that had data for both. Nine schools were established only in 2016 so could not have two years' enrolment data. For both registered and unregistered schools, a large majority of schools grew. Overall **there was a net increase of 7.7% of children enrolled in the surveyed schools.**

TABLE 10: SCHOOLS LOSING AND GAINING PUPILS 2015-2016, BY REGISTRATION STATUS

	Grew	Contracted
Registered schools	86	44
Number of pupils added or subtracted, all registered schools	5,775	-3,278
Average increase/decrease of pupils per school	67	-75
Unregistered schools	49	20
Number of pupils added or subtracted, all unregistered schools	1,301	-497
Average increase/decrease of pupils per school	27	-25
All schools	135	64
Number of pupils added or subtracted, all schools	7,076	-3,775
Average increase/decrease of pupils per school	52	-60
Overall % change in number of pupils served	7.7%	N/A

Sample Schools: School Management and Quality

Teachers are the single most important input in any school. The surveyed schools have between 1 and 53 regular, full-time teachers, with a mean of 10.3 teachers per school. A **surprisingly large share of schools use some degree of multigrade teaching: 192 (or 86%)** of schools. This is actually more common at registered schools, 92% of which use some degree of multigrade teaching, while a somewhat lower 77% of unregistered schools do the same.

- **89% of teachers are qualified** according to government standards, rising to **91% at registered schools** and falling to **84% at unregistered schools**
- Only 5% of full-time teachers are unqualified teachers who are degree holders
- Only 6% of full-time teachers' highest qualifications are upper secondary school completion with no teacher training. This occurs **more commonly at unregistered schools**, where these under-qualified individuals make up **10% of the teacher workforce**.
- There are 224 part-time teachers at 43 schools
- There are 61 volunteer teachers at 23 schools
- On average, 93% of teachers were present on the day of the visit, with this percentage being slightly higher at unregistered schools (94%) than at registered schools (92%).

TABLE 11: MEAN SHARES OF TEACHERS BY QUALIFICATION TYPES, BY REGISTRATION STATUS

Teacher qualification	Registered schools	Unregistered schools	All schools
Qualified teachers, per school	11.2 (91%)	5.63 (84%)	10.3 (89%)
Degree-holders (no teaching qualification), per school	0.6 (5%)	0.4 (6%)	0.5 (5%)
Senior secondary school completion or below, per school	0.6 (6%)	0.7 (10%)	0.6 (6%)

Very few schools report making any investment in developing the skills of their teachers – just 13% (30 registered schools) reported spending on average \$724 per year on training.

In terms of non-teaching staff, most schools employ non-teachers: only 4 registered schools and 6 unregistered schools reported having none. Of the 142 registered schools, 138

employ between 1 and 28 non-teaching staff, with a mean of 5.04. Seventy-five unregistered schools employ between 1 and 12 non-teachers, with a mean of 3.06 across all 81 unregistered schools.

Table 12 shows that there is wide variation in teacher salaries, with the average lowest pay for new teachers being found in unregistered schools where teachers receive around \$467 per year. This level of pay is extremely low, particularly when considered in context with the average costs of sending children to low-fee private schools (see discussion below). Additionally, as this is the *average lowest* salary, it means that **many schools are paying starting teachers even less than \$467**. The **average median salary is \$854 per year**, while the best paid teachers will get over \$1,262 per year.

TABLE 12: TEACHER SALARIES IN US DOLLARS PER YEAR BY REGISTRATION STATUS

	Registered schools	Unregistered schools	All schools
Average lowest salary	\$615.15	\$466.98	\$576.30
Average median salary	\$954.02	\$664.08	\$854.14
Average highest salary	\$1,261.58	\$769.41	\$1,132.54

Note: at the time of data collection in June 2016, US\$1 was equal to 3,375 Ugandan Shillings.

Sample Schools: School Finances

The vast majority of private schools (96%) are dependent on user fees to pay staff and cover all other running costs (Table 13). However **a third of schools have additional sources of funding** (Table 14), with unregistered schools being more likely to need to draw on such a source. **One third and 23% (respectively) of unregistered and registered schools use funds from the proprietor's own family income.** It is much more expected that unregistered schools would need to draw on other funding as they are smaller and often tend to be more newly established, but since registered schools also cannot get easy access to finance for building improvements etc., it is feasible that they would often also need to borrow for larger items (equipment or building expansions etc.). Twelve percent of schools (registered and unregistered) receive extra funding from a church, a non-governmental organization, a government grant, or from a loan.

TABLE 13: SCHOOLS' MAIN SOURCES OF FUNDING, BY REGISTRATION STATUS

Main source of funding	Registered	Unregistered	All schools
Parent fee payments	142 (100%)	73 (90%)	215 (96%)
Proprietor's family income	0	7 (9%)	7 (3%)
Church or Mosque	0	1 (1%)	1 (0.5%)
Totals	142 (100%)	81 (100%)	223 (100%)

TABLE 14: SCHOOLS HAVING A SECONDARY SOURCE OF FUNDING, BY REGISTRATION STATUS

Secondary source of funding	Registered	Unregistered	All schools
No other source of funding	99 (70%)	48 (59%)	147 (66%)
Proprietor's family income	32 (23%)	27 (33%)	59 (27%)
Loan	4 (3%)	2 (3%)	6 (3%)
Church	8 (6%)	5 (6%)	13 (6%)
Community / NGO	1 (1%)	1 (1%)	2 (1%)
Charity	3 (2%)	2 (2%)	5 (2%)

Data on fees in Kampala (Figure 7 and Table 15) provide a somewhat unusual picture: it shows that overall pre-primary fees are \$7 per year higher than at the primary level. It also shows that unregistered schools charge higher fees than registered schools (perhaps because of the lower enrolments), although the total cost per student in unregistered schools is lower than registered schools (see Table 16.) As in most countries, secondary education is more expensive than lower levels, becoming considerably more expensive at the upper secondary level.

FIGURE 7 SCHOOL FEES PER YEAR AND BY LEVEL, BY REGISTRATION STATUS

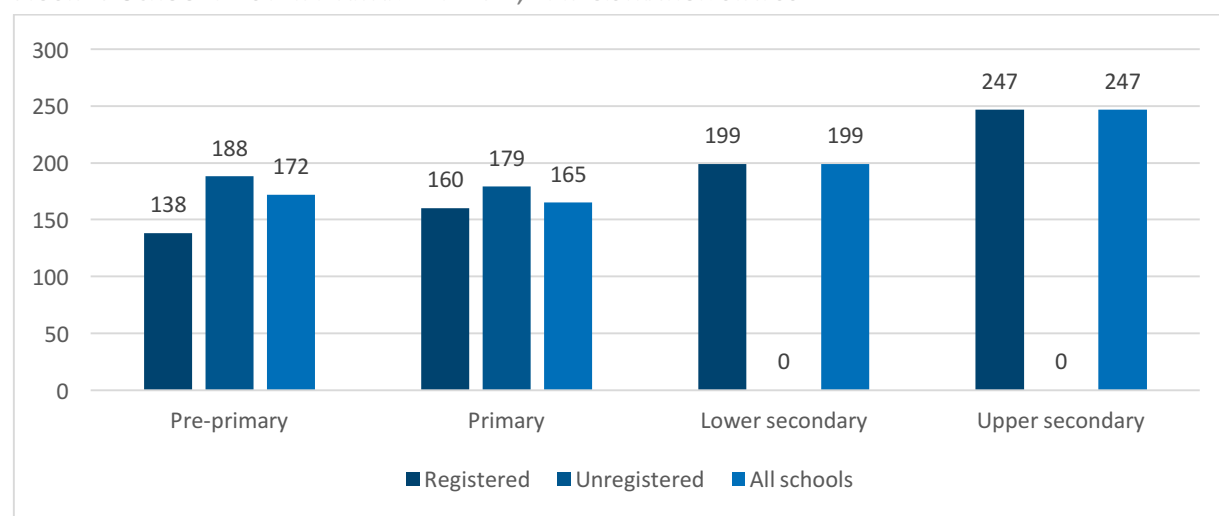


TABLE 15: AVERAGE SCHOOL FEE IN US DOLLAR BY LEVEL AND BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Pre-primary	\$138	\$188	\$172
Primary	\$160	\$179	\$165
Lower secondary	\$199	0	\$199
Upper secondary	\$247	0	\$247

Table 16 provides details of all the additional fees paid directly to schools, as well as other direct costs that may or may not be paid to the school (depending on a school's individual arrangements). **The list of additional fees and costs is long, however not all schools charge all of these costs.** For this reason, the number of schools providing details of the specific charge are included in brackets in each case (n=); however in some cases the exact

cost may not have been recorded (for various reasons including not having the information to hand, or not wanting to provide the information) while the fee may still be applicable at a specific school. The most common additional cost items are **uniforms, followed by lunch and development fees.**

- The costs of schooling vary depending on how many of the additional fees are applicable
- Transportation may be possible to avoid by using a local school, although secondary level schools are much fewer and transportation may be necessary
- The last four lines of Table 16 provide the complete costs per level, including the more common additional costs, as indicated in the table.

TABLE 16: AVERAGE TOTAL COSTS IN US DOLLARS OF ATTENDANCE, BY REGISTRATION STATUS

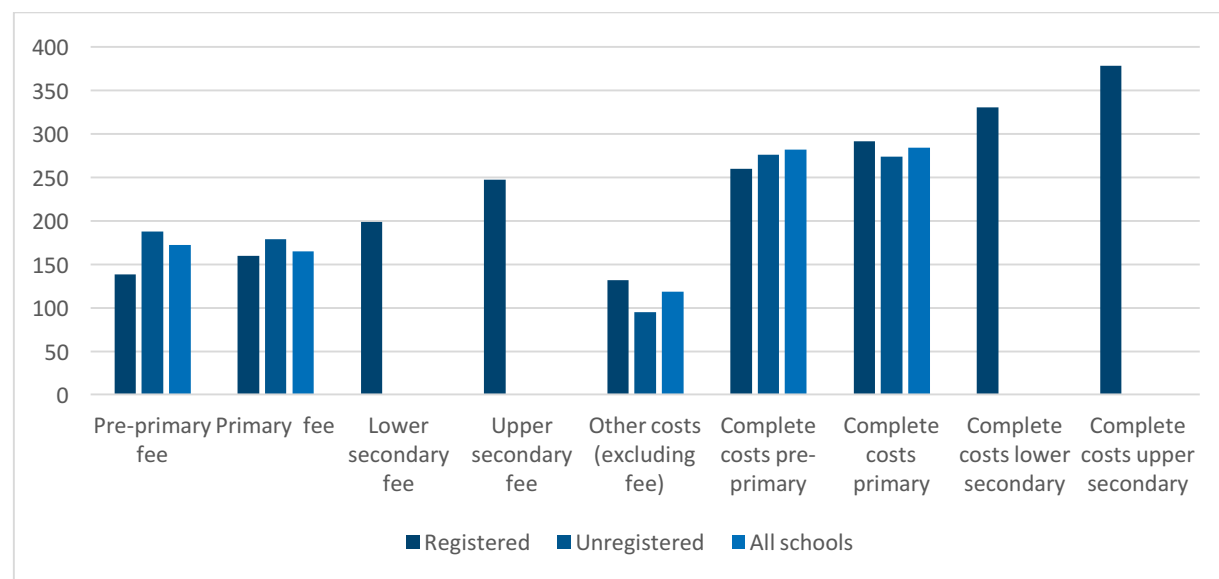
Costs	Registered	Unregistered	All schools
Pre-primary*	\$138	\$188	\$172
Primary*	\$160	\$179	\$165
Lower secondary*	\$199	0	\$199
Upper secondary*	\$247	0	\$247
Examinations*	\$9.48 (n=18)	\$7.29 (n=10)	\$8.70 (n=28)
Report card fee	\$3.48 (n=4)	\$2.74 (n=5)	\$3.07 (n=9)
Extra tuition/lessons	\$38.52 (n=3)	\$40.75 (n=2)	\$39.41 (n=5)
Uniform*	\$19.18 (n=124)	\$15.19 (n=75)	\$17.67 (n=199)
Textbooks	\$34.32 (n=12)	0	\$34.32 (n=12)
Stationery*	\$52.64 (n=56)	\$28.61 (n=31)	\$44.08 (n=87)
Lunch*	\$40.81 (n=47)	\$36.30 (n=18)	\$39.56 (n=65)
Transport	\$166.67 (n=12)	\$224.44 (n=4)	\$181.11 (n=16)
Parent-teacher association	\$3.11 (n=5)	0	\$3.11 (n=5)
Development fee*	\$9.33 (n=25)	\$7.59 (n=13)	\$8.73 (n=38)
Clubs and sports	\$2.96 (n=2)	\$26.67 (n=1)	\$10.86 (n=3)
Total – other costs (starred items)	\$131.44	\$94.97	\$118.74
Complete costs, pre-primary**	\$259.96	\$275.68	\$282.04
Complete costs, primary	\$291.44	\$273.97	\$283.74
Complete costs, lower secondary	\$330.44	N/A	\$330.44
Complete costs, upper secondary	\$378.44	N/A	\$378.44

*These fees are included in 'total – other costs'; due to small numbers of observations for other items, they are not included.

**There is usually no examination fee at the pre-primary level so it is excluded from this total.

Figure 8 provides a visual summary of fees, other direct costs, and total cost of attending school by level of schooling. It shows that the other direct costs add substantially to the complete costs of attending school, with the complete cost rising at the secondary and upper secondary levels.

FIGURE 8: COMPLETE COSTS BY LEVEL AND REGISTRATION STATUS



Fee levels, in conjunction with the numbers of pupils and the extent to which all fees agreed are actually collected from parents, combine to determine school turnover (i.e. total revenue) every year. Table 17 details the numbers of schools at various levels of turnover in US dollars.

- 15% of schools have a turnover of up to \$5,000
- 28% of schools have a turnover of up to \$10,000
- The largest share of schools has turnover between \$10,001 and \$20,000
 - 18% of registered schools
 - 27% of unregistered schools
- It is far more likely for registered schools to have turnover above \$20,000
- Unregistered schools' lower incomes are likely due to being newer, less well-established schools with poorer facilities that attract fewer parents

TABLE 17: LEVELS OF TURNOVER (TOTAL REVENUE) ASSUMING 85% FEE COLLECTION BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Less than \$3,000	3	12	15
\$3,001-5,000	10	8	18
\$5,001-10,000	13	17	30
\$10,001-20,000	26	22	48
\$20,001-30,000	20	8	28
\$30,001-50,000	23	7	30
\$50,001-100,000	33	3	36
Over \$100,000	9	1	10

Private school profitability

The profitability of schools is determined by the level of costs incurred in comparison to total costs that schools are able to get parents to pay. **A key difficulty for the proprietors of private schools is getting parents to pay in full and on time.** It is more common for parents to pay piecemeal, as and when they can afford to pay some amount. This is not a problem solely of the poorest schools, but also of better-off schools, as parents tend to access the highest cost school that they possibly can afford, in an attempt to get the perceived best possible quality education for their children.

Figure 9 shows the key costs incurred by schools, showing that salaries make up the bulk of private schools' running expenses, followed by utilities and maintenance. Costs at registered schools are much higher because they pay more in teacher salaries.

FIGURE 9 COMPLETE COSTS OF RUNNING A SCHOOL FOR ONE YEAR IN US\$, BY REGISTRATION STATUS

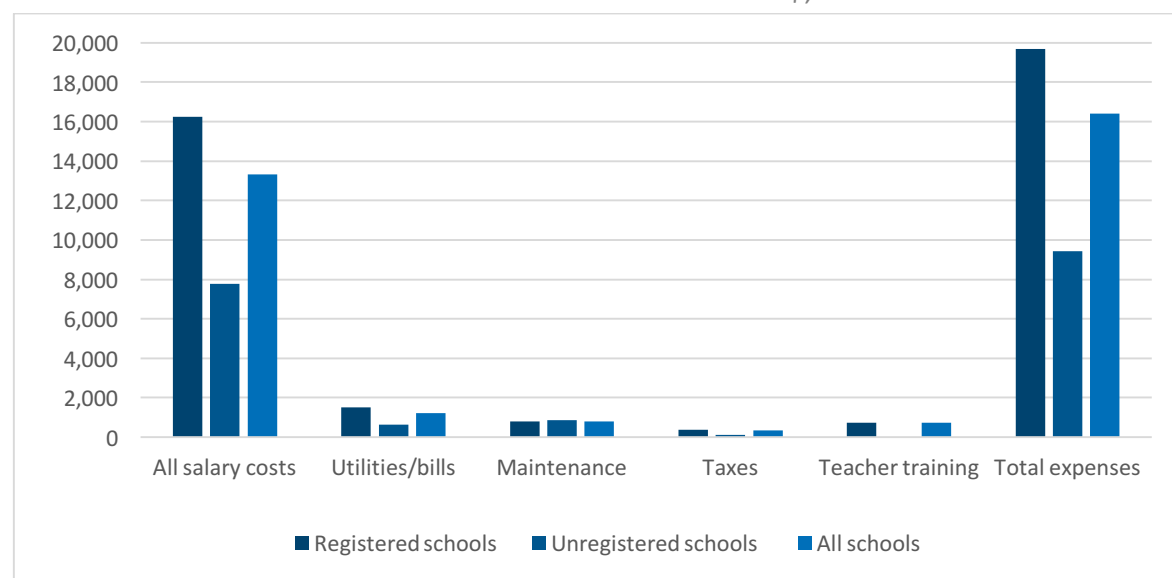


Table 18 provides the complete costs of running a school on average, and then goes on to provide mean net profit margin by school registration status for three different levels of fee collection: 100% fee collection, 85%, and 70%. Research in Lagos shows that it is not unusual for private schools to collect around 70%⁶. The costs tend to be fixed: one has to pay teachers and other bills and taxes, whereas in terms of income, proprietors are essentially at the mercy of parents.

⁶ Rosales-Rogge, G., Kadiri, D., Hinton, P. (2014) "Schools as a Sustainable Business" Survey. DEEPEN Report FN-2014-01. DFID-DEEPEN, Lagos.

TABLE 18: AVERAGE ANNUAL COSTS OF RUNNING A SCHOOL IN USD BY REGISTRATION STATUS

	Registered	Unregistered	All schools
All expenses (not all apply to all schools)			
All salary costs*	\$16,244 (n=137)	\$7,784 (n=72)	\$13,329 (n=209)
Rent*	\$3,348 (n=20)	\$2,310 (n=19)	\$2,842 (n=39)
Utilities/bills*	\$1,527 (n=108)	\$648 (n=60)	\$1,213 (n=168)
Maintenance*	\$789 (n=82)	\$862 (n=46)	\$815 (n=128)
Taxes*	\$393 (n=84)	\$121 (n=24)	\$332 (n=108)
Teacher training	\$724 (n=30)	0	\$724 (n=30)
Loans from an institution	\$2,197 (n=18)	\$2,423 (n=8)	\$2,266 (n=26)
Loans from friends or family	\$911 (n=4)	0	\$911 (n=4)
Mortgage or Rent	\$296 (n=2)	\$311 (n=2)	\$304 (n=4)
Total expenses**	\$22,301	\$11,725	\$18,531
Average income and profit levels at various levels of fee collection			
Income: 100% fees collected	47,857	21,145	38,166
Profit at 100% fees collected	25,556	9,420	19,635
Net profit margin at 100% fees collected	53%	46%	51%
Income: 85% fees collected	40,679	17,974	32,441
Profit at 85% fees collected	18,378	6,249	13,910
Net profit margin at 85% fees collected	45%	35%	43%
Income: 70% fees collected	33,500	14,802	26,717
Profit at 70% fees collected	11,199	3,077	8,186
Net profit margin at 70% fees collected	33%	21%	31%

** Total expenses include all of the items above marked with a *. These are usually items that the majority of schools have to pay for, but rent is included in any case as more proprietors pay this, but many were unable or unwilling to disclose the amount.

Proprietors were asked about the reliability of parents in paying school fees. Many parents are behind in paying fees (44% of parents), with little difference between registered and unregistered schools. Nonetheless, 63% of proprietors reported their clients to be regular or mostly regular while 37% reported that parents were either often or always irregular in paying their fees. **Kampala's schools therefore appear to have greater regularity of cash flow than other cities studied in this report series.**

TABLE 19: RELIABILITY OF PARENTS IN PAYING FEES, BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Regular and reliable	22 (16%)	10 (12%)	32 (14%)
Mostly regular, sometimes late	70 (49%)	39 (49%)	109 (49%)
Often irregular and need to be chased	39 (27%)	23 (29%)	64 (29%)
Always irregular, extremely difficult, must chase parents	11 (8%)	8 (10%)	17 (8%)
% of parents who are behind on their fees	45%	42%	44%

Some parents keep their children in private school for as long as they can without paying the balance of fees or sometimes even without paying anything at all, either for the year or for at least one of the terms. They then withdraw the child and keep them at home if they cannot get them into another private school, or enroll them elsewhere to repeat this process, leaving “bad debts” with schools. A sizeable proportion, **49% of proprietors, reported such default as a frequent problem** while 30% report that it sometimes happens (Table 20). Fifteen percent of proprietors report it as being rare or that it does not happen at all. This issue also affects the profitability of schools, and the exact extent of the problem is difficult to estimate or predict, meaning that its impact on profitability is unclear.

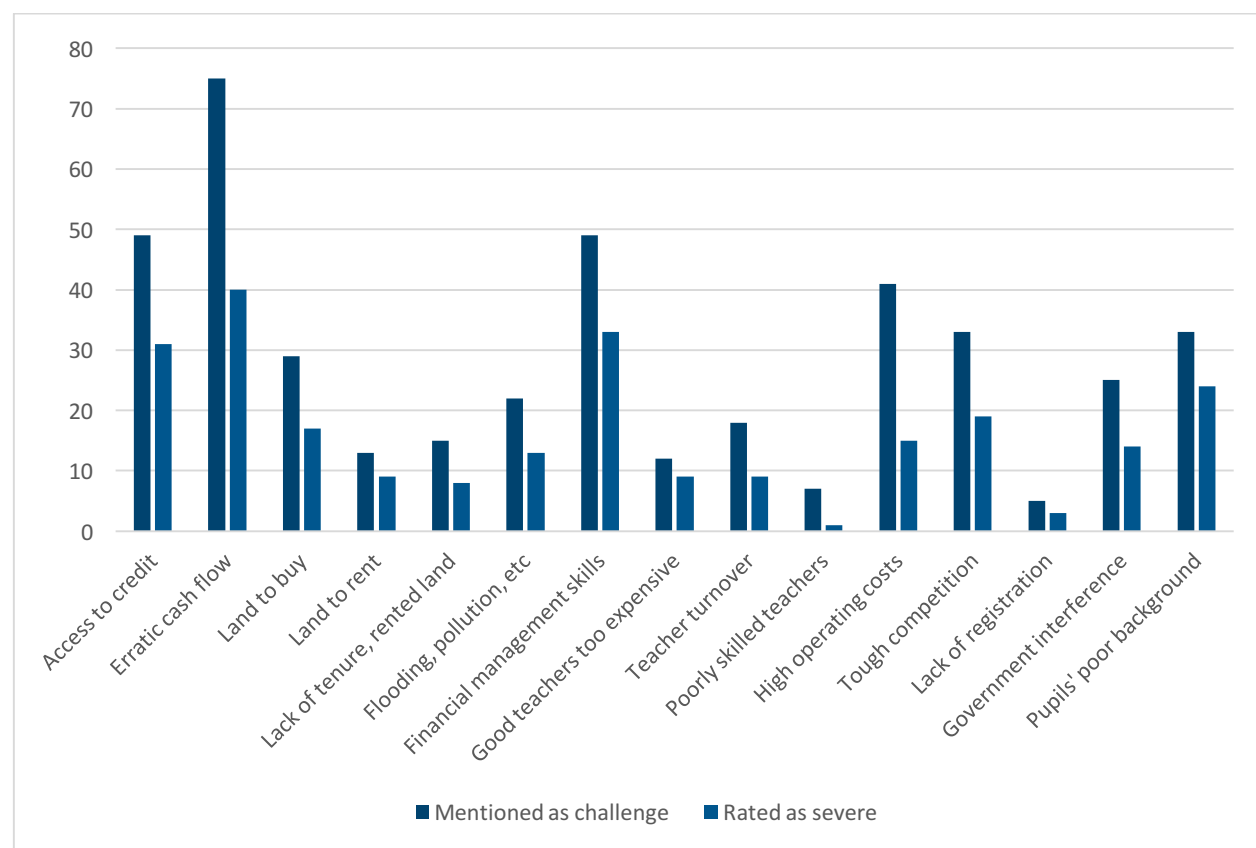
TABLE 20: FREQUENCY OF “BAD DEBTS” TO SCHOOLS, BY REGISTRATION STATUS

Are students withdrawn with fees owing to the school?	Registered	Unregistered	All schools
Yes, often happens	73 (51%)	37 (46%)	110 (49%)
Sometimes happens	39 (28%)	28 (35%)	67 (30%)
Rarely happens	23 (16%)	11 (14%)	34 (15%)
No, never happens	7 (5%)	5 (6%)	12 (5%)

Beside the issue of fee collection, **proprietors report facing a number of challenges in running and developing their schools.** Proprietors were asked what their challenges were (with no limit placed on the number of issues they listed – the question was entirely open-ended), and they were then asked to rate the challenges on a severity scale of 1 (least severe or challenging) to 10 (most severe or challenging). The issues that proprietors raised are reported in Figure 10 which shows the number of proprietors reporting the issue, as well as the numbers rating the issue as severe (a rating of 6-10). Ordered in this way we find that:

- **Financial issues are deemed the most severe problems faced**, with erratic cash flow far the most common issue and the most severe.
- The greatest issues that proprietors face are around fee capture (erratic cash flow), proper financial management skills, access to credit, high operating costs, and tough competition.
- Teachers’ skills and knowledge rank very low in the list of issues, with the severity also rated as the lowest of all challenges faced, consistent with results of similar studies. In contrast, other research has shown that teacher skills in most Sub-Saharan African countries is inadequate.

FIGURE 10: CHALLENGES FACED BY SCHOOL PROPRIETORS — ALL AND THOSE RANKED AS SEVERE



Sample Schools: Banking Services and Loan Demand

Use of formal accounting practices is quite common amongst Kampala school proprietors: **47% of schools report keeping proper accounts** and this practice is equally common amongst registered and unregistered schools (Table 21). However, for all schools the most common method is to note down incomings and expenditures, as well as debts and owings, in a notebook but not in an accounting ledger, using only informal methods. **Virtually all schools keep at least some records** with only 2% keeping no records at all and only 1% keeping only a record of debts to the school and salary debts to teachers.

TABLE 21: TYPE OF FINANCIAL RECORDS KEPT, BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Proper accounts ledger	67 (47%)	37 (46%)	104 (47%)
Record of incomings & outgoings, debts & owings	74 (52%)	38 (47%)	112 (50%)
Write down only debts & owings	0	2 (3%)	2 (1%)
No written financial records	1 (1%)	4 (4%)	5 (2%)

The vast majority (91%) of proprietors maintain a clear separation of their personal finances and the school's finances. For registered schools this is essentially standard practice (95%) whereas 12% of unregistered school proprietors keep no separation at all.

TABLE 22: HOW SCHOOL FINANCES ARE MANAGED, BY REGISTRATION STATUS

	Registered	Unregistered	All schools
Clear separation of proprietor & school accounts	135 (95%)	68 (84%)	203 (91%)
No separation of proprietor & school accounts	6 (4%)	10 (12%)	16 (7%)
Usually separate, sometimes dip in & out	1 (1%)	2 (3%)	3 (1%)

Forty percent of proprietors have opened a dedicated bank account for the school.

- 52% of registered schools have a bank account
- Only 22% of unregistered schools have a bank account

These are surprisingly low proportions of schools using banking services, indicating a strong opportunity for financial institutions. Table 23 details the numbers of schools using various bank and microfinance banks in Kampala, with some schools having more than one account.

TABLE 23: BANKS USED BY SCHOOLS, BY REGISTRATION STATUS

	Registered	Unregistered	All schools
No bank account for school	68 (48%)	63 (78%)	131 (59%)
Bank of Africa	2	3	5
Barclays Bank	1	1	2
Baroda	1	0	1
Bod Bank	1	0	1
Centenary Bank	23	6	29
Crane Bank	8	0	8
DFCU Bank	8	1	9
Diamond Trust Bank	2	0	2
DTB Bank	0	1	1
Equity Bank	6	1	7
Finance Trust Bank	3	1	4
Housing Bank	2	0	2
Housing Finance Bank	6	2	8
Kadcos Bank	0	1	1
Kawaala Sacco Microfinance	0	1	1
Kenya Commercial	1	0	1
Opportunity Bank	2	2	4
Orient Bank	1	1	2

Post Bank	3	0	3
Pride Microfinance	5	1	6
Stanbic Bank	11	3	14
Tropical Bank	4	0	4
Trust Finance Bank	0	1	1

Around one third of proprietors have some experience with borrowing or applying for loans (Table 24.)

- 10% of all schools have applied for a loan but were declined
- 20% of schools have been successful in getting a loan, with this more common amongst registered school proprietors (21%) as compared with unregistered schools (17%)

The **most common practice is to borrow from a microfinance institution, followed by a commercial bank**. A few schools have had to turn to the informal sector (friends, family or a co-operative) to access funds – this is much more common amongst unregistered schools.

TABLE 24: SCHOOL BANKING AND ACTUAL/CURRENT BORROWING, BY REGISTRATION STATUS

	Registered schools	Unregistered schools	All schools
School has dedicated bank account	74 (52%)	18 (22%)	92 (41%)
Has been turned down for a loan	17 (12%)	5 (6%)	22 (10%)
Any past (or current) loans	30 (21%)	14 (17%)	44 (20%)
Borrowed from a commercial bank	21 (15%)	8 (10%)	29 (13%)
Borrowed from microfinance	7 (5%)	3 (4%)	10 (4%)
Borrowed from friends/family	0	1 (1%)	1 (0.4%)
Borrowed from a private money lender	1 (1%)	1 (1%)	2 (1%)
Borrowed from a cooperative or church	1 (1%)	1 (1%)	2 (1%)

There is demand for borrowing amongst school proprietors, with 58% stating that they plan to borrow in the next three years. More registered schools (which are the majority of the sample) plan to borrow (62%). Details of planned borrowing are set out in Table 25 and Figures 11-13. The majority of schools are most interested in borrowing immediately in year one, with the numbers wanting to borrow again the next year being around a third of year one levels. Year three has only 18 schools planning to borrow. Because of the different numbers of observations for the various years, a weighted mean of desired borrowing (by registration status) is used to discuss demand for borrowing.

Registered schools' weighted average desired loan is \$17,295, while that for unregistered schools is \$11,756. The average overall is \$15,092. Total demand using actual reports from sample schools reporting their borrowing needs is provided in the last four rows of Table 25.

TABLE 25: PLANNED BORROWING OVER THE NEXT 3 YEARS FOR SAMPLE SCHOOLS, BY REGISTRATION STATUS

	Registered schools	Unregistered schools	All schools
Plan to borrow in the next 3 years	88 (62%)	41 (51%)	129 (58%)
In year 1	76 (54%)	34 (42%)	110 (49%)
In year 2	21 (15%)	16 (20%)	37 (17%)
In year 3	10 (7%)	8 (10%)	18 (8%)
Mean desired loan amount (per school) in year 1	\$17,347	\$12,243	\$15,807
Mean desired loan amount (per school) in year 2	\$19,867	\$12,056	\$13,128
Mean desired loan amount (per school) in year 3	\$15,100	\$9,086	\$14,760
Weighted average loan desired	\$17,295	\$11,756	\$15,092
Desired borrowing, year 1, sum for all schools	\$1,405,067	\$428,504	
Desired borrowing, year 2, sum for all schools	\$319,111	\$192,889	
Desired borrowing, year 3, sum for all schools	\$198,667	\$81,778	
Desired borrowing, years 1-3, sum for all schools	\$1,922,845	\$703,171	

The data in Table 25 and Figures 11-13 provide information regarding the desired borrowing amongst the 223 surveyed school proprietors (i.e. this represents demand from within the sample schools, not from the entire Kampala private schooling market – estimates of the whole market size are provided later). Figure 11 demonstrates how schools are unlikely to want to borrow several years in a row, at least under current market conditions.

FIGURE 11: DESIRED BORROWING OF SAMPLE SCHOOLS AMOUNTS BY YEAR (OVER 3 YEARS) IN US DOLLARS, BY REGISTRATION STATUS

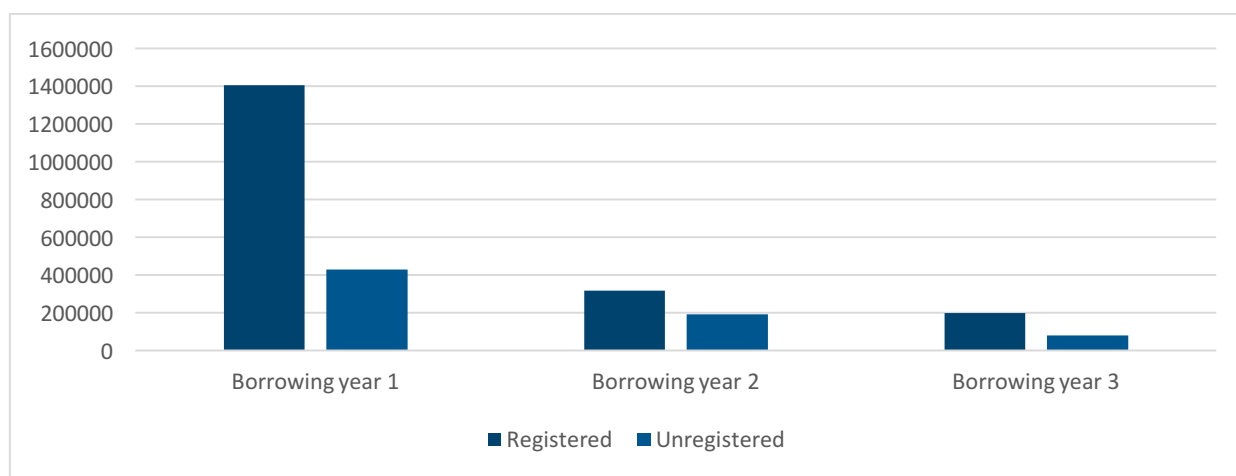


Figure 12 shows that by far the largest demand for borrowing is to support new construction, school expansion through building additional classrooms, and renovation of existing facilities. There is also demand in order to buy land and to add new facilities to schools.

FIGURE 12: REASONS FOR AND AMOUNTS OF DESIRED BORROWING BY SAMPLE SCHOOLS BY YEAR (OVER 3 YEARS) IN US DOLLARS

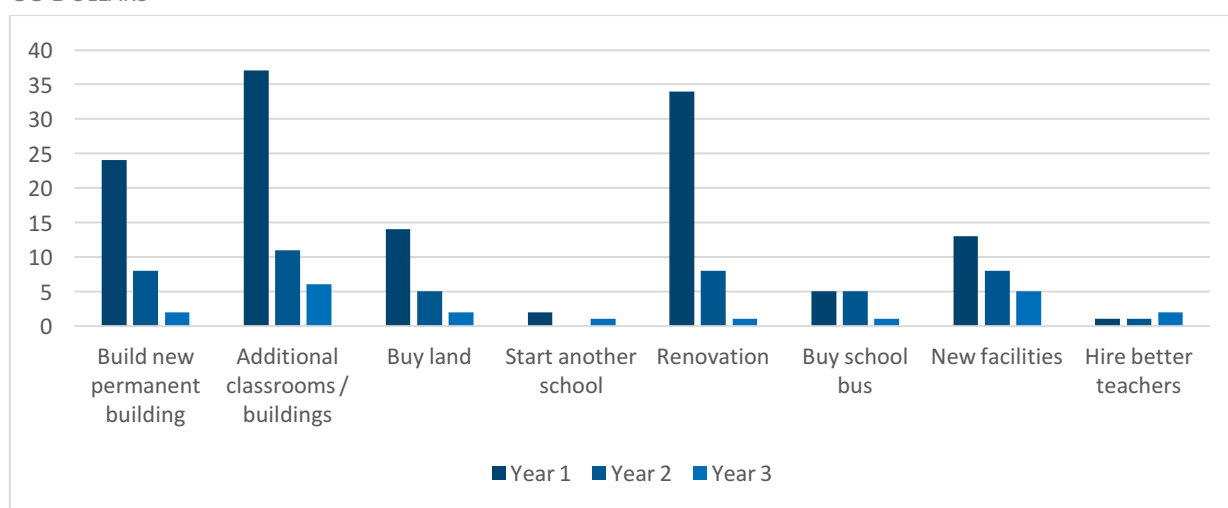


Figure 13 shows what percentage of mentions each reason for borrowing received amongst surveyed schools. Of those wanting to borrow, around 25-30% wanted funding for building additional classrooms; over a quarter for school renovations, and a quarter in year three were to add new facilities. In years one and two, around 17-18% of the demand was for building new, permanent buildings.

FIGURE 13: REASONS FOR BORROWING BY SAMPLE SCHOOLS AS PERCENTAGE OF ALL REASONS IN A GIVEN YEAR (OVER 3 YEARS)

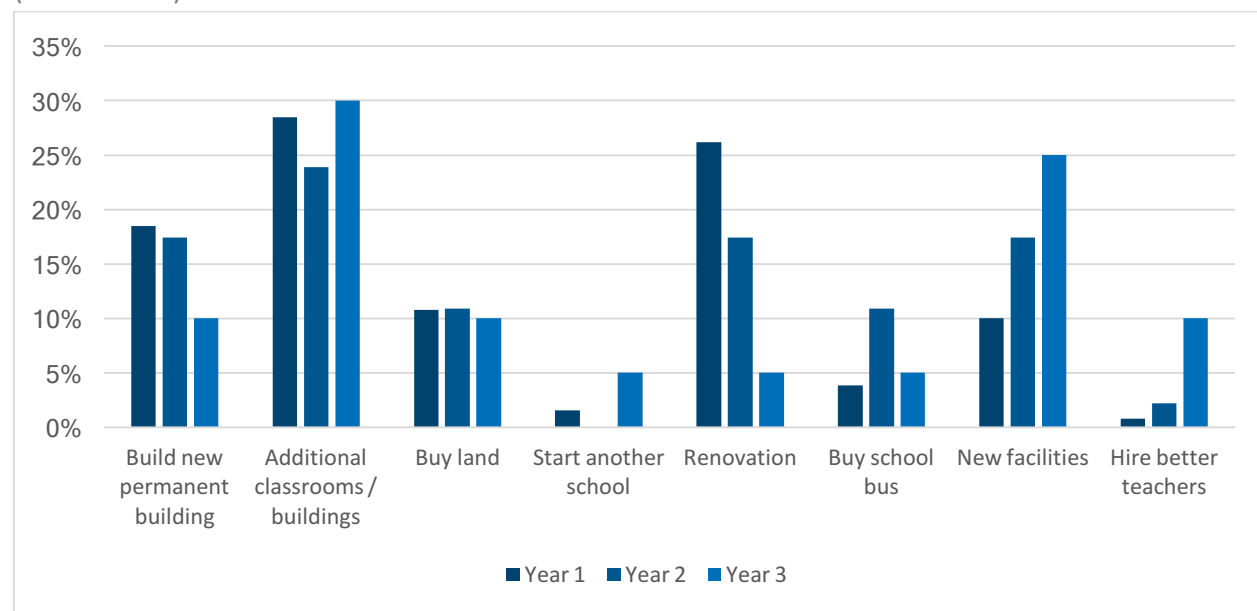
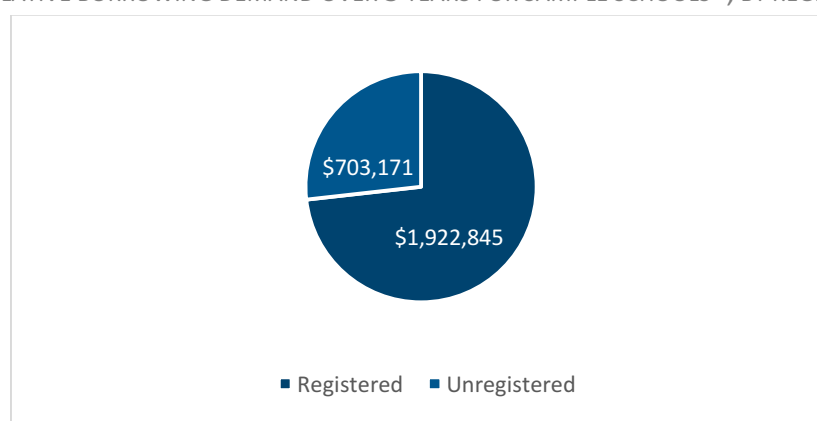


FIGURE 14: CUMULATIVE BORROWING DEMAND OVER 3 YEARS FOR SAMPLE SCHOOLS*, BY REGISTRATION STATUS



*These are actual (cumulative) amounts stated by 223 survey respondents totaling \$2,626,016, meaning the total desired borrowing summed for all sample schools wanting to borrow during three years. US\$1 = 3,375 Ugandan Shillings. See Figure 13 above for a breakdown of this desired borrowing.

Demand Projections For Kampala

There are good and recent data sources to help estimate the size of Kampala's private school sector. Firstly, the national census states that Kampala's population is 1,516,210 as of the 2014, and the country's population growth rate is 3.03% per year over the period 2002-2014⁷. Thus the population of Kampala was 1,562,151 in 2015, the base year that will be used for projections as there is Annual School Census data for 2015 but not yet for 2016 (the findings for 2015 can then be expanded forward using the growth per year in school numbers of 6.25%). The census also tells us that the percentage of the population that falls within the pre-primary school age group of 3-5 years is 10.7%. The primary school age group of 6-12 years accounts for 23.1% while 13-17 years accounts for 10.9% of the population. This leads to a total school-aged population (pre-primary through upper secondary levels) of 698,282 in 2015.

Unlike many other countries in Sub-Saharan Africa, Uganda reliably publishes the result of its annual school census, the latest available being 2015. From this source we can determine how many pupils are enrolled in government schools at all levels in Kampala, but the picture for private schools is inevitably incomplete as many schools are unregistered and even some registered schools will refuse to participate in the school census exercise. Table 26 provides these enrolment numbers alongside the school-aged population of Kampala at each level.

⁷ Republic of Uganda (2014) National Population and Housing Census 2014. Report available online at: <http://unstats.un.org/unsd/demographic/sources/census/wphc/Uganda/UGA-2014-11.pdf> accessed 26th September, 2016.

TABLE 26: SCHOOL CENSUS DATA 2015 FOR KAMPALA, AND SCHOOL AGED POPULATION — ALL SCHOOLS

	Government	Private	Total	School aged population	Actual enrolments (public & private)
Pre-primary	0	45,100	45,100	167,150	45,100*
Primary	61,520	103,789	165,309	360,857	392,251**
Lower & upper secondary	29,332	20,767	50,099	170,274	126,003**
Total school enrolments	90,852	169,656	260,508	698,282	563,354

Source: Republic of Uganda, Ministry of Education, Science, Technology and Sports, Education Statistical Abstract 2015⁸ and National Population and Housing Census 2014⁹.

* From Annual School Census in absence of more reliable gross enrolment ratio

** Based on gross enrolment ratios for Kampala from the Uganda National Household Survey 2012-13.

Taking only the school census figure it would appear that only 37% of Kampala's children are attending school. However from survey data we know that participation in schooling in the capital city is high. The Uganda National Household Survey tells us that the primary school gross enrolment rate for Kampala was 108.7 in 2012-2013 (and this is unlikely to have changed significantly by 2015), and 74 for lower and upper secondary levels. For the pre-primary level there is no reliable source for a gross enrolment rate, and so the school census enrolment figure in Table 26 appears to be the most serviceable. We find therefore that actually 81% of Kampala's children aged 3-17 are attending school, with by far the lowest participation at the pre-primary level, at only 27%.

From these figures it is possible to arrive at a reliable estimate of the size of the private schooling market in 2015 (which can be expanded by 6.25% to arrive at 2016 private school numbers). There are very large enrolments at the primary and secondary levels that are unaccounted for in the Annual School Census. Deducting the census figures from the actual enrolments (based on population size and gross enrolment ratios), it is calculated that there are 226,942 primary enrolments unaccounted for, and therefore in the private sector, as well as 75,904 enrolments at the secondary levels. The school census report tells us that only a handful of government schools did not return census forms, meaning that the

⁸ Available online at <http://www.education.go.ug/files/downloads/Abstract%202015.pdf> accessed 26th September, 2016.

⁹ See note 7 above.

vast majority of these unaccounted-for enrolments are in the private sector, in registered and unregistered schools.

TABLE 27: ESTIMATED SCHOOL ENROLMENT, KAMPALA

	Pre-primary	Primary	Secondary	Total
Government school enrolment (from School Census)	0	61,520	29,332	90,852
Private school enrolment (from School Census)	45,100	103,789	20,767	169,656
Estimated additional enrolment based on Uganda National Household Survey and this research	0	226,942	75,904	302,847
Total private enrolments	45,100	330,731	96,671	472,503

These are startling results: 100% of pre-primary children attend private schools; 84% of primary school children, and 77% of secondary school students. **Overall, private schools account for 84% of all school enrolments from pre-primary through upper secondary levels.**

Estimating the number of private schools (pre-primary, primary and secondary) is also calculated as follows. The average enrolment of a private primary school that participated in the Annual School Census is 291 pupils. In the present sample survey for this study, the average school size overall (taking all enrolments from all schools irrespective of level) is 220 pupils. This difference is expected, and is due to unregistered schools being smaller, and being less likely to participate in the school census. It also accounts for pre-primary schools having fewer pupils. **There are an estimated 2,148 schools in 2015, and applying the 6.25% growth rate, 2,282 private schools exist in Kampala in 2016.** Many of the schools serve primary level along with other levels, so Table 28 provides estimates of schools serving only pre-primary, only secondary, and lastly primary level (but this is very often in conjunction with other levels as 57% of all surveyed schools served the pre-primary and primary levels.)

TABLE 28: ESTIMATED NUMBER OF TOTAL SCHOOLS IN KAMPALA IN 2016

	Share of private schools	Estimated number of schools	Estimated number of registered schools	Estimated number of unregistered schools	All schools in profit
Sample schools pre-primary only	21%	481	164	318	447
Sample schools secondary-only	12%	266	266	0	248
Sample schools serving primary	67%	1,535	1,023	512	1,428
Total	100%	2,282	1,452	830	2,123

Analysis of profitability amongst sample surveyed schools estimates that 93% of schools are in profit or have operated for more than years. In addition, only ten proprietors expressed no need to improve or invest in their schools, and no intention to borrow. For this reason, we take 93% of schools as the pool from which the potential market for banking services will be calculated. Based on this figure, Table 28 provides the estimated numbers of profitable schools, forming the potential market demand from 2,123 total schools, in Kampala.

The potential market of borrowers is 93% of Kampala's private pre-primary and primary schools, meaning 1,875 schools. Registered schools plan to borrow more (\$17,295 in a single year) than unregistered schools (\$11,756), and taking the proportion of registered schools (64%) from this study, we make the following estimates:

The rate of inflation has recently been around 5.5%, so this is used in calculating demand for borrowing over three years. The rate of growth in numbers of schools established per year in this study's sample is 6.25% per year over the last ten years, so we presume that school numbers will continue to expand at the same rate for the next three years, though this same rate of growth may not continue indefinitely due to the already large share of all enrolments in the private sector.

Table 29 presents projections over the 3 coming years of the growing numbers of schools as well as growing demand for borrowing. **In total, over 3 years there is a projected demand of \$163.8m amongst pre-primary and primary schools.**

TABLE 29: ESTIMATED PRE-PRIMARY AND PRIMARY SCHOOL LOAN DEMAND IN KAMPALA OVER 3 YEARS

Purpose	Total demand (USD million)	Mean per school per annum (USD)
Expansion/ infrastructure	\$96.5	\$16,100
Working capital	\$62.3	\$10,400
Staff loans	\$5.0	
Total	\$163.8	

Transaction finance:

In addition, it is estimated that banks and microfinance institutions could capture up to 40% of transactions currently being carried out in cash. Over a 3-year period this equates to \$272.8 million or \$42,422 per school per annum, totaling \$272.8 million. Together with the \$163 million, the total market opportunity for financial institutions to potentially profit from is over \$400 million.

Appendix 1 provides a summary of the demand for finance in Kampala.

Conclusions and Recommendations

Kampala has a startling degree of private schooling participation: an estimated 84% of all enrolled children attend private schools in the city, a much higher proportion than anywhere else that we have studied. The study has found over 6% growth in school numbers year on year over the last decade, and while this growth may ultimately slow down, there will continue to be a thriving market for banking services and lending for existing schools to improve and possibly expand. In addition, the regulatory environment is relatively positive.

The Kampala market is characterized by a high proportion of registered schools (64%) and land ownership. And while erratic cash flow is reported as a problem, it appears to be somewhat better here than in other markets. Most schools are run as private businesses and the vast majority appear to be operating in profit.

There are large opportunities for the banking sector, particularly in getting more schools to open bank accounts and to capture the transactions that they currently make in cash at the present time. Many schools in Kampala already have plans to borrow money in the next three years, and this is likely to increase with if attractive banking services and loan products are offered. Loan demand, at \$163.8 million over 3 years, is strong and likely to keep growing, plus potentially capturing \$272.8 million in transactions.

Application of Findings to Ugandan Banks

DEMONSTRATED MARKET OPPORTUNITY

With an estimated 2,282 private schools operating in Kampala, 91% of which are run as private businesses and 96% likely desiring finance, an \$163.8 million market opportunity exists for banks and other financial institutions to provide credit to private schools. Moreover, with school numbers growing at approximately 6-8% per annum, education finance provides a longer-term growth opportunity. The sector is currently underserved with only 41% having bank accounts and 18% ever having had a bank loan.

In addition, schools employ a significant number of teachers and support staff (estimated at over 40,000) who could become new users of suitable financial services including mobile

banking, savings, borrowing and insurance linked products. This research estimates staff would have a borrowing appetite of \$5 million.

The children typically come from households where adults pay the costs associated with children being educated. If for every child there are 1.5 connected adults, there could be 753,060 adults that could be provided with full financial services – both savings, borrowing and transaction related. If one assumes 40% are adequately served today, that still leaves 451,000 underserved.

Schools are part of a supply chain and purchase materials, equipment, uniforms, food and IT support. Financial institutions that are willing to serve the entire supply chain could develop suitable products to acquire new customers along the chain.

If these opportunities are communicated clearly to financial institutions' management and boards, they may be motivated to allocate resources, build internal capacity and develop suitable products to meet private school demand. This has occurred in other markets such as Lagos where one financial institution has provided over 1,000 loans to schools over the last two years.

The research findings of school characteristics, longevity, income and expenditures should assist the financial sector in better understanding school cash flows and financial challenges. Financial institutions can then carry out further market testing to develop products tailored for the following:

- Transactions of schools, parents and supply chain
- Schools' saving and lending
- School employees' saving and lending
- Parents' saving and lending
- Supply chain firms' savings and lending

FINANCIAL SERVICES — TRANSACTIONS

If financial institutions wish to serve the schools and parents, resources will need to be allocated to not only product development but also to training staff in serving the education sector. In addition, experience in other markets such as Lagos indicates that time and resources will be needed to train school owners and parents in how to use transactional services, especially mobile banking.

In addition, irregular cash flows and fee collections are the largest challenges faced by 36% of schools. Financial institutions have the opportunity to design services to help schools reduce this problem, such as parents using mobile banking to make daily payments toward school fees.

FINANCIAL SERVICES — LENDING AND BORROWING

Lending: Schools want finance to improve infrastructure and increase scale. However, repaying such loans will take several years for most schools. The research results can help financial institutions design loan products and repayment schedules that fit schools' profit margins and typical cash flow patterns. It is likely that loan terms of 3-5 years would be reasonable.

A second application, particularly to low cost schools, is that the cost of finance cannot be so high that schools can't afford to borrow. Most low-cost schools would be unable to pass the high cost of borrowing on to parents in the form of higher school fees. Consequently, the existing profitability or incremental profit from increased scale will have to generate sufficient funds to service and repay loans. Financial institutions have indicated in conversation that they need low cost sources of funds to provide the low interest rates low-cost schools need.

Borrowing: Other research from CapPlus shows that financial institutions themselves require access to affordable, local currency, longer term debt in order to on-lend effectively to serve their client base. This opens an opportunity for impact investors to provide this type of finance to financial institutions.

REGULATION

We estimate that 23% of Kampala schools are not registered. Financial institutions can make their services to unregistered schools conditional on schools commencing the registration process. For schools that cannot meet registration requirements for reasons beyond their influence, financial institutions could engage with education regulators to explore other ways official recognition could be given to such schools, particularly if the banks are prepared to finance improvements needed to meet regulator's minimum requirements. This would reduce regulatory and reputation risks for financial institutions.

CAPACITY BUILDING IN FINANCIAL INSTITUTIONS

Preparing to serve a new sector can be challenging, time-consuming, and require knowledge and skills not possessed in-house. Knowing how to lend to SMEs is a precondition for being able to serve schools, particularly the 'S' of SMEs. Long term, time-limited capacity building assistance by external experts will significantly accelerate the pace and increase success of expanding to new underserved segments.

CAPACITY BUILDING IN SCHOOLS

Weak financial management can be a barrier to obtaining finance as financial institutions are reluctant to provide credit where financial recordkeeping is weak. Financial institutions can partner with service providers experienced in assisting proprietors in strengthening their financial management.

TEACHER QUALIFICATIONS

In addition to helping schools address their needs for physical improvements to schools, financial institutions could finance education improvements, such as teacher or leadership training or new curriculum.

LEARNING OUTCOMES

Helping improve schools' education quality has a direct bearing on a school's credit-worthiness, especially in a highly competitive market like Kampala's. Parents move their children to schools they perceive has providing higher quality education. Therefore, financial institutions could partner with education organizations to help their school clients improve learning outcomes.

CORPORATE SOCIAL RESPONSIBILITY

Some financial institutions may wish to combine their commercial interaction with schools with their CSR activity. For example, in some markets banks provide books to schools, others send in staff to teach personal finance. This can reinforce the bank's reputation in the sector and complement building a strong customer base.

Appendix 1

Summary of finance opportunity with low cost primary & pre-primary schools					
Kampala					
Schools	No	Children	Avg size	City pop	%
Pre-primary	481	284,394	278		
Primary Registered	1,023	93,696	183		
Primary Unregistered	512	421,442	-		
	2,016	799,532		1,600,000	50%
Govt school children		90,852			6%
		890,384			56%
% children in private schools	85%				
% schools owning prem / land					
Registered	73%				
Unregistered	59%				
FINANCE DEMAND		3 year	3 year	Average per school p.a.	
Kampala		\$000	\$000	\$000	
Expansion / school improvement		96,486		16.133	
Working Capital		62,336		10.423	
Staff loans		5,014			
			163,836		
Transaction capture			272,807	42.422	
Loan demand & transactions			436,642		
Expected growth in school numbers		6%			
Schools wanting to borrow		58.0%			




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