

# Banking ON Education

## Kampala, Uganda

In 2016, CapPlus researchers in Kampala, Uganda, conducted a market study to understand the size and nature of the low-cost private schools serving the city's children. Our top-line findings show that private schools in Kampala educate 84% of children enrolled in school, are profitable, and want to borrow **\$164 million** over the next three years. These schools will also handle around **\$273 million** in cash transactions in that three-year time frame, creating a major opportunity for cross-selling account services and innovative payment solutions.

### **FINDING 1: Kampala's private school market is large, established, profitable, and serves the poor**

An estimated 2,200 private schools educate more than 500,000 school children of all ages and socio-economic levels in Kampala. The number of private schools has been growing by an average of 6% per year, but accelerated to 8% in 2015. Pre-primary schools are the greatest growth opportunity: all pre-primary schools are private, and only 27% of pre-primary-aged children are enrolled. Secondary schools may be another opportunity as only 74% of secondary school-aged children are enrolled.

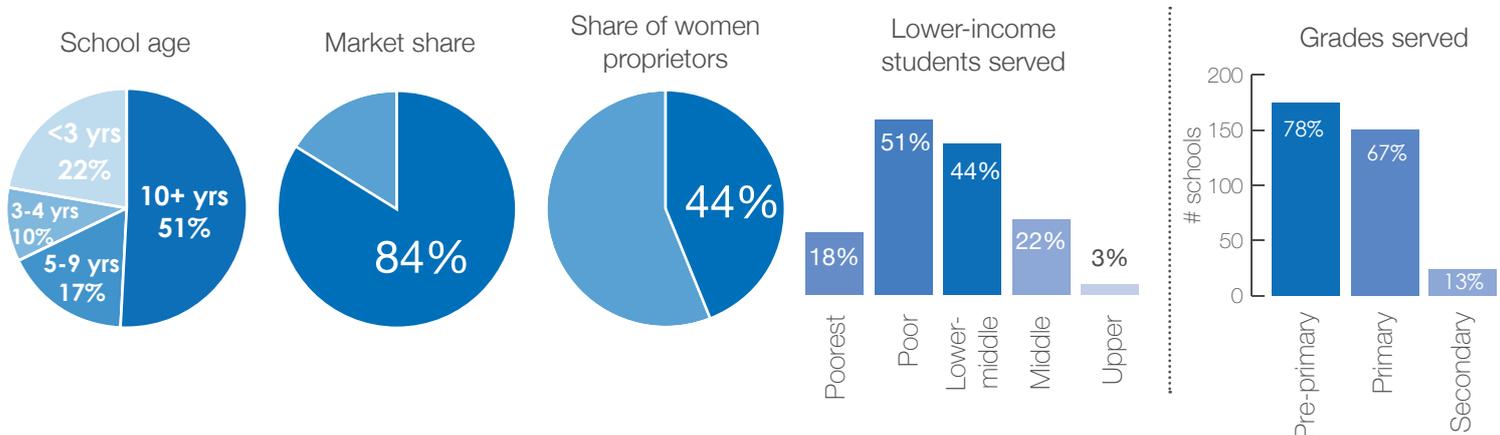
The vast majority of low-cost private schools—91%—operate as sole proprietorships or partnerships. Eighty-five percent are stand-alone schools; the remaining 15% are members of school chains, two-thirds of which have only two schools. The analysis suggests that up to 93% of the schools may operate profitably.



#### **Quality education and strong learning outcomes**

**are key to**

*attracting and retaining students, especially in a competitive market like Kampala. Linking school borrowers to education quality technical assistance (TA) providers, in addition to providing credit, would improve learning outcomes. Students would be better educated, teachers more effective, and schools more financially resilient as a result of financial institutions providing credit and establishing partnerships with education quality TA providers.*



## FINDING 2: Kampala's private schools need financial services

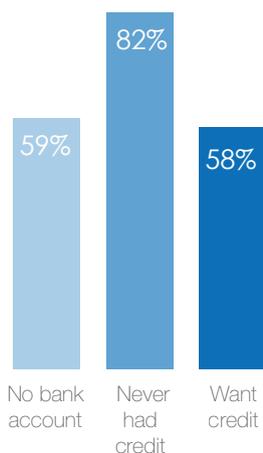
Despite their long tenure serving Kampala's school children, the schools are underbanked. Almost 50% of the proprietors identified access to credit as a challenge, with 30% rating it as "severe." Fifty-eight percent of the schools would like to borrow in the next three years.

Overall, we estimate **\$164 million** in total demand for credit among low-cost private schools in Kampala alone over the next three years. Proprietors want loans for additional classrooms, renovations, and enhanced facilities such as laboratories or libraries. Purchasing land and assets such as buses are lower priorities, as 68% of private schools in Kampala already own land, a far larger percentage than in other cities studied. Furthermore, parents predominantly use cash to pay school fees, which suggests an opportunity for finance providers to facilitate **\$273 million** in cash transactions over three years.

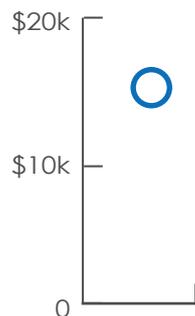
To meet this market demand for credit, financial institutions often need a source of affordable, long-term local currency debt to lend to private schools, as well as assistance tailoring products and practices to meet schools' unique needs. CapPlus is working to solve both challenges.

### DEMAND FOR \$164 MILLION IN CREDIT

Market opportunity

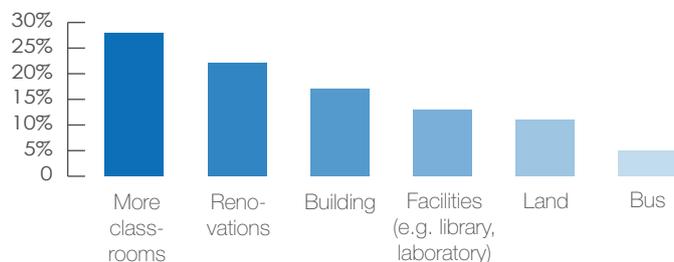


Average loan amount desired



Uses for credit

Percentage of schools identifying the following (could choose more than one)



## FINDING 3: Competition between schools creates investment urgency

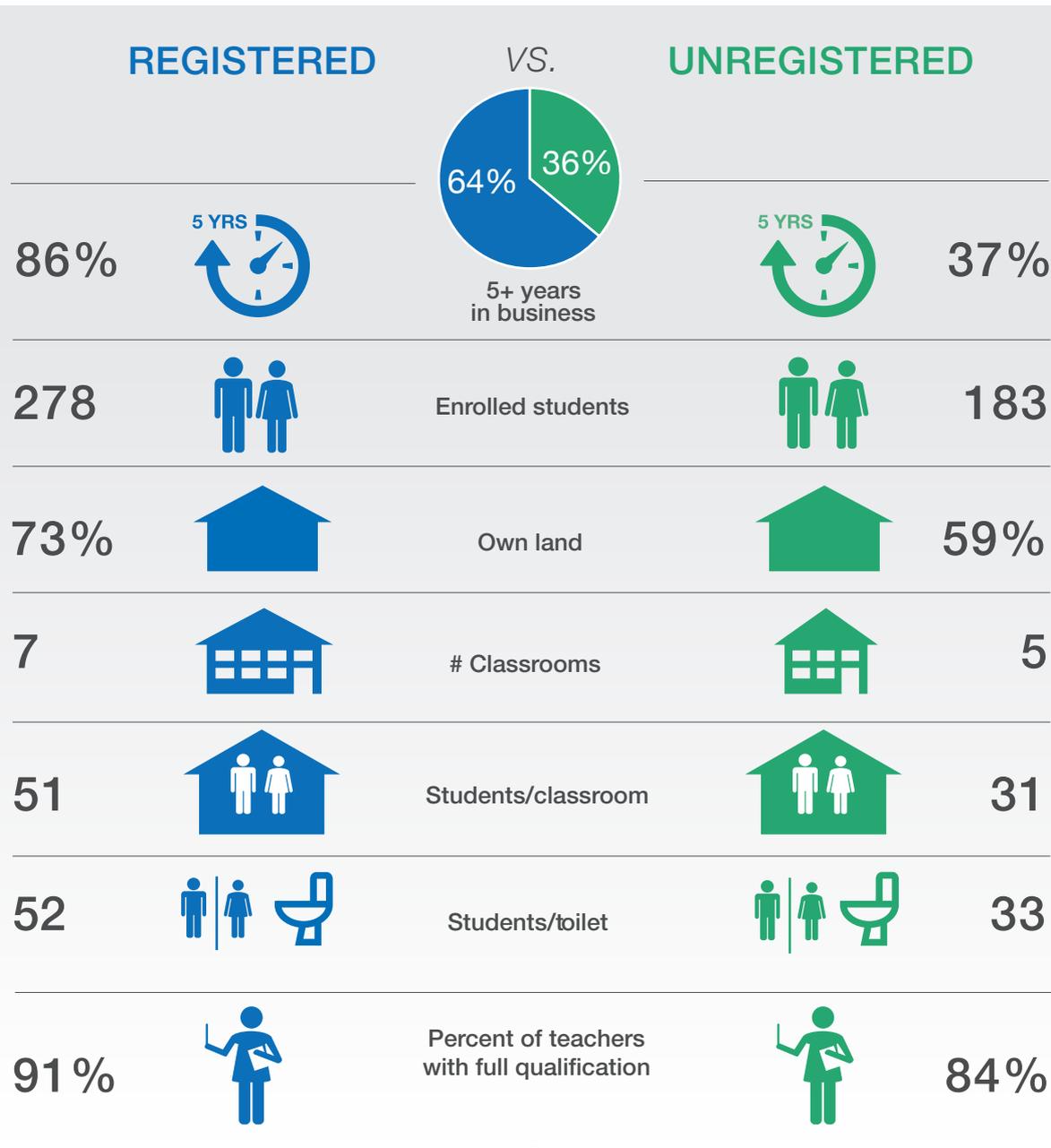
Even though the sector is growing, competition between schools is high. Sixty-one percent of schools reported enrollment growth from the previous year, gaining an average of 52 students per school; but 29% of schools saw enrollment declines, losing an average of 60 students. Our analysis suggests that this mix of growth and attrition is largely driven by parents seeking the best school they can afford, which gives an advantage to schools that provide higher quality education and add learning resources such as labs and libraries.

## FINDING 4: Private school regulation is realistic and cooperative

Sixty-four percent of private schools in our sample are registered, and an additional 13% have initiated the registration process. Uganda's registration requirements are more realistic and flexible than CapPlus has seen in other cities:

- No minimum land size requirements, nor requirement to own the property
- License is required during (not before) first year of operations
- Registration expected after several years of operation
- Regulators provide schools with recommendations and an opportunity to improve if they fail an inspection

Some competitive advantages seem to come with registration status in Kampala. Unregistered schools are not at a large disadvantage, however, and are better in some areas, such as class size and children per toilets.



## **CONCLUSION: Kampala's competitive private school market offers opportunity for financial and social return**

Kampala's low-cost private school sector is especially attractive for small business finance: schools have a long tenure, are profitable, have significant growth opportunity (especially in pre-primary schools), show strong demand for credit, and enjoy a generally positive relationship with government regulators.

Credit will allow schools to transition from focusing on day-to-day needs to improving the quality of education they provide. Credit enables schools to expand their facilities to increase enrollment and profitability; credit provides working capital to ease the challenges of erratic cash flow. With these pressing needs abated, schools will be able to concentrate on strengthening teachers' skills, deploying new curriculum, retaining girls, and undertaking other activities to boost learning outcomes. CapPlus further believes that well-structured credit, by itself, can drive improved learning outcomes.

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Visit our website at [www.capplus.org](http://www.capplus.org)

## **METHODOLOGY**

*In 2016, CapPlus researchers led by Dr. Joanna Härmä conducted a census of all private schools in typical low-income areas of Kampala, identifying 438 private schools. They selected a representative sample of 223 school proprietors to survey. School owners answered questions about enrollment, registration status, income, expenses, banking relationships, accounting practices, staff qualifications, and facilities. Researchers also interviewed representatives of the Ministry of Education, Science, Technology and Sports, and the Kampala Primary Schools Head Teachers Association, KAMPSHA, which serves both private and public schools. Peter Hinton conducted financial analysis. Profitability estimates include the assumption that schools in business for three years or more are covering costs, hence are profitable.*



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