

Banking ON Education

Lusaka, Zambia

In 2016, CapPlus researchers in Lusaka, Zambia, conducted a market study to understand the size and nature of the private schools serving children living in the city's low-income neighborhoods. Our top-line findings from Lusaka show that private schools are profitable, and want to borrow **\$63 million** over the next three years. These schools will also handle around **\$255 million** in cash transactions in that three-year time frame, creating potential for financial institutions to cross-sell account services and payment solutions.

FINDING 1: Lusaka's private school market is growing and profitable

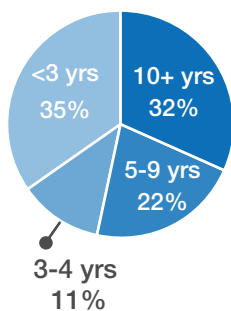
An estimated 1,350 private schools educate almost 250,000 school children—around 40% of the total enrolled student population in Lusaka. Though free public education in Lusaka was mandated in 2002, it was done without commensurate increases in funding to ensure quality instruction, which created a quality gap that private schools have been working to fill. Likewise, the Zambian Education Ministry has mandated that all children receive some pre-primary education, but the public sector has not developed the capacity to fulfill that requirement, creating a business opportunity for private pre-primary schools. As a result, 69% of the private schools serve pre-primary and primary students in a multi-level model; most other schools offer various combinations of primary and secondary education.



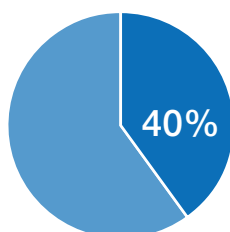
Private schools are viewed by parents in Lusaka as a higher-quality alternative to public education. Credit could

enable schools to make good on that reputation by enabling investments in education quality. Lusaka's schools can also benefit from improved financial management, which would allow greater investment in school leadership, teacher development, and expanded curriculum that could improve learning outcomes. Schools known for quality will attract more students and improve the bank's return on investment.

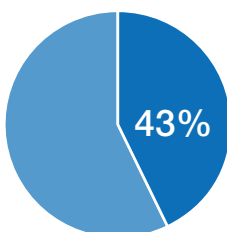
School age



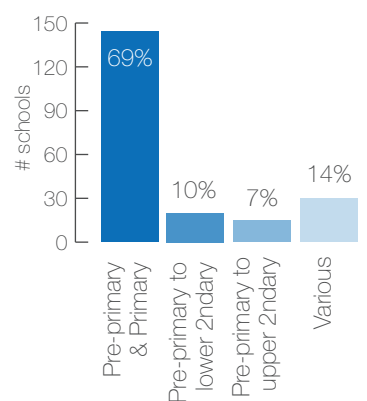
Market share



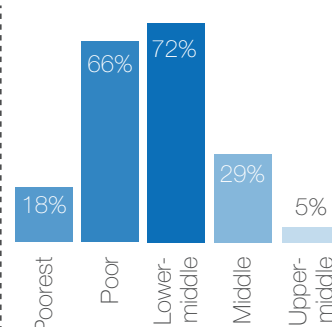
Share of women proprietors



Grades served



Lower-income students served



The number of private schools has grown by about 10% per year for the past ten years, and more than half of the schools we surveyed have been in business for five years or more. The vast majority—84%—operate as sole proprietors or partnerships, though 21% of schools are part of a chain, a higher percentage than in the other cities we studied. Most of the chains have only two schools.

An estimated 85% of low-cost private schools in Lusaka operate at a profit, charging fees that are affordable for low-income families. Based on the data collected, the average school is profitable even if it collects only 70% of owed fees.

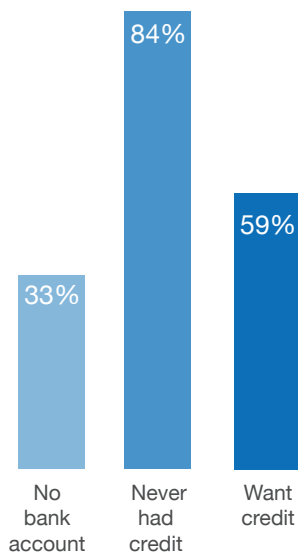
FINDING 2: Lusaka’s private schools are underbanked

Fifty-nine percent of private schools would like to borrow in the next three years, driven heavily by demand for new buildings, followed by more classrooms, and land. Enhancements such as laboratories, libraries, and buses are much lower priorities. Overall, we estimate **\$63 million** in total demand for credit among low-cost private schools over the next three years.

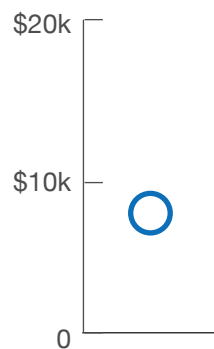
The current dominance of cash for paying fees in Lusaka, coupled with the fact that 33% of schools do not have a transactional bank account, suggests that schools would welcome financial products to facilitate the **\$255 million** in cash transactions these schools will touch over three years. Lusaka’s schools particularly need these services to help them manage cash flows—an issue schools name as the most severe challenge they face.

DEMAND FOR \$63 MILLION IN CREDIT

Market opportunity

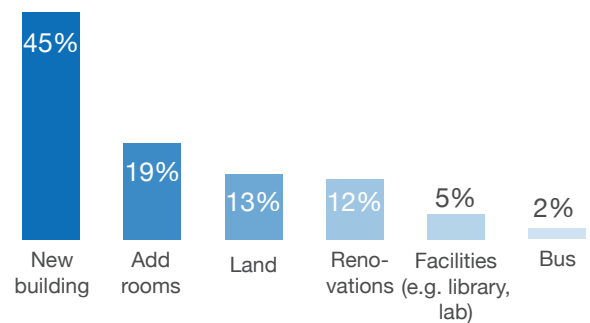


Average loan amount desired



Uses for credit

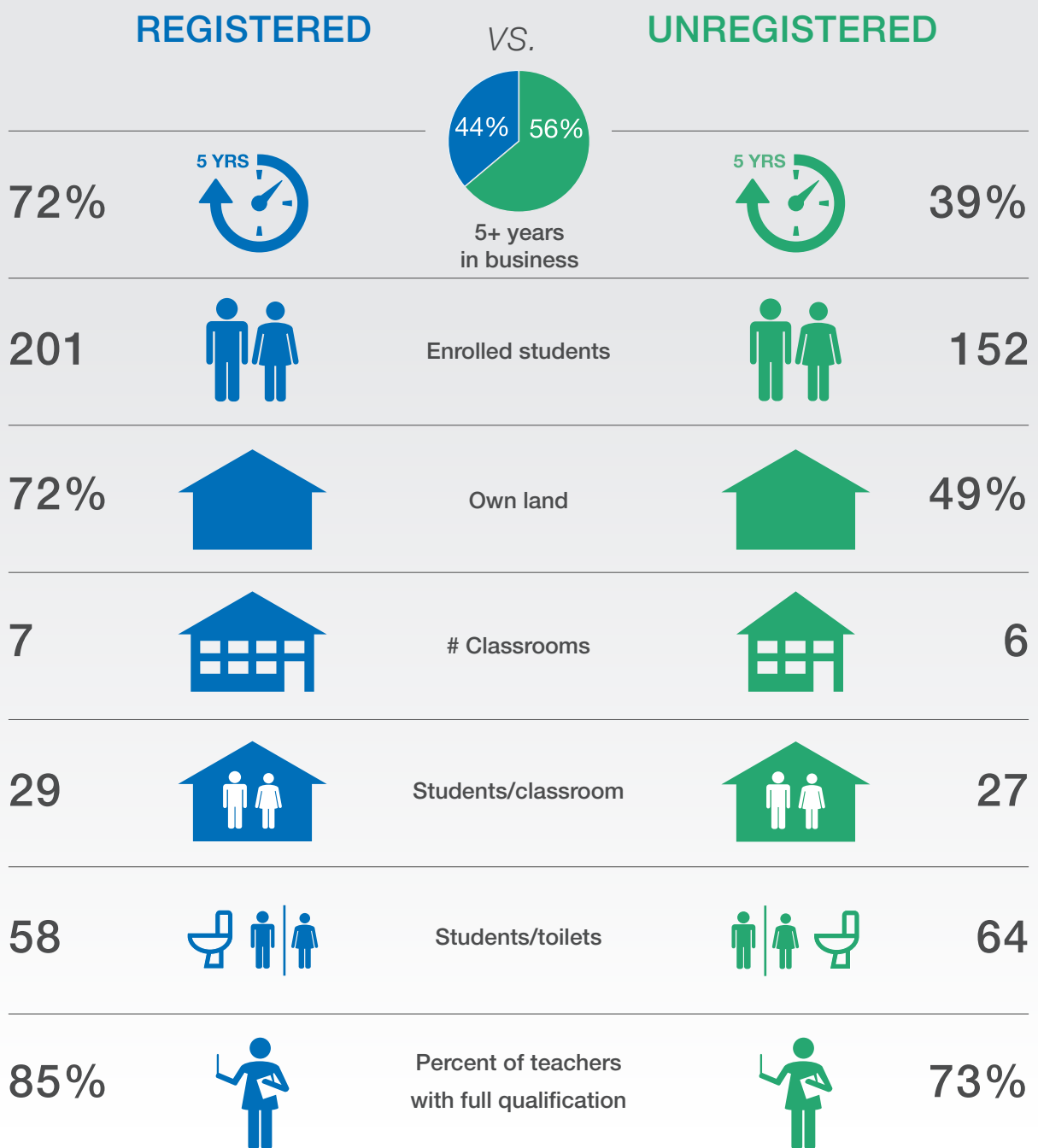
Percentage of schools identifying the following (could choose more than one)



FINDING 3: Private school registration benefits schools

Registration is required for schools to operate legally in Zambia, as has been the case since 1972. Forty-four percent of private schools in our sample are registered with 18% more in the process. Among the 80 schools that are not in the registration process, 31% are new schools. Other proprietors stated that applying for registration is too expensive, complex, or the requirements impossible to fill. Responsibility for registering schools shifted to the Ministry of Education in 2015 from another regulatory body, which may also explain why the researchers were unable to obtain the specific requirements from online sources.

Registered schools nonetheless report that there are benefits to their status, and our data show some competitive advantages to being registered. Registered schools have more enrolled students, for instance, and have a higher percentage of qualified teachers.



CONCLUSION: Lusaka's growing private school market offers opportunity for financial and social return

Lusaka's low-cost private schools are stable providers in the market. More than half have been in business for longer than five years, and approximately 85% are profitable, making them attractive candidates for finance.

These schools provide critical services in a city where the quality of education provided by the public system is not meeting parental expectations. Within this context parents are embracing private options, but their erratic household incomes make it difficult to pay fees at the beginning of the term, complicating schools' efforts to amass lump sums to make major investments in school quality or infrastructure.

Financial institutions can help schools overcome those challenges by providing long-term credit and other financial services, as well as financial management tools and training to enable proprietors to manage their businesses better, freeing them up to focus more on providing a quality education. Financial institutions don't have to do it alone: they can partner with providers of financial management training and education quality consulting to mutual benefit. Financial institutions reduce their credit risk, schools become more stable and deliver more educational value to families, more girls attend school and their attendance is regular, and students' literacy and numeracy rise to meet global standards.

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

Visit our website at www.capplus.org

METHODOLOGY

In 2016, CapPlus researchers led by Dr. Joanna Härmä conducted a census of all private schools in typical low-income areas of Lusaka, identifying 352 schools. They selected a representative sample of 209 school proprietors to survey in person. School owners answered questions about enrollment, registration status, income, expenses, banking relationships, accounting practices, staff qualifications, and facilities. Researchers also gathered secondary information on governmental policies on private schools, and interviewed a representative of the Private Schools and Colleges Association. Peter Hinton conducted the financial analysis. Profitability estimates include the assumption that schools in existence for three years or more are covering their costs, hence are profitable.



CapPlus equips financial institutions in emerging economies to deliver finance profitably for social impact. By providing strategic and operational capacity building that increases financial services to small businesses, CapPlus creates sustainable solutions that accelerate job creation, societal benefit and equity.