Affordable private education gaining traction in impact finance space

Over the last decade, low-cost private schools have mushroomed across urban and rural areas in various countries such as India, Kenya or the Dominican Republic. These schools, founded and operated by independent local entrepreneurs, serve a large population of working poor and lower income families by charging low fees.

Around 300 million children in India go to school, more than in any other country. Enrollment has risen steadily over the past two decades, helped by legislation such as the Right to Education (RTE) Act of 2009, which made school compulsory for children up to 14 years old. 3.8% of India's GDP is allocated to education, an amount less than in other developing countries, such as Nicaragua. Two-fifths of Indian schools don't even have electricity. Even so, the Indian education market is expected to be worth USD 180 B by 2020, propelled by its demographics–the largest 6- to 17-year-old population in the world–and the rapid spread of private schools. As a matter of fact, most Indians see education as a cornerstone of self-development; in all income segments, the average household dedicates over 25% of its expenditures towards education.

Indian public schools are nearly free, but they suffer from poor infrastructure, high dropout rates, and a shortage of trained teachers. Given this situation, the low-cost private schools that have appeared in the past years remain affordable, averaging USD 6.4 in monthly fees. Owners are often former teachers, sometimes couples, who have created these schools using their own resources, and can generate significant margins. Their schools mainly cater to poor families, who are drawn by the opportunity for their children to be educated in English—rather than the regional language favored by government schools—thus benefiting from a better education and infrastructure than at said government schools.

However, the private schools tend to lack access to funding from mainstream financial players because they lack a formal status and a track record. Informal lenders aren't a viable alternative, as they charge exorbitant interest rates. In response to the schools' needs, specialized school financing companies have thus appeared. They are helping these affordable schools meet their immediate needs, often offering relatively long-term loans that can range from 10,000-80,000 Swiss francs (equivalent). Funding is typically used to add rooms or digital classes, build science or computer labs, or purchase adjacent land.

Although the sheer size of India makes it seem like there are great opportunities to be had in financing these private schools, only a few specialized financial institutions have managed to enter this niche. These specialized institutions also find it hard to secure their own funding, which they often seek out from foreign investors,. sometimes being stymied by complex regulatory frameworks for foreign investments, which make smaller transactions less viable. Additionally, impact measurement is sometimes hard for these specialized institutions to do due to the fragmented market of small-time school entrepreneurs. It's also worth noting that at this stage of the sector's development, only a small number of them are offering incentives in the form of rebates on the interest rate in case the performance of school children improves over a particular time frame, an important parameter on impact scales.

Access to quality education is one of the 17 Sustainable Development Goals of the UN's 2030 Agenda. Is it therefore good to see that affordable education finance is slowly gaining traction in the world of impact investment. It has the potential to realize social goals by giving low-income communities across the world access to quality education. Private schools are not only for the rich; making them affordable for everyone could become be the ultimate goal of all stakeholders in the sector.