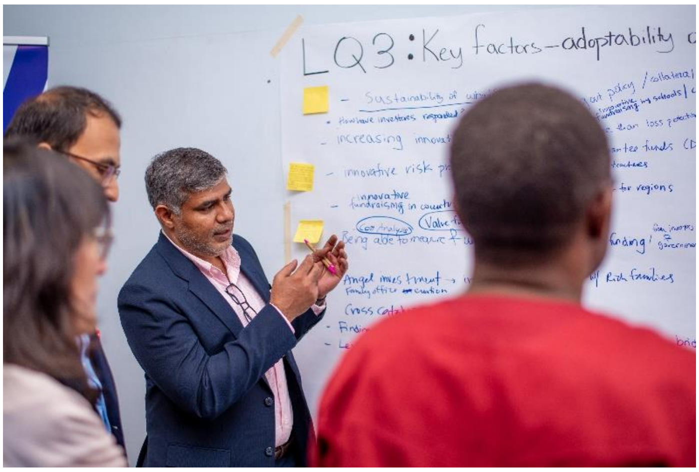
CATALYZE EDUFINANCE LEARNING BRIEF:
Current Implementation in Sub-Saharan Africa

CATALYZE EduFinance

CATALYZE EduFinance (September 2019–2027) uses a blended finance approach to test models that improve and sustain learning outcomes for children and youth globally, particularly those most vulnerable. EduFinance pilots multiple models in 14 countries across Latin America and the Caribbean, sub-Saharan Africa, the Middle East, and Asia regions, supporting local education stakeholders in state and non-state education in early childhood development and early childhood care and education (ECCE); primary and secondary education; technical and vocational education and workforce development; and improving enabling environments. Pilot activities implemented by EduFinance are complemented by a global community of practice, the Education Finance Network. Through its **EduFinance Activity, CATALYZE is engaging non-state schools and ancillary enterprises to improve and sustain learning outcomes for children and youth.**



EduFinance Learning Event for sub-Saharan Africa (Nairobi, Kenya) March 2023

This Learning Brief serves as a summary of learnings identified and discussed during the March 2023 CATALZYE EduFinance Learning Event in Nairobi, Kenya, building off a learning compendium developed as a pre-read to the event. Additional learning briefs will continue to be developed and shared by EduFinance as part of its commitment to disseminating learning and results to key stakeholders.

CHALLENGE

How to effectively apply blended finance models within the non-state education sector to address the learning needs of disadvantaged children and youth

OPPORTUNITY

1. Build an evidence base of learning and results by a) piloting a diverse mix of blended finance models applied to the education sector and b) fostering a non-state education community of practice.
2. Integrate evidence-based learning and results into current and future Activity design and implementation.
3. Disseminate evidence-based learning and results to strategic stakeholders.

BACKGROUND

Learning is a cornerstone of the CATALYZE EduFinance Activity and a fundamental component of the Activity Monitoring, Evaluation, and Learning Plan (AMELP). The AMELP explicitly includes the Learning Questions assigned to CATALYZE for contribution to USAID's Blended Finance Learning Agenda. The EduFinance Learning Agenda identifies and explores successes, challenges, and adaptations of blended finance activities for the non-state education sector. The Learning Agenda captures what works and doesn't work in implementing blended education finance activities in achieving increased access and improved learning outcomes for disadvantaged children and youth.

Methodology

As part of operationalizing its Learning Agenda, EduFinance held an in-person Learning Event for its activities being implemented in sub-Saharan Africa from March 29-31, 2023, in Nairobi, Kenya. Participating parties included USAID/Washington (Private Sector Engagement Hub, Center for Education, Bureau for Africa); USAID sub-Saharan Africa Missions (Democratic Republic of the Congo, Kenya, Rwanda, South Africa, Tanzania, Somalia); current implementing partners (Education Partnerships Group, Kaizenvest, Opportunity International, Promoting Equality in African Schools) and non-state Community of Practice (Education Finance Network); local and regional impact investors, ECCE, and workforce development groups; and Palladium and CATALYZE leadership and activity management teams.

The Learning Event focused on answering the three EduFinance Learning Questions:

1. **What challenges and successes did EduFinance country-level activities encounter in implementing its program, in particular:**
    - ✓ Engaging and capacitating financial intermediaries in providing loans to educational enterprises
    - ✓ Providing technical support to schools (pre-primary, primary, secondary, TVET)
    - ✓ Collaborating with a wide range of stakeholders that include host government, international/national investors, local financial intermediaries, entrepreneurs?

    1.1 What factors contributed towards achieving or not achieving the aims of the activity?

2. **What are the learnings across activities on the linkages between the packages of services offered (technical assistance, financial assistance, both) and the expected learning outcome improvements in relation to the following:**
    - ✓ Motivations of stakeholders (particularly financial institutions, and the range of education sector service providers)
    - ✓ Context characteristics
    - ✓ Level of engagement of beneficiaries

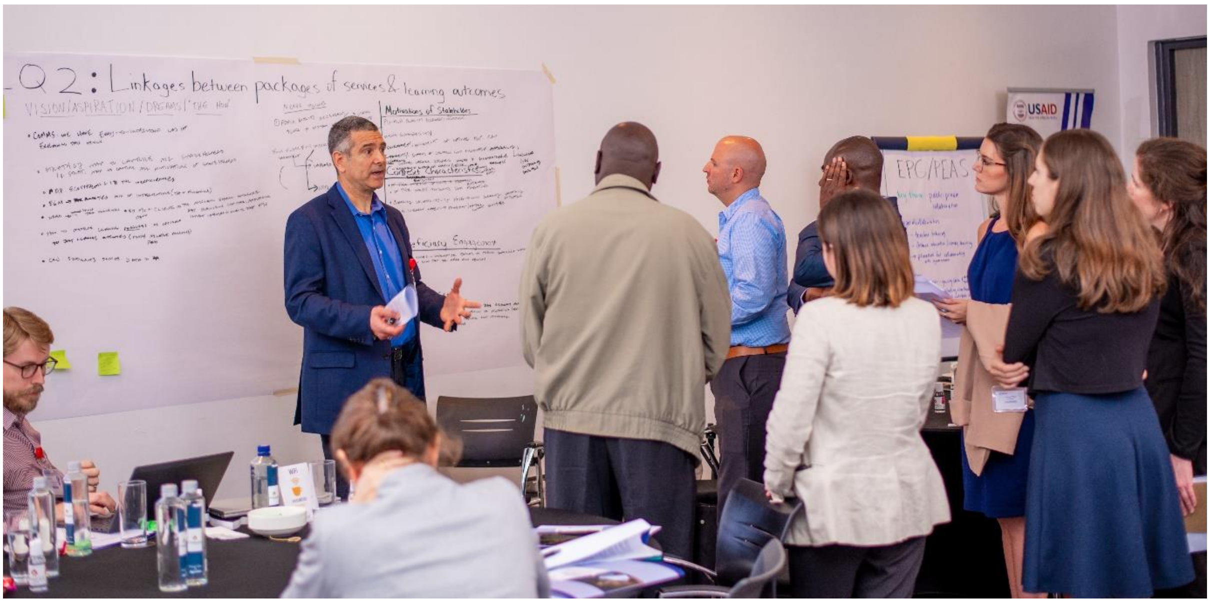
3. **What are the key factors influencing the adoptability of blended finance approaches by the non-state education sector?**
    - ✓ How have investors responded to EduFinance's call to invest in private education?
    - ✓ How have other stakeholders responded to activities implemented as part of the blended finance approaches?
    - ✓ Can a pathway to sustainability be mapped, and if so, what have we learned about which stakeholders need to be involved and what enabling environment features need to be present?

The sessions and format used to answer these Learning Questions covered:

1) **EduFinance in Practice**: CATALYZE overview and local contexts and diverse models (presentations)
2) **Successes**: What has worked well and how have activities learned and adapted? (break-out groups)
3) **Challenges**: What has been challenging, and how have activities learned and adapted? (panel)
4) **Learning Across Activities for Better Results**: How can EduFinance integrate learning from existing activities into current and future activities, with an emphasis on cross-project learning? (knowledge café / rotating groups)

KEY TAKEAWAYS AND LESSONS LEARNED

This section captures key takeaways and lessons learned from global and model-level perspectives. The global perspective considers experiences across all different pilot activities implemented in multiple countries across sub-Saharan Africa and synthesizes common themes, successes, and challenges; while model-level lessons reflect the unique experiences of each partner and the lessons taken from implementing these models.



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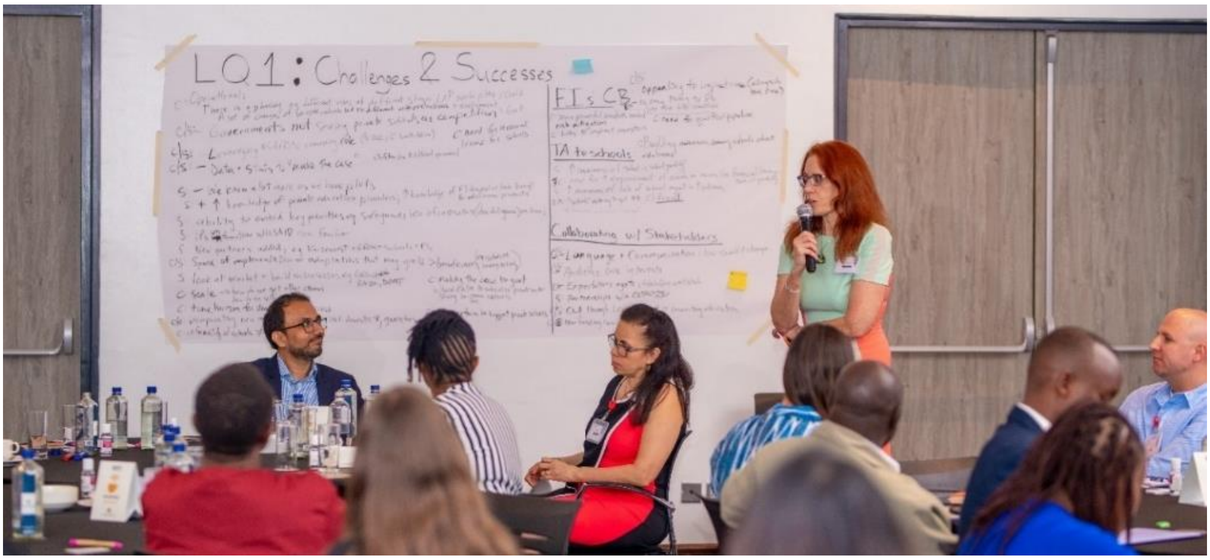
Global Learning

The capital exists to support scaled blended finance solutions in education sectors in developing countries focused on disadvantaged communities. There is a tremendous amount of energy, expertise, innovation, and capital in the education sector in the countries EduFinance pilots its models. The opportunities for blended finance in education that leverage public-private partnerships are extensive and sufficient to scale viable solutions across different education sector contexts. Making the case for blended finance in education, therefore, does not begin with a need to build new human and financial capital in local markets, but to leverage and partner with existing opportunities and assets.

The EduFinance story begins with public investment in education. EduFinance begins with the same core challenge that public education proponents are encountered with: How does it help narrow the gap between school demand and available resources? The EduFinance value proposition is engaging private sector actors to leverage capital within and help close that gap, complementing public investments and contributing to broader education strategies. This fundamental alignment with public sector education strategies and outcomes is essential to the adoptability of education finance, both through a technical and strategic messaging perspective.

Host-country governments are essential development partners. To operationalize this alignment of private sector engagement and public sector education investments, it is essential to engage host-country governments at the on-set of activity design and at every level, from federal / national to provincial / local. Host country government support is necessary, for example, to ensure enabling policies such as effective and efficient registration and accreditation, a positive investment climate, and improving access to finance through creative uses of collateral for borrowers. More general government support and alignment is additionally required in countries where models are piloted, but do not explicitly focus on policy. Engagement with government officials at any level requires nuanced approaches and language that appropriately accounts for government priorities and demonstrates how education finance contributes to broader education strategies. USAID Missions are critical partners in building overall government buy-in.



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Leveraging diversity in the marketplace. There are a variety of education finance groups and models at the global, regional, and local levels that are currently demonstrating how blended finance can be effectively applied to the education sector for various segments of disadvantaged communities. Importantly, different mixtures of capital are required to reach different types of populations; purely commercial financing is often the best fit for middle-income populations and above, while models that mix concessional and commercial capital allow greater reach to lower income populations, with more concessionary financing required for the most vulnerable. Scaling these models effectively is tied to how well these diverse models can be leveraged by EduFinance. The same principle is true at the country level through EduFinance implementing partners, who are similarly responsible for mapping local markets, conducting market segmentation analyses, and finding an effective mix of partners and models tailored appropriately to the target beneficiaries.

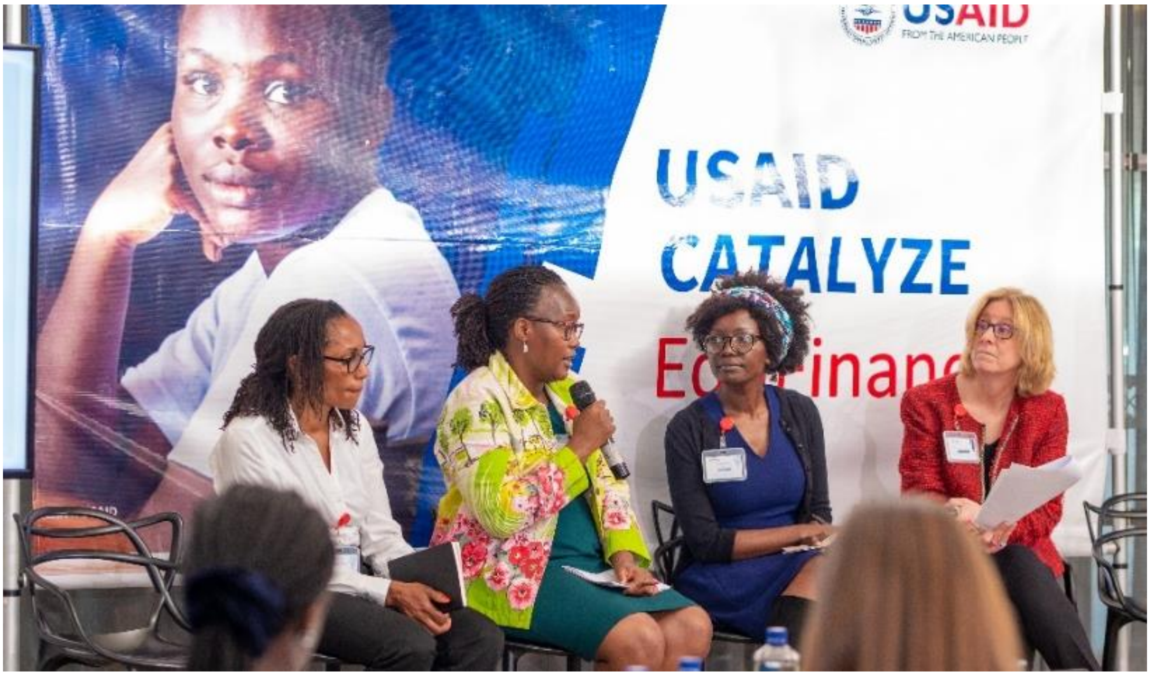
Improved education quality is a long-term prospect. Education outcomes and learning gains – whether tied to capital mobilization targets or not – take time to show results. When EduFinance initiated its activities across sub-Saharan Africa, the expectation was that capital deployed would occur roughly at the same pace as interventions to achieve education and learning outcomes, and that the access to finance would correlate to real-time learning gains. However, a key learning has been that a substantial amount of time is needed between when the initial loans are deployed and when the capital can contribute to learning and education gains. Implementing partners further noted that COVID-19 and the resulting impact on the education sector delayed investor decisions and required partners to adapt strategies for financial institution engagement Moreover, significant time and effort is needed to measure education and learning gains. It can be challenging to set up baseline assessments, for example, that neatly match the pace of private capital mobilization. As such, the timeframe to demonstrate the impact of investment in education may not be the same as in other sectors, and patience is required.

Learning extends beyond the education sector. Other sectors such as agriculture offer important lessons and best practices for blended finance in education. These programs in other sectors have pioneered approaches to deploy business advisory service providers, for example, that can facilitate deals between financial institutions and small and medium-sized enterprises. This type of approach should be considered for education finance involving financial institutions and non-state schools who seek school improvement loans.

Blended finance applied to the education sector can significantly contribute to realizing gender gains. There have been demonstrated results and indications of great potential for improving gender equality and women's economic empowerment through EduFinance. Women are key drivers of education-based blended finance solutions. For example, women entrepreneurs who run early childhood development (ECD) centers receive access to finance and technical assistance through EduFinance, in addition to enabling women to pursue careers outside the home through interventions in early childhood care and education.

Support of schools that serve disadvantaged populations requires a tailored monitoring and evaluation approach. A tenet of EduFinance activities is support (e.g., loans and capacity building) to schools which serve children from disadvantaged families (i.e., low-fee, non-state schools). This design element requires a tailored approach to Monitoring, Evaluation and Learning (MEL), and particularly, how EduFinance verifies data (i.e., whether they meet the threshold of a low-fee school) on schools receiving loans from financial intermediaries (which often are not equipped to collect and share data on their). A key learning is that this tailored MEL verification system further requires extensive coordination with individual financial intermediaries to ensure buy-in and understanding of the verification requirement. For example, this could include a technical assistance officer who works closely with the appropriate financial intermediary team member to explain data requirements and develop and agree on a system to collect and share that data.

Dissemination of learning and results is a cornerstone to making the case for EduFinance. A dedicated effort to reach and influence strategic stakeholder groups about blended finance in the education sector and learning and result outcomes is essential to making a persuasive case. This dissemination effort should be designed and implemented at a global and in-country market level, which requires active, coordinated communications across USAID/Washington, USAID Missions, Palladium, and implementing partners.



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Partner Approaches

CATALYZE EduFinance Partner Models
Current partners piloting activities in sub-Saharan Africa

Education Partnerships Group (non-profit)

Enabling environment
Beneficiaries: Low-fee, non-state schools (nation-wide)

1. Generate and use research to inform non-state education policy (survey of education system on private sector regulation, accountability and public-private partnerships)
2. Design and develop policy (engage stakeholders to prioritize non-state education policy)
3. Support piloting and scaling of policy reform and initiatives

Zambia

Opportunity International (non-profit)

Early childhood education, primary, secondary education
Beneficiaries: Peri-urban and urban communities

1. Increase access through capital mobilization (technical assistance to financial institutions to deliver loans to schools and parents)
2. Improve quality (school development planning, school leadership professional development, teacher mentorship professional development)

Zambia DRC Tanzania

Kaizenvest (asset manager)

Early childhood education, technical and vocational education
Beneficiaries: Low- to lower-middle income families

1. Mobilize capital (loans via financial intermediaries to affordable learning providers / schools)
2. Rewards & Recognition (light-touch capacity building through loan tenure)

South Africa Rwanda

Promoting Equality in African Schools (non-profit)

Secondary education
Beneficiaries: Most vulnerable communities

1. Build secondary exemplar / model schools
2. Partner with primary government schools
3. Share evidence from PEAS schools and government partnerships to support wider system change

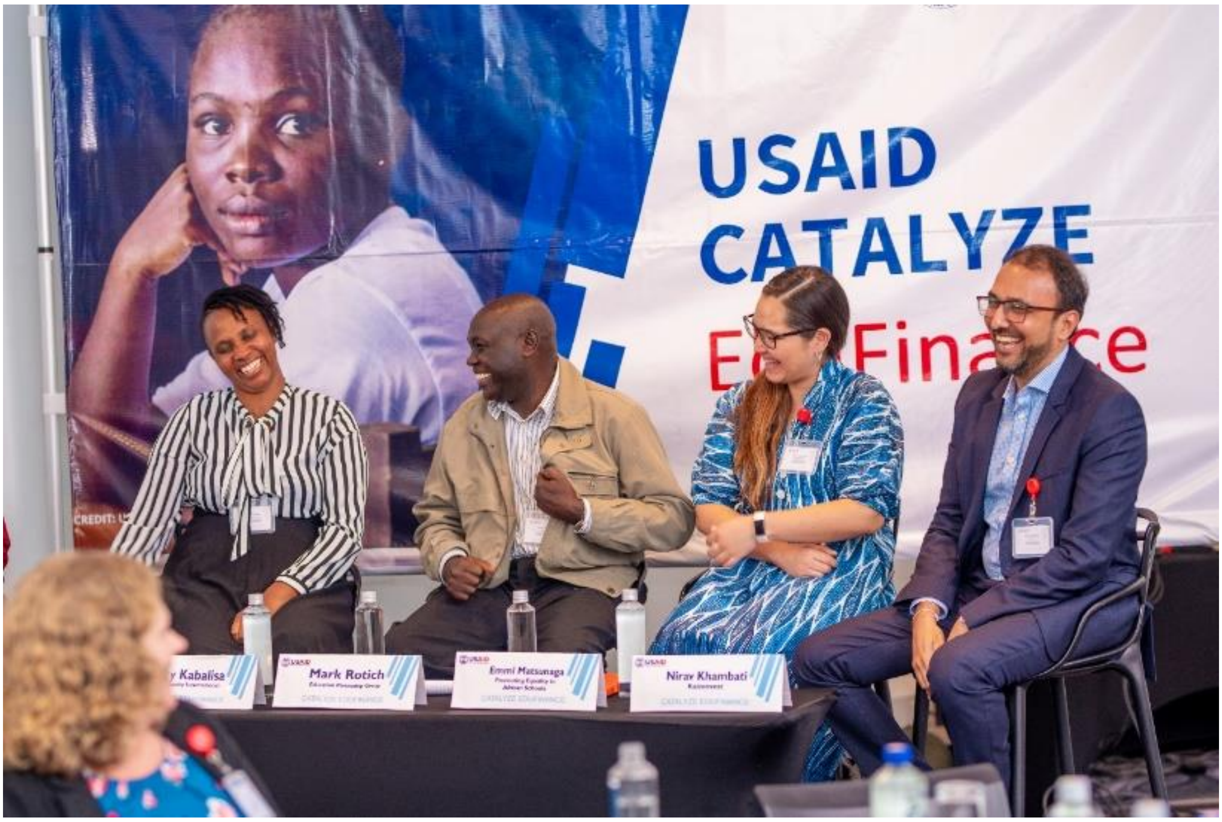
Zambia

<u>Opportunity International</u>

Demand exists among financial institutions to invest in the education sector…but a tailored approach is needed. The Opportunity International (OI) model has demonstrated that financial institutions are receptive to creating tailored loan packages and, more broadly, investing in the education sector. Financial institutions are not a monolith, however, and reaching Activity objectives requires collaboration with a diverse range of financial institutions.

For example, commercial financial institutions provide opportunities to mobilize significant private investment into the education sector, but learnings from program implementation to date indicate that they are typically risk averse and unwilling to invest in education loan products serving lower income populations. Instead, medium-sized financial institutions and micro-finance institutions have been much more willing to invest in education finance debt products. That being said, it is still possible to bring commercial financial institutions to enter this sector, although they may require more time and alternative approaches to integrate EduFinance loan products. Identifying solutions for commercial financial institutions that enable integration of EduFinance products with appropriate lending criteria and terms requires in-depth understanding of the full suite of products they currently offer, as well as the core banking system functionalities, limitations, and management culture.

Additionally, technical assistance advisors deployed under the OI model must understand a financial institution's internal management structure. For example, OI has found the need to be highly active in coordinating with key stakeholders across different departments within financial institutions to collect and cross-share information needed by staff critical to the successful implementation of EduFinance loan products, such as Operations, Credit, IT, and Marketing.



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Getting the right loan incentive(s) to riskier schools is essential. A tenet of CATALYZE EduFinance is that capital mobilized is channeled to schools which support learners from economically disadvantaged families. The OI model, therefore, requires that financial institutions are adequately incentivized to invest in low-fee schools. The range of school fees differs significantly, and the bankability of schools differs by fee level. Lending to schools that charge lower fees is generally riskier (both in real and perceived terms), which requires an incentive package that adequately addresses the added risk. This incentive package is tailored to each financial institution's needs and risk profile, but generally includes both technical assistance to help the financial institutions develop targeted loan products for the education sector and build a pipeline of education enterprises, along with financial incentives that provide a small fee for each loan deployed to schools verified as serving low-income populations.

A pipeline is crucial to meet private capital mobilization targets. On the demand side, a healthy pipeline of potential school owners interested in applying for a loan is essential to reach private capital mobilization targets. Pipeline development in this context requires an ongoing, systematic approach that connects prospective school owners with financial institutions, a particularly important touchpoint considering the increased risk of lending to low-fee schools and prevalence of misperceptions about investing in the education sector (e.g., personal connections between both sides can be highly effective in breaking down initial perceptions). Market assessments conducted at the outset of activity design demonstrate the potential market and opportunity to build this pipeline, while direct technical assistance to financial intermediaries further contributes to linking with potential schools.

Variation in quality among schools. Just as there are significant differences among financial institutions, so too there are wide variations among schools, and particularly, the quality of low-fee schools. Because of this variation, the OI experience demonstrates a need for dedicated technical assistance and capacity building for school owners / entrepreneurs in best practices in teaching and learning, as well as school management / business practices.

Data definition, collection and verification. The focus on low-fee schools first requires establishing up-front an underlying methodology and clear definition of what constitutes "low-fee," tailored to each country's context. For example, OI has developed a methodology that defines thresholds for low-fee schools, tailored to each country's context. Importantly, the underlying methodology and definition outputs involve continual refinement based on ongoing learning. Once a definition is established, a MEL-based system is further needed to verify data from financial institutions and schools to adhere to the Activity's commitment to support schools which serve learners from disadvantaged families.

<u>Kaizenvest</u>

Building understanding and buy-in of non-state opportunities. The Kaizenvest model sources capital domestically (i.e., within the countries it implements EduFinance: South Africa and Rwanda) and globally. Impact-focused investors from developed countries are typically not familiar with the role of non-state education in developing countries, like South Africa and Rwanda. In order to reach private capital mobilization targets, dedicated engagement efforts to educate these investors on non-state opportunities (e.g., early childhood development in South Africa) are critical to mitigate perceived risks of a highly fragmented market, with small ticket sizes, and low return potential.

Similarly, EduFinance has learned that engaging a wide range of partnerships that use different types of models helps to broaden buy-in for non-state approaches by showcasing the variety of innovative approaches that investors can support. For example, in South Africa the EduFinance project is pursuing partnerships with high impact social franchise models supporting women entrepreneurs, working to layer their rewards and recognition model on grant-based approaches supporting low-income early childhood development (ECD) centers, and working with churches and social housing providers to provide high quality spaces with rent subsidies for ECD centers in informal settings to drastically improve their learning environments and move towards formal registration.

Blended finance: moving beyond grants. Typically, education entrepreneurs are used to receiving grant- or philanthropic- based assistance only and have not had access or understood how to access and manage more sustainable sources of financing (i.e., loans). It is essential to design a dedicated effort to educate entrepreneurs upfront and build capacity building over time through technical assistance on how blended finance options can supplement traditional grant opportunities.

Use of incentives to improve school quality. Like the OI model, the Kaizenvest model links private capital mobilized with improving the quality of schools and ultimately, learning outcomes (a tenet of CATALYZE EduFinance). In order for this objective to be met, an appropriate incentive framework is needed that effectively encourages and rewards school owners to invest loans into areas that positively impact education quality and longer-term learner outcomes.

<u>Education Partnerships Group</u>

Government engagement and relationship building. An effective communication and engagement process between the Activity, the USAID Mission, and host governments is key to successfully navigating challenges presented by the policy and regulatory environment and harnessing positive government support of the activity. Crucial to government engagement is investing in long-term relationship building with decision makers while maintaining continuity though transitions. For example, in Zambia, there was a transition in administration that required Education Partnerships Group, on behalf of EduFinance Zambia, to adjust to a new group of decision makers and different policy position on non-state education. These transitions require the partner to remain relevant throughout constituent and stakeholder engagement processes as a new administration crafts its positions to ensure the non-state school agenda is carried forward through the policy process. Government engagement further requires extensive coordination with USAID Missions, particularly when new host-country governments are transitioning and leadership relationships between USAID / US Government and host country government are being forged.

Promoting Equality in African Schools

Collaboration with government. PEAS, through EduFinance, has worked to uncover multiple opportunities for collaborating more closely with the Zambia government in order to strengthen educational provision for learners beyond the walls of their classrooms. For example, they worked to learn the full unit costs of educating a child. PEAS then presented this to the government to determine how they can better define subsidies to government-run schools. In addition, during government recruitment drives PEAS staff are in high demand; PEAS is working to develop a more formalized pre-service and in-service training approach with government teachers to help upskill broader segments of the population on best practices implemented in PEAS schools. In addition, under EduFinance Zambia, PEAS piloted a technical assistance program, Targeted Improvement for Equitable Education in Zambia (TIEEZ), to support primary school leaders to create a school environment that enables high quality learning. During the TIEZZ pilot under EduFinance Zambia, PEAS developed a comprehensive government engagement strategy. PEAS has held regular engagements with government representatives to share learnings from the pilot and has built on existing strong relationships with provincial-level branches to ensure government engagement in the TIEEZ program. The importance of government engagement to effective program implementation was highlighted by PEAS and other implementing partners.

Adapting curriculum. Through tracking of their secondary school graduates into the employment market, PEAS learned that high quality secondary education is not enough to prepare youth for the job market. As such, they've added life skills and entrepreneurship coursework to their curriculum to fill these key skills gaps. During the TIEZZ pilot under EduFinance Zambia, PEAS successfully adapted PEAS' approaches, primarily relating to school improvement planning and instructional leadership, to support improved quality. For example, the School Improvement Plan is one of the most effective tools in supporting leaders to improve long-term planning and management of school activities and improvement. The instructional leadership materials have supported leaders to encourage teachers to try new approaches. As a result of the adaptations made under TIEZZ, student attendance increased by 10 percentage points, learning walk scores improved, and over three times as many schools had child protection policies at endline compared to baseline.

RECCOMENDATIONS

Based on these key learnings, CATALYZE EduFinance and its implementing partners are incorporating the following recommendations into its planning and implementation.

1. Devise different engagement approaches for small and large financial institutions, and tailor engagement strategies.
2. Develop a more structured relationship building approach with financial institutions.
3. Harness existing knowledge and use cases from the EFN to promote transaction focused work and foster knowledge-sharing, learning, and adaptive management.
4. Develop marketing resources and guides for financial institutions and schools to better understand each other as market players.
5. Consider developing an EduFinance government engagement strategy for each new country in collaboration with the USAID Mission.
6. Develop a blueprint with USAID Missions for how to coordinate among US government agencies, officers, and development finance institutions when negotiating guarantee mechanisms and developing EduFinance products.
7. Develop resources and guides for private-sector partners to better understand how to work with USAID and in the blended finance space.

USAID CATALYZE (2019-2027) is a $250 million contract designed to mobilize $2 billion in private capital towards underserved sectors, geographies, and populations across 28 countries in Africa, Asia, Latin America and the Caribbean (LAC), and Europe.

CATALYZE, implemented by Palladium, co-creates with Missions, Bureaus, and Independent Offices (MBIOs) to design multi-year, results-based activities that are managed by Palladium and implemented by a broad network of principally locally led implementing partners.

FOR MORE INFORMATION

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