

## SUPPORTING PRIVATE SCHOOLS TO MAKE QUALITY EDUCATION ACCESSIBLE IN AFRICA: INNOVATIVE APPROACH TO COMBINING ADVISORY SERVICES AND INVESTMENT

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Governments in developing countries recognize education as the single most critical factor in achieving broad-based economic growth. However, for most developing countries, achieving the Millennium Development Goal of universal primary education by 2015 is unlikely without significant support. There is also a growing recognition that without a strong private school sector, success will not be possible. IFC's experience in Ghana demonstrates that with the right support, the private sector is willing and able to play a key role in the expansion of high-quality and accessible education in Africa.

### Background

Ghana is struggling to provide basic quality education through the public system. Declining standards in public schools are in sharp contrast to the improving standards associated with private schools. Demand for private schooling has increased dramatically in the past decade. Private primary schools now serve almost 20% of the enrolled population, and there is pressure on the private sector to grow further. The following quote from a Ghanaian father highlights a popular sentiment among Ghanaian parents today:

***“Like other parents, I want to give my children the best education possible to prepare them well for the future. Even though public education is free, private schools offer far better education, and they are affordable.”***

### Problem Statement

To respond to this increasing demand, private schools need access to appropriate finance and high-quality, affordable school development services.

### IFC Intervention

Private Enterprise Partnership for Africa (PEP Africa) initiated the Ghana Private Schools Support Program (GPSSP) to improve access to quality education in Ghana by supporting private sector participation. Under this program, IFC is providing advisory services, as well as financing, through a risk-sharing facility with a local partner bank, The Trust Bank (TTB), to help private schools operate more effectively, construct classrooms and other facilities like libraries and laboratories, and continue to attract and retain high-quality staff. The ultimate goal is to improve the quality of education they offer.

**Financing:** The risk-sharing facility partially guarantees the partner bank's portfolio of loans to schools and allows TTB to extend loans to schools on better terms and for longer tenors than exist on the market. IFC earns income on the facility by charging the partner bank 0.5% of the undisbursed amount and 3% on the exposure outstanding. TTB is required to do its own due diligence to book and monitor schools in the portfolio.

Advisory Services: Advisory services satisfy the program's overall objective of improving the capacity of private schools to attract finance and cater for demand through two primary activities:

- Improving the schools' ability to operate as effective, sustainable businesses, thereby improving their risk profile. More specifically, support is provided in: (i) school diagnostics, strategic and business planning, and (ii) the installation of a comprehensive education management information system and associated training in accounting and financial management, human resources and training management, curriculum and learning management, and corporate governance. Schools share 40% of the cost of this assistance. IFC also produces a series of school operating manuals and has set up a local services provider to ensure sustainability after IFC's involvement ends.
- Improving the ability of TTB to assess, process, and monitor school loans. IFC consultants provide a five-day Education SME Project Finance Course to all TTB loan officers and relevant senior management.



### Achievements to Date

Despite facing initial fundraising and human resource challenges, the GPSSP has made great strides. The pilot phase began in the first quarter of 2005 with funding from IFC and the African Development Bank.

IFC has helped 17 schools develop business plans, which have resulted in TTB disbursing US\$1,724,000 to 11 schools. This puts the utilization of the facility at over 70%, and ahead of target. Pending applications give rise to a potential additional demand of \$1.8 million on the risk-sharing facility, which is more than what remains. IFC has also delivered a series of six workshops and held a seminar informing schools of pending legislation governing private schools.

The program's success has also been recognized by the financial sector. Three other banks have asked to join the GPSSP. Based on the success in Ghana, IFC has scaled up the program to a pan-African one. The first spin-off has been signed with K-Rep Bank in Kenya, targeting slum-located private schools. IFC's Board of Directors strongly supports the planned roll-outs for Senegal, Mali, Liberia, Nigeria, Uganda, Tanzania, and Mozambique in FY07 and FY08. The GPSSP has won the IFC 2006 Corporate Award for innovation and development impact.

### Smart Lessons

1. The advisory services must begin before the investment agreement is signed.

The schools need to be prepped to identify their weaknesses as a business. This ensures that they are actually ready to receive and utilize funding effectively. Advisory services in Ghana did not begin in earnest until six months after the investment agreement was signed. This was due to (i) fundraising challenges, (ii) the institutional transition from APDF to PEP Africa, and (iii) the fact that it was the first program of this type and so it underwent various revisions of the scope of work. In Kenya, the advisory services program will begin two months after the signing due solely to fundraising delays. It is impossible to raise funds for a program that is not certain to proceed, so PEP Africa does not begin the process until a mandate is signed with the investment client. This provides a very short window, and means that the bank is unable to begin disbursements until much later. The bank, however, has to continue paying fees to IFC on the unutilized guarantee. Raising pooled funding will allow PEP Africa to begin the preliminary advisory services work (strategic and business planning support to the schools) in advance of the facility's signing in order to ensure rapid ramp-up.

2. Misconceptions create challenges for fundraising.

To date, IFC has been hampered by the deep-seated perception among traditional bilateral donors that private education is exclusively elitist. Until IFC can prove the pro-poor impact of the program beyond doubt, fundraising will be focused on non-traditional donors such as foundations..

Additionally, IFC is designing and implementing a rigorous impact evaluation for Kenya Schools, which will demonstrate a link between this program and improved educational outcomes. This will be extremely helpful in future fundraising efforts.



3. Integrating investment and advisory services is effective.

The previous development best practice was to separate financing and advisory services, out of fear that the loan clients would attribute their poor repayment to the “poor advice and training” offered by IFC. The GPSSP demonstrates that investment and advisory services can be integrated successfully, and TTB has repeatedly expressed its appreciation for the advisory services that helped its business grow rapidly and sustainably. Importantly, the partner bank provides loan funds to the schools at its own discretion, and the advisory services is provided indirectly through private consultants.

4. Finding appropriately qualified consultants is critical.

Consultants should have experience, in-depth knowledge, and peer respect in the education sector. When this is achieved from the beginning, the advisory services will be more effective in identifying issues that need to be tackled and in gaining the confidence of client schools.

5. IFC’s local presence and global knowledge work together well.

Global expertise is critical in providing overall program management, procuring and managing international consultants, and ensuring the credibility of the program to IFC management and the international community.

Local knowledge and management are equally critical. In Ghana, the appointment of a local program manager in the first quarter of 2006 had a significant impact on the progress of the project. Within a short space of time, he became the face of the program in Ghana, which helped to drive the program’s acceptance and fully capitalize on IFC’s local presence.

6. Careful school selection is critical.

Indiscriminate solicitation of schools in the first batch of the pilot phase resulted in a large proportion (approximately 50%) of applicants being turned down by TTB. The target schools in the second batch were screened more carefully by a team composed of the program manager and representatives of TTB to ensure that they passed a minimum set of criteria for lending. Criteria included the number of students enrolled, layout of the school and ability to cope with expansion, past performance in terms of revenue, and ability of parents to continue paying fees. This resulted in a far higher success rate (approximately 90%).



## 7. Fostering competition among banks improves the impact of the program.

Working with a single bank was necessary during the pilot phase, but for a full-scale initiative, the program should be expanded to more banks. TTB proved an excellent partner for the GPSSP, but working with just one bank has slowed delivery of the loans, fostered a perception that TTB is receiving preferential treatment from PEP Africa, and not exploited the benefits of competition. Including other banks in the program is important both for dealing with this perception and for increasing the competitive offer of the banks to the schools for greater impact and outreach.

### Conclusion

The GPSSP has demonstrated the potential inherent in combining IFC's investment products and advisory services, in the schools market in particular. It has also provided a successful formula for application in other basic service sectors where IFC can use local banks as an intermediary for providing smaller-scale loans. SME businesses generally require much more advisory services prior to financing, and IFC has developed this innovative way of combining advisory services with investment for improved effectiveness. Opportunities in these areas are being investigated in other parts of IFC as a result of the success of this program.

#### About the Authors

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