The financing of low-cost, non-state schools in Africa



Peter F Hinton

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Abstract

Much of the literature on the phenomenon of low-cost schools focuses on South Asia with little research on this in Africa. This study investigates if there is a shortfall in state provision of early-years and primary education in Africa, and if so, what the contributing factors are and what role low-cost schools are playing. The study investigates how such schools are funded, if they are able to access finance, and if not, what the barriers to finance are.

Research in seven African cities, involved listing state and non-state schools in low-income communities in order to establish the extent of low-cost schools. 1,390 schools were surveyed to identify factors contributing to the shortfall in state provision and shortfall in finance. Two case studies of low-cost school operators in Lagos and Nairobi were performed using semi-structured interviews.

The study finds a 52% shortfall in state provision of education ranging from 14% in Dar es Salaam to 86% in Kampala. The political economy of education impacts policy, regulation and funding of schools with African governments adopting a colonial legacy model of Western education which assumes majority state provision of primary education. However, early-years education is a priority for low-income households with 65% of low-cost schools providing early-years and primary education. With asymmetry of education quality information, locality and accountability are important in households establishing trust with schools.

Low-cost schools receive no state funding, rely almost entirely on households paying fees and only 15% have been able to access conventional finance. Barriers include lack of certification and institutional voids where schools are unbanked. New financial intermediaries are emerging to address the institutional void similar to the role played by micro-finance institutions with micro-entrepreneurs. Non-conventional finance, such as impact investing, has started to invest in the sector but faces political economy opposition and institutional voids - requiring intermediaries to reach small schools. Central bank concessionary finance is found to play a role, as seen in the Lagos case study.

If governments recognised low-cost schools as partners in education and certified them, finance to the sector could increase. Access to concessionary blended finance (conventional, unconventional, central bank, philanthropy and aid) could be used to attract unbanked schools and meet their demand for finance. Governments could leverage off the low-cost school sector's existing physical and human infrastructure to absorb out-of-school children and provide early-years education to many more children to the benefit of societies and economic development across Africa.

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List of abbreviations

APBET	**Alternative Provision of Basic Education and Training (Kenya)**
AFED	**Association for Formidable Educational Development**
ASA	**Association for Social Advancement (Bangladesh)**
ASER	**Annual state of education reports (India)**
BIA	**Bridge International Academies**
BRAC	**Bangladesh Rural Advancement Committee**
BOP	**Bottom of the pyramid**
Bridge	**Bridge International Academies Kenya**
CDC	**Commonwealth Development Corporation (renamed British International Investment from 4 April 2022.**
DEEPEN	**Developing Effective Private Education Nigeria**
DIB	**Development Impact Bond**
DFC	**Development Finance Corporation (formerly OPIC)**
DFID	**Department for International Development (from September 2020 part of FCDO)**
DFI	**Development Finance Institution**
ECD	**Early childhood development**
EDOREN	**Education, Data, Research and Evaluation in Nigeria**
ESSPIN	**Education Sector Support Programme in Nigeria**
EI	**Education International**
EFA	**Education for All**
FCDO	**Foreign, Commonwealth & Development Office**
KfW	**Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute)**
IFC	**International Finance Corporation**
INGO	**International Non-Governmental Organization**
NGO	**Non-Government Organization**
KCPE	**Kenyan Certificate of Primary Education**
LEAP	**Liberia Educational Advancement Plan (formerly Partnership Schools for Liberia)**
LEKKI	**Lekki affordable primary school, Lagos, Nigeria**
LPC	**Lekki Peninsula College**
MDGs	**United Nations Millennium Development Goals**
M4P	**Making markets work for the poor**

MFIs	**Microfinance institutions**
MOEST	**Kenyan Ministry of Education, Science and Technology**
MSMEDF	**Micro, Small and Medium Sized Enterprise Fund**
NDB	**National development bank**
OECD	**Organisation of Economic Co-operation and Development**
PALF	**Pearson Affordable Learning Fund**
PEF	**Punjab Education Foundation**
PPP	**Public private partnership**
PTR	**Pupil-teacher ratio**
REFFA	**Regional Education Finance Fund for Africa**
SAP	**Structural Adjustment Programme**
SDG	**Sustainable Development Goal**
SME	**Small and medium sized enterprise**
UN	**United Nations**
UNICEF	**United Nations Children's Emergency Fund**
UNESCO	**United Nations Educational, Scientific and Cultural Organisation**
UPE	**Universal Primary Education**
USAID	**U.S. Agency for International Development**
WB	**World Bank**

Chapter 1. Introduction

This thesis addresses the lack of literature on the extent of low-cost schools in sub-Saharan Africa and their financing. The research makes a theoretical contribution to the political economy of education in resource-constrained contexts and provides new insights into the political economy of education policy, regulation and funding as it relates to low-cost schools. A theoretical contribution is made to the literature on institutional voids, particularly to small enterprises operating in a regulated environment such as education, and the role institutional voids play in hindering access to finance. This study contributes to trust theory in low-income contexts where information asymmetry on education quality exists and where locality, accountability, reputation and proxies of educational quality are used by households to establish trust with low-cost schools.

The thesis makes an empirical contribution regarding the extent of the shortfall in the supply of education by the state in Africa and the role low-cost schools are playing in that context. A further contribution is made concerning how low-cost schools are financed and the shortfall in the supply of conventional finance to them. The thesis contributes to the understanding of the role non-conventional finance can play in education provision in low-income communities and adds to the impact investing literature.

1 Background - education provision in low-income countries

Adam Smith commented in *The Theory of Moral Sentiments* that all people possess "that great purpose of human life which we call bettering our condition" (Smith, 1759, p. 63). In low-income countries, this is seen in the priority households place on investing in a child's education (Sen, 1999; Tooley, 2009; Härmä, 2021). The Nobel Prize winners Abhijit Banerjee and Esther Duflo recognise this motive of "bettering our condition" through children receiving a quality education as being both an individual good and a social good: "There are enormous potential gains for society from investing in better education and early childhood care" (Banerjee and Duflo, 2019, p. 307). The United

Nations' Sustainable Development Goal 4 (SDG 4) mirrors this in setting the provision of inclusive and quality education for all as a global target (UN, 2015).

It is desirable for children to have access to education for a number of reasons. It is supported from a human rights perspective (UN, 1948); from an economic perspective creating a productive, skilled, workforce (Ryrie, 1995; Easterly, 2006); and from a human development perspective where investment in human capital gives individuals power to make choices (Sen, 1999) and move out of poverty (Dercon and Serneels, 2020). It is key to both personal and communal wellbeing (Gradstein et al., 2005) and contributes to a society's economic growth and development (Ray, 1998). Access to education indirectly contributes to reducing climate change as argued by Lutz (2009) who maintains that completion of education by girls leads to fewer teenage pregnancies, later marriages and lower fertility rates, which reduces human pressure on the planet. In Marmot's (2015) words, "a focus on educating girls is the best single contributor to empowerment of women, with improvements in national and community development and health for women and their children" (p. 145).

The 1948 Declaration of Human Rights stated that all primary school-aged children should receive a quality education (UN, 1948). However, the Declaration implicitly assumed that low-income countries would adopt the Western model of education whereby the state would play three discrete roles: guardian of the education system, ensuring all children received a quality education; funder of education; and provider of education for the majority of a country's children. The World Bank (2014) takes for granted the state's role as guardian of a country's education system. However, not all children receive a quality education, particularly in low-income countries (UNESCO, 2017). With expanding school-age populations, increasing urbanization and cross-border migration, the demand for education has been growing rapidly in sub–Saharan Africa, and most governments have been unable to provide sufficient school places and teachers to meet demand (Tooley, 2009; UNESCO, 2017). The state's role as funder and provider of education may have been the normative policy position of post-World War II planners, but after seven decades there is a shortfall in the provision of state education in many low-income countries (Baum et al., 2018a).

The shortfall in state education provision contributes to large numbers of out-of-school, primary aged school children - estimated to be 78 million children for the school year ended 2018 (UNESCO, 2019). UNESCO (2021) reports that COVID-19 worsened the situation with 20% of primary aged children in sub-Saharan Africa being out-of-school by 2020 - with Nigeria having the highest rate of non-attendance at 34%.[1]Even when children are in school, education quality can be poor with low levels of numeracy and literacy (UNESCO, 2017; World Bank, 2018). Moreover, state education is not free as parents have to pay for uniforms, examination entrance fees and various informal fees which are likely to be beyond the means of the poorest of the poor (Adelabu and Rose, 2004).

In response to the shortfall in state provision, low-cost, non-state early-years and primary schools (hereafter "low-cost schools") have mushroomed (Baum et al., 2018a). Much of the literature on this phenomenon focuses on South Asia and in particular India and Pakistan (Srivastava and Walford, 2007; Kingdon, 2007; Dixon, 2013; Day Ashley et al., 2014, Palladium, 2020). In contrast, little research had been performed on low-cost schools in sub-Saharan Africa until the 2010 State of Lagos school census (Härmä, 2011). This study was commissioned and funded by the UK's Department for International Development (DFID), after years of supporting Nigerian state schools through a partnership with the Nigerian government known as the Education Sector Support Programme in Nigeria (ESSPIN).

A door-to-door school census of this nature and on such a scale, across the whole of Lagos State with its population of over 11 million (WUP, 2018) had never been attempted elsewhere in sub-Saharan Africa. It identified all schools, recorded their location and collected key data including number of children enrolled and Ministry of Education certification status (Härmä, 2011). The census revealed that although 96% of school-age children in Lagos were in school, 12,098 non-state schools were educating 1.2 million children, representing 70% of children enrolled in early-years and primary schools (Härmä, 2011). Härmä (2011) found that most of these schools were low-cost schools being

[1] Out-of-school primary school-age children for the other countries where the research cities are located are: Cote D'Ivoire 4%, Ghana 6%, Kenya 19%, Tanzania 16%, Uganda 14% and Zambia 15% (UNESCO, 2021).JJ.

run by women, charging between US$70 and US$400 per annum in low-income communities where there were few or no state schools.

Härmä's (2011) second key finding was that 74% of non-state schools were uncertified. All primary schools in Nigeria and sub-Saharan Africa operate in a regulated environment where ministries of education set policy, regulate the sector and ensure education quality (World Bank, 2014). Schools are certified based on meeting minimum criteria, with regulations based on physical inputs – for example, the ownership of land, purpose-built classrooms, playgrounds three times the size of buildings and the employment of qualified teachers (Härmä, 2011) — and not education outcomes (Pritchett, 2013). These requirements are difficult to meet in poor, low-resource environments, resulting in large numbers of uncertified schools (Baum et al., 2018a).

Without certification, low-cost schools face the threat of closure depending on how accommodating Ministry of Education officials are (Härmä, 2011). The high level of non-certification raises questions concerning the political economy surrounding regulation and licensing of low-cost schools and draws attention to the role corruption and vested interests play in maintaining the difficult to achieve, input-based certification requirements (DFID, 2012).

Härmä's (2011) third key finding was that low-cost schools received no financial support from government and were dependent on school fees that were seldom paid on time. This contributed to the biggest challenges schools said they faced, namely, a lack of access to finance for working capital and expansion (Rosales-Rogge et al., 2014).[2] In the light of the census, and with Lagos State Government support, the Developing Effective Private Education Nigeria (DEEPEN) programme was established by DFID.[3] DEEPEN ran from September 2013 for five years with four goals: (1) to improve the learning outcomes of Nigerian children, (2) to improve the regulatory environment, (3) to

[2] This included improving school infrastructure, obtaining equipment, acquiring land, buying vehicles to transport children and training teachers (Rosales-Rogge et al., 2014).
[3] The author was a senior advisor on the finance stream of the DEEPEN programme from September 2013 to August 2018.

improve communication of school performance to parents and (4) to increase the provision of finance to the low-cost school sector (DFID, 2012).

DEEPEN was the first DFID-funded programme in the education sector to adopt a "making markets work for the poor" (M4P) approach.[4] The £9.6 million budget was not to subsidize the low-cost education sector but designed to involve the Lagos State Ministry of Education, the Lagos State government, low-cost schools, school associations, education quality improvement providers, banks, school business development providers, mobile money operators, and the media to play a role in achieving the above goals (DFID, 2012).

1.1 Definition of low-cost schools

The UN's (2015) SDG 4 sets as a global goal that by 2030, all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes. This covers children from early years (or early childhood development (ECD)) up to lower secondary level, effectively children aged six months to sixteen years old (UN, 2015).

This thesis focuses on schools providing ECD and primary education up to eleven years old and adopts a definition for low-cost schools comprising three elements. First, a low-cost school is any type of formal school which is outside the public education system, established, administered, and controlled by a non-state or private entity and in which the state plays no part in the management and governance (Kitaev, 1999). Second, low-cost schools serve low-income (economically and socially disadvantaged) communities, charging fees substantially lower than elite private schools. No absolute or universally applicable definition of low-cost exists since the level of fees is context-

[4] M4P programmes are defined as those that play a facilitative, adaptive role in systemic, large-scale and sustainable market changes that positively affect the poor. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/255977/Evaluation-making-markets-work-poor-wp41.pdf. Accessed 6 January 2021. M4P is also referred to as a market systems development approach.

dependent (Edwards et al., 2019). This thesis adopts the DEEPEN fee levels, used in Lagos, of below US$400 per annum and typically in the range US$70-US$$400.[5]

It is important to note that low-cost schools are unlike high-fee private schools that exist in both low-income and high-income countries. In Oxford, UK, for example, Dragon School charges tuition fees of US$29,386 per annum [6] per day school child. Grange School in Lagos, Nigeria charges US$12,129 per annum[7] and Peponi Preparatory School in Nairobi, Kenya charges US$17,244 per annum.[8] Such high-fee schools cater for a small percentage of the school-age population in each country. In 2019, the Independent Schools Association (UK) reported that 3.7% of pre-school and primary children in England attended private schools.[9] In low-income countries, high-fee schools often serve the children of the wealthy and the country's political elite, in contrast to low-cost schools that serve the population at the bottom of the pyramid, where many have per capita income of less than US$1.20 per day or US$438 per annum (Prahalad, 2005; Baum, 2018).

The third element of the definition of a low-cost school is shared with other types of schools: it is a physical place where pre-school or primary-age children come together for the common purpose of receiving care and instruction, learning from adults, and socializing with other children in a safe environment. The country's formal standard curriculum is taught for any combination of levels from pre-primary to the end of primary.

1.2 The shortfall in the supply of state education and the role of low-cost schools

The Lagos census revealed that official figures understated the extent to which low-cost schools were providing early-years and primary education (Härmä, 2011). Government figures included data

[5] Most of the non-state schools in Lagos were charging annual tuition fees of between N13,043 (US$76) and N68,650 (US$404) (Härmä, 2011), using an exchange rate of N170 to US$1. The exchange rate as of 4 January 2021 was N400 to US$1.See https://www.xe.com/currencyconverter.
[6] Source: https://www.dragonschool.org/admissions/fees-and-deposits. Accessed 4 January 2021. Day fee £7,256 per term at exchange rate as at 4 January 2021 of US$1.35 gives US$29,386 per annum
[7] Source: https://www.grange.org.uk/admissions/fees-financial-assistance. Accessed 4 January 2021. The reception and year 1 day school fee was US$12,129 per annum.
[8] Source: https://www.goodschoolsguide.co.uk/schools/500397/peponi-house-preparatory-school. Accessed 4 January 2021. The day pupil fee was US$17,244 per annum.
[9] Source: Interview with the Private School Association of England, March 2020.

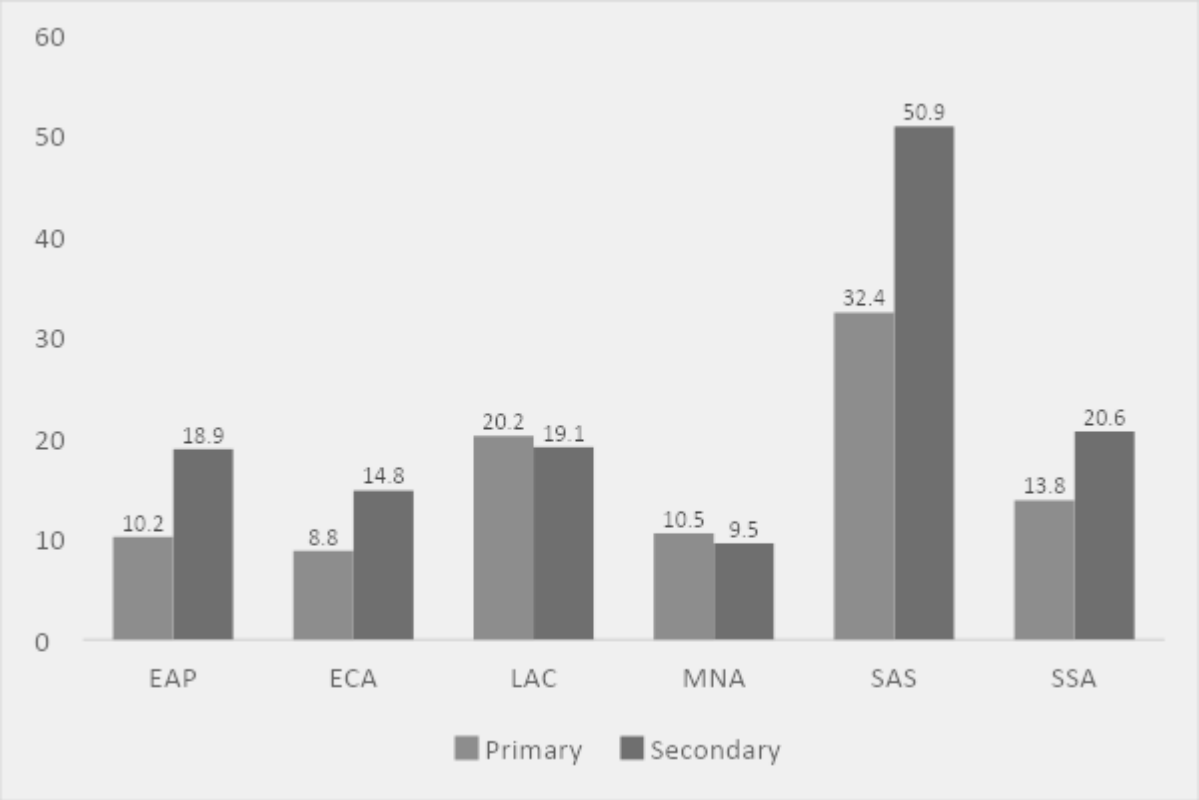
from certified schools but omitted uncertified schools. Official figures indicated that the state was educating 63% of pre-school and primary aged children and non-state schools 37%, whereas the census revealed, when taking account of uncertified schools, state schools were educating 30% and non-state schools 70% (Härmä, 2011). Official figures understated non-state provision by a factor of 1.9x.[10]

Palladium[11] (2020), an international education consultancy firm, notes that "governments in many countries do not have hard data on how many non-state schools exist. Indeed, many providers are not registered and therefore no information can be gathered" (p. 58). Tooley (2009) finds that in India, China, Nigeria, Kenya and Ghana, there are large numbers of uncertified non-state schools but official figures do not record them. World Bank (2018a) figures estimate that 13.8% of children in sub-Saharan Africa are enrolled in non-state primary schools compared with 32.4% in South Asia. If the exclusion of uncertified schools from official figures seen in Lagos holds true for other parts of sub-Saharan Africa, the 2018 level of provision indicated in Figure 1 understates the real position.

[10] Own calculation. Calculating 1.9 x 37% gives 70%.

[11] Palladium is managing the CATALZE programme, launched in September 2019, of US$250m for USAID. CATALYZE seeks to expand sustainable models for education in sub-Saharan Africa at the primary, secondary and tertiary levels and to mobilise finance for Africa over the period to 2027. See https://thepalladiumgroup.com/news/Mobilizing-2-Billion-in-Private-Capital-USAID-Awards-CATALYZE-Contract-to-Palladium. Accessed 22 February 2021.

Figure 1 Non-State Enrolment by Region, 2018 (%)



Source: (World Bank, 2018a)

Key: EAP (East Asia Pacific), ECA (Europe & Central Asia), LAC (Latin America & Caribbean), MNA (Middle East & North Africa), SAS (South Asia), SSA (sub-Saharan Africa)

The understatement of official figures is also reflected in the growth rates attributed to low-cost school education provision. Official data in Lagos indicate that the annual growth of the non-state school sector was 3.5% per annum between 1990 and 2013 (World Bank, 2014). In contrast, taking uncertified schools into account in Lagos, low-cost schools had been growing at a rate of 12% per annum (Rosales-Rogge et al., 2014).

1.3 The financing of low-cost schools

Low-cost schools in the Lagos census were small enterprises facing two main challenges: managing uncertain cash flow, with low-income parents not paying termly fees on time or in full, and lack of access to finance, with the schools wanting to borrow for working capital and expansion but unable to get credit from conventional providers of finance, i.e. banks (Härmä, 2011). Rosales-Rogge et al.

(2014) found that only 29% of low-cost schools in Lagos had been able to access bank finance and that the overall shortfall in the supply of finance was US$2.5 billion (N425 billion).[12]

A key barrier to Lagos schools obtaining finance was lack of certification, with only 26% being licensed (Härmä, 2011). Banks in Lagos said it would be *ultra vires* to lend to an entity that lacked the necessary certification, as any loan would carry the unacceptable risk of a school being closed by the authorities (Rosales-Rogge et al., 2014). Lack of access to finance was one of several issues facing these schools. The quality of teachers, the existence of well-designed curricula with teaching and learning materials, and the need to enter students for exams were other concerns (Härmä, 2011). The latter was particularly sensitive given that only certified schools can enter children for the end of primary school examination, the passing of which is needed to progress to secondary school. Uncertified schools work around this restriction either by having parents withdraw their children in the last year of primary school and enrol them in a certified school (state or non-state), or by arranging for its pupils to take the examination under another school's umbrella (DFID, 2012).

2 Rationale and research objectives

The motivation and rationale for this research is, firstly, to understand whether the shortfall in the provision of education by the state seen in Lagos is unique or whether it exists in other African cities. The seven research cities selected were Abidjan, Abuja, Accra, Dar es Salam, Kampala, Lusaka and Nairobi. The cities provide urban centres from East, West and Southern Africa, with six being former English colonies and one being a former French one. Secondly, if the shortfall in state education provision does exist elsewhere, this thesis identifies the contributing factors, the role low-cost schools are playing and the basis upon which parents entrust their children to the care of these schools. Thirdly, to understand how such schools are funded and, if they face similar barriers to finance as seen in Lagos, determine the contributing factors. The thesis draws on three themes:

[12] Using an exchange rate of N170 =US$1 (2014).

(i) the political economy of education, to understand challenges faced by low-cost schools in obtaining certification and how this impacts access to finance

(ii) institutional voids, to understand the impact of weak institutions on regulation and financial exclusion of low-cost schools. Parallels with microfinance and the creation of microfinance institutions (MFIs) to address the institutional void faced by largely female-led micro-enterprises that lacked access to formal finance are also considered (Mair et al., 2012)

(iii) trust, to understand how schools establish trust with households, how schools establish trust with regulators, and how schools establish trust with banks.

The fourth objective is to investigate how barriers to finance might be addressed. Sources of finance from government, aid, public-private partnerships (PPPs), conventional sources of finance such as banks and unconventional sources such as impact investing, development impact bonds (DIBs) and philanthropy are evaluated.

3 Gaps in knowledge

Day Ashley et al. (2014) reviewed fifty-nine peer articles on non-state, or private, schools in low-income countries, of which twelve (20%) were in Africa. Palladium (2020) found a similar focus on South Asia with research concentrating on educational aspects of private schools and not the financing of them. This thesis addresses the lack of literature both on the phenomenon of low-cost schools in Africa and their financing.

The thesis looks to enrich the understanding of factors that contribute to the shortfall in state education provision and the role low-cost schools play in the seven research cities. It addresses the lack of knowledge on how such schools are financed, quantifies the extent of any shortfall and identifies factors that contribute to a lack of access to finance.

4 Research questions and research methods

This thesis addresses the following research questions:

1 What factors contribute towards the shortfall in the supply of state education in Africa?

2 What is the role of low-cost schools in this context?

3 How are low-cost schools financed?

4 What factors contribute to the lack of access to finance faced by low-cost schools?

5 How can the lack of access to finance faced by low-cost schools be addressed?

The thesis adopts a qualitative research methodology to address these questions. A survey of the literature on low-cost schools, with notable studies including Prahalad (2005), Tooley (2009), Banerjee and Duflo (2011), Dixon (2013), Jerrard (2014), Caerus (2016), World Bank (2018a) and Härmä (2021), indicated that a shortfall in state education could be expected in the seven cities.

The research undertaken involved visiting and listing all schools, both private and state, in locations identified as being typical of low-income communities. Approximately 200 low-cost schools per city were drawn proportionately from the neighbourhoods where the schools were listed and a random sample surveyed. The survey instrument was piloted in each city before being carried out by local enumerators between February 2016 and March 2018. A total of 1,390 schools were surveyed to identify key school characteristics and factors that have contributed to the shortfall in government school provision. Surveyed schools were questioned to discover the level of fees, levels of profitability, length of operation and the extent to which they have been able to access finance.

Data from school surveys includes schools' demand for finance over the next three years and for what purpose. This data was then collated and calculations of the demand for finance per city made. Responses identified variables contributing to the shortfall in finance.

Two case studies of low-cost school operators in Lagos and Nairobi were performed using semi-structured interviews with relevant actors including regulators, banks, impact investors, policy advisors and aid agencies. These explored the shortfall in state education provision, the role of low-cost schools and how barriers to finance, identified in the seven-city research, could be addressed.

Using snowball sampling, interviews explored perceptions of the shortfall in finance to low-cost schools and how barriers to finance could be addressed. Interviews explored the political economy of education and what effect this might have on the provision of finance to the low-cost school sector. The strength of state and non-state institutions and their impact on access to finance plus desirable policy changes were explored. In-depth interviews addressed what types of finance could play a role in the low-cost education sector, such as government finance, international aid, philanthropy, impact investing, non-bank financial institutions, public private partnerships (PPPs) and development impact bonds (DIBs).

Most of the research had been completed by the time of the COVID-19 pandemic and the impact COVID-19 had on the remainder of the research is explained in Chapter 3. The findings from the study of the seven cities are set out in Chapter 4, case study findings are set out in Chapters 5 and 6 and the combined findings discussed in Chapter 7.

5 Contribution

This research looks to enhance understanding of the factors that contribute to the shortfall in state education provision in sub-Saharan Africa, and to determine the extent of that shortfall and the role low-cost schools are playing. It explores whether the Western model of education, which assumes majority state provision, is appropriate to African contexts. International aid to finance a state education system may indicate a desire to protect vested interests, such as teaching unions, the civil service or international non-governmental organisations (INGOs). The research leads to recommendations that challenge the political economy issues of vested interests wishing to preserve the status quo and furthers an understanding of the political economy of the regulation of low-cost schools.

There is a lack of knowledge regarding the financing needs of low-cost schools in sub-Saharan Africa and the shortfall in finance from conventional sources such as banks. This thesis finds evidence of a lack of adequate finance to low-cost schools and uncovers factors that contribute to this shortfall. It

adds to the understanding of the barriers low-cost schools face in accessing finance – particularly where small and medium sized enterprises (SMEs) operate in a regulated sector. The thesis sheds light on the role institutional voids play in the lack of access to finance experienced by low-cost schools and investigates whether new intermediaries could play a role similar to that played by MFIs addressing the lack of access to credit faced by the large, underserved populations of micro-enterprises (Yunus, 1998; Ledgerwood, 1999; Mair et al., 2012). Case studies explore factors contributing to the shortfall in state education, the shortfall in the supply of finance to low-cost schools and how barriers to finance might be addressed.

There is a paucity of research on the role of non-conventional finance, such as impact investing in sectors such as education in sub-Saharan Africa. There is little research on the availability and suitability of such financing for low-cost schools which this research looks to address.

The synthesis of the different theoretical themes of political economy of education, institutional voids and trust, contributes in a novel way to the understanding of the phenomenon of low-cost schools, their financing and their role in economic development. Based on its exploration of these themes, this thesis offers suggestions for policy change, new models of education financing and how access to quality education might be increased.

6 Overview

The thesis is presented in eight chapters. After this introduction, Chapter 2 examines literature to provide background to and framing of the issues of education provision and access to finance in sub-Saharan Africa. The first area of literature considered looks at the historical provision of education by state and non-state providers. This includes literature on the ubiquity of non-state education provision in England until the late nineteenth century (West, 1994) and the exporting of a state-dominated, Western model of education by colonial powers to South Asian and African countries which affected education policy, regulation and funding (Tooley, 2009; Shomade, 2021).

The chapter then reviews literature on the three theoretical themes drawn upon to provide a conceptual framework: the political economy of education, institutional voids and trust. The political economy of education literature includes research related to education policy, regulation and state funding, including international aid. The second area of literature relates to access to finance and institutional voids. With regard to conventional finance, perceptions of risk and barriers faced by SMEs in accessing credit is examined. Literature on non-conventional sources of finance such as impact investing and use of DIBs are considered as sources of finance to meet the needs of low-cost schools (Nicholls et al., 2015; Cohen, 2021). The third theoretical lens draws on the literature on trust, which sheds light on the basis upon which trust is established by low-cost schools with providers of licenses (regulators), providers of finance (banks) and with households who entrust schools with the care and education of their children. Trust is a context-bound phenomenon influenced by traditions and settings (Lyon et al., 2015).

Chapter 3 describes research methods, research design and data collection before addressing ethics, research validity, limitations and positionality.

Chapter 4 reports findings from the seven cities and identifies factors contributing to the shortfall in state provision and the choice parents make to entrust their children to low-cost schools. The chapter considers the experience of low-cost schools in accessing finance and the barriers encountered.

Chapter 5 details the case study of a low-cost school operator, Lekki Peninsula College (Lekki), in Lagos, Nigeria. The factors that contribute to the shortfall in supply of state education are explored, as are the reasons parents choose low-cost schools and the basis of trust. The school operator's experience in accessing conventional finance and obtaining certification is explored and the political economy issues surrounding regulation. Case study interviews are triangulated with semi-structured interviews with the regulator, policy advisors, banks and impact investors to understand access to conventional and unconventional finance. Interviews address the existence and relevance of

institutional voids in low-resource settings and access to finance. As Lekki attracted impact investing finance, the accessibility of such funding is investigated to identify the suitability and barriers to this type of finance.

Chapter 6 reports the case study of a low-cost school operator, Bridge International Academies Kenya (Bridge) in Nairobi, that operates a chain of 220 schools. As Bridge attracted impact investing finance, the accessibility of such funding is investigated to identify the suitability and barriers to this type of finance.

Chapter 7 discusses the key findings of Chapters 4, 5 and 6, in the light of the themes of the political economy of education, institutional voids and trust.

Chapter 8 summarises the main findings and their relevance to the shortfall in the state education provision, the role low-cost schools are playing, the financing of low-cost schools, access to finance and how barriers might be addressed. The chapter comments on the limitations of the research, transferability of findings and areas for future research. The chapter suggests implications for policy and practice and what impact this thesis could have.

Chapter 2. Survey of the Literature

1 Context

At the beginning of Chapter 1, it was noted that numerous scholars have conducted research on non-state education provision in low-income countries but that they have tended to focus on South Asia, and substantially less on sub-Saharan Africa. In particular, studies by Day Ashley et al. (2014), Kingdon et al. (2014), Wales et al. (2015), Day Ashley and Wales (2015) and Palladium (2020) indicate that research tends to be concerned with education quality, pedagogy interventions, school feeding programmes, teacher effectiveness, school choice and evaluating aid programmes. Evans and Mendez Acosta (2020)[13] reviewed studies on African education programmes from 2014, of which 12% looked at non-state schools, leading the authors to comment that "The private[14] school and other non-government school evaluation literature is still nascent in Africa" (p. 22).

Heyneman and Stern (2015 p.1) assert that "non-government schools have played a role in education provision in nearly every country's educational history". This chapter looks at the literature on England, which supports that statement and provides the context of education in the country that became the colonial power and administrator of education in six of the seven cities in this research .[15]

In the light of the lack of literature on the financing of low-cost schools in Africa, the chapter reviews three strands of theoretical literature most pertinent to the thesis, namely the political economy of education, institutional voids and trust. Chapter 3 draws upon this literature to develop the conceptual framework employed in the thesis, and to inform the methodology used to address the research questions outlined in Chapter 1.

[13] Of the 145 empirical studies conducted since 2014 reviewed by Evans and Mendoza Acosta (2020), 83% concerned access to education and/or learning outcomes and 12% concerned non-state schools.
[14] In low-income countries, private schools equate to low-cost schools, since they are the predominant provider of non-state education (Tooley, 2009).
[15] Abidjan, in Cote D'Ivoire, a former French colony, is the exception.

i. *The political economy of education* affects the shortfall in state education through its impact on policy, regulation and government funding (Day Ashley et al., 2014). Domestic political economy involves the power of vested interests, such as teacher unions and country elites, which impacts policy, regulation and the allocation of resources (Dercon, 2022). Corruption and rent-seeking by officials are aspects of political economy that can reduce funding available for education (Moyo, 2010). The role low-cost schools play in this context is affected by operating in a regulated sector and the resultant barrier to entry (Baum et al, 2018a). The approach adopted by regulators to such schools can be hostile or accommodating (Heyneman and Stern, 2014). As seen in Lagos, the difficulties faced by schools in obtaining certification impacts a school's access to conventional finance (Rosales-Rogge et al., 2014).

ii. *Institutional voids* are "situations where institutional arrangements that support markets are absent, weak or fail to accomplish the role expected of them" (Mair and Marti, 2009, p. 419). The literature suggests that such voids exist where bodies such as school regulators are under-resourced, which in turn may be a result of the political economy issues referred to above. Institutional voids can also result in financial exclusion creating a barrier to finance for SMEs, such as low-cost schools (Mair et al., 2012).

iii. *Trust* informs household choice on where to send children to school and is closely related to perceptions of education quality in state and non-state schools, with a trust deficit in the former contributing to the phenomenon of low-cost schools (Banerjee and Duflo, 2011). Information asymmetry on education quality and absenteeism of state school teachers is affected by aspects of political economy and impacts levels of trust and accountability (Kitaev, 1999; Lipcan et al., 2016).

1.1 The historical provision of education by state and non-state schools in England

In pre-industrial Western European societies, state involvement in education was rare, and where it did exist was limited in scope, and nearly always motivated by religion (Gradstein et al., 2005). This began to change following the advent of the Protestant Reformation in the early sixteenth century, which provided an impetus for all people to be able to read the Bible for themselves in their native language. The state's role in education later developed as a result of the combined forces of the Enlightenment, industrialisation and urbanisation (Gradstein et al, 2005). England was one of the first European countries to industrialise, but up until the late nineteenth century there was little or no state schooling, with most education provided by non-state actors (West, 1994).

From the 1790s in England, non-state Sunday schools were established to teach basic literacy and numeracy at the weekend so that children working in the factories could receive an education (Barbard, 1968). In 1833, based on government statistics, West (1970) shows that 58% of schools were being financed by parental fees, with a further 15% partly covered by such fees. Schools were mainly private concerns run by faith-based organisations such as the Church of England or by entrepreneurs, particularly women (West, 1975). According to a census in 1851 of the 2.1 million children in English day schools, 85% were enrolled in schools that derived their income solely from fee payments (Tooley, 2009). In 1869, the majority of people were literate, most children had some schooling and most parents, including the working class, were paying for it (West, 1970).[16] In essence, the non-state schools were largely low-cost schools, including dame schools which catered for children under the age of five (Tooley and Stanfield, 2003) and religiously affiliated primary schools (Barbard, 1968).

West (1975) argues that England's Industrial Revolution was accompanied by an educational revolution with the expansion of non-state education in England, Wales and Scotland in low-cost schools and agencies providing adult learning - including mechanics institutes, literary and

[16] This is in contrast with Prussia where the state had raised taxes to fund elementary schools since 1794 so that by 1861 the ratio of state elementary schools to private was 34:1 (Gradstein et al., 2005).

philosophical societies and home tuition. Within this educational context England, in the late eighteenth and throughout the nineteenth century, experienced rapid economic growth combined with urbanisation and an expanding population- a situation not dissimilar to the rural-urban migration, population and economic growth witnessed in sub-Saharan Africa in the late twentieth and early twenty-first century.

The 1870 Education Act marked a watershed in education provision in England, with the introduction of public financing of schools at scale. Until that date, public funding of education had been in the form of grants, with the first grant in 1833 being for the erection of school houses, with upkeep the responsibility of the National Society and British and Foreign School Society (Barbard, 1968). This financial support for mainly co-opted church schools, combined with the levying of council rates on the fee-paying schools, forced many non-state schools to be absorbed into the newly created state system or go out of business (West, 1975). This largely resulted in the replacement of non-state primary education with a system of subsidised state education (albeit through state-funded schools run by churches and charities) in which schools charged low, or no fees, and higher-cost schools existed for those who could afford it (ibid.). The 1902 Education Act went further and required local authorities to be responsible for paying for elementary education in Church of England schools, as well as their own board schools, with the result that most primary education was, from that date onwards, state funded (Butler, 1971). The 1948 Education Act extended the provision of state education considerably at the secondary level and it became a feature of English and modern Western education that universal state education was deemed to be a worthy cause with a strong moral, social, political and economic justification (Gradstein et al, 2005).

1.2 The provision of education by state and non-state schools in South Asia

Before the British took over India and imposed a centralized state education system, the country had an extensive system of low-cost private schools that catered for the majority of the population (Tooley, 2009). Village schools were commonplace in India at the time of British colonization, and

were documented in the 1820s with a school census (Härmä, 2021). Such schools were typically run by a single teacher who taught multi-grade classes, came from within the community and received support (monetarily and in kind) from both the local government and the community (Tooley, 2009).

However, the indigenous low-cost village schools were seen as inadequate by the British administrators of Empire who saw their home system as superior and to be mimicked in colonies, regardless of the local context (Dixon, 2013). New regulations were introduced in India requiring all schools to meet minimum requirements which were beyond the reach of the local indigenous village schools that subsequently closed (Tooley, 2009). Mahatma Gandhi commented in 1931 that

> I say without fear of my figures being challenged successfully, that today India is more illiterate than it was fifty or a hundred years ago, and so is Burma, because the British administrators, when they came to India, instead of taking hold of things as they were, began to root them out. They scratched the soil and began to look at the root, and left the root like that, and the beautiful tree perished. (Cited in Tooley, 2009 p. 212)

Tooley (2009) argues that there are strong parallels between the closure of many low-cost schools in nineteenth-century England and what took place in India, where the imposition of the colonial model of state provision of education effectively squeezed out privately provided low-cost education. In India, in contrast to England, such an approach did not take into account lower levels of human and financial resources in the colony or the weak capacity of the state, which over time resulted in the re-emergence of low-cost schools (Banerjee and Duflo, 2011). Härmä (2021) observes that Geeta Kingdon started writing about the private schooling phenomenon in India in the 1990s. Following her example, Tooley (2009) found that low-cost schools had emerged in Hyderabad to meet the demand for education from a low-income urban population, fuelled by migration to the city and population growth. This phenomenon was much more widespread than was recognized by the education authorities and aid donors, with low-cost schools being entrusted with the education of children by their communities and operating as hybrid businesses / philanthropic entities (Tooley, 2009).

Härmä (2008) also found that most low-cost Indian schools were run as small and medium-sized enterprises, providing a fee-paying social service or run as charities by religious organizations charging low or no fees. Dixon (2013) found similar results in her work in India, with thousands of low-cost schools being run as businesses by entrepreneurs from within the community and educating 67% of children aged 6 to 14 in urban areas for less than US$108 per annum. Tooley (2009) drew on 1994 statistics to indicate that low-cost schools were an urban as well as a rural phenomenon in India; Dixon (2013) found the level of low-cost school provision in rural India to be 24%, much lower than in the urban areas.

It would appear that part of the trust placed by parents in Indian low-cost schools was in response to a trust deficit with state schools where "teachers didn't show up, and if they did, they seldom taught" (Tooley, 2009, p. 18). Kingdon (2007) similarly observed that poorly resourced state schools suffered from high rates of teacher absenteeism, which may have encouraged the rapid growth of private (unaided) schooling in India, particularly in urban areas. Dixon (2013) estimated that teacher absenteeism in Indian state schools, in the early 2000s, ranged from 15% to 42%.

Absenteeism is referred to in the annual state of education reports (ASER) produced by the NGO Pratham (ASER, 2020). Pratham was established by a chemical engineer in 1994 and sponsored by UNICEF and the Hewlett Packard Foundation to perform household surveys to establish the levels of learning of children attending schools, regardless of type (Banerjee and Duflo, 2011). ASER (2020) indicates that the level of learning taking place in all Indian schools is low, but better in low-cost schools than in state schools.

In Pakistan, the government recognized in 1979 that, in the face of a rapidly expanding school-age population, and given lack of resources and capability, it was unable to provide free universal education (Macpherson et al., 2014). In the face of the increasing demand for education, combined with perceived poor education quality in state schools, low-cost schools became the fastest growing provider of education, with the number of those charging less than US$180 per annum growing from

3,300 in 1982 to 32,000 in 2001 and 47,000 by 2005 (Andrabi et al., 2015). Low-cost schools have continued to grow and by 2012 accounted for 30% of total country-wide school enrolment (ILM, 2014). In common with India, such official statistics do not account for large numbers of uncertified, unrecognized primary schools and indicate that parents do not take government certification as a stamp of education quality (Kingdon, 2007). The perception of better education quality in low-cost schools may partly be due to the lower teacher absenteeism in private schools noted above, resulting in children performing better (Banerjee and Duflo, 2011).

As in India, although low-cost schools are more common in urban areas, they also exist in rural Pakistan (Andrabi et al., 2015). In rural Sindh, Jerrard (2014) found that historically marginalized communities established low-cost schools in the absence of state schools. 80 low-cost village schools were created in rural Sindh using blended finance: philanthropic sources paid for physical buildings with operating costs financed by fees set by the communities to pay for a multi-grade teacher (Jerrard, 2014). Trust built with the community was a key element in the establishment of these schools (ibid.). However, the education regulator was unwilling to certify them as they were non-Muslim, so the schools adopted innovative ways to enter children in the end of primary national exams: the nearest Muslim school headmasters were persuaded to enter the pupils from uncertified schools into the national exams when they saw that their own school results would be enhanced given the quality of education in the low-cost schools (ibid.).

Pakistan introduced various PPPs such as the Learning and Educational Achievements in Pakistan Schools (LEAP) programme, where vouchers enabled children to attend private schools (Banerjee and Duflo, 2011). The Punjab Education Foundation (PEF) was established as a PPP with the aim of getting more girls into school and meeting the needs of underprivileged, disadvantaged, out-of-school and drop-out children (LEK, 2020). PEF worked with low-cost schools and saw a 100% increase in students between 2010 and 2018, resulting in 2.6 million children studying in partner schools, with 12 million children in state schools (LEK, 2020).

In Pakistan, low-cost schools have challenged the monopoly of state education and broadened the set of education providers the state works with (Andrabi et al., 2015). One such provider is The Citizen Foundation (TCF), an NGO educating 266,000 children in 1,652 low-cost schools and managing 350 non-fee charging state schools in Punjab, Sindh, and Khyber-Pakhtunkhwa (LEK 2020).

Although it is acknowledged that low-cost schools are serving low-income families (Dixon, 2013) and educating over 40% of enrolled primary school children in India (ASER, 2020) and 30% in Pakistan (LEK, 2020), these schools face barriers obtaining certification. In both countries the curriculum and organization of schools dates back to the colonial past, with the adoption of a Western model of building schools, providing teachers trained in colleges and making education up to a certain age compulsory (Banerjee and Duflo, 2011). Certification requires schools to be of a minimum size with a given number of all-weather classrooms, a minimum play area, qualified teachers with stipulated salaries and prescribed fee levels – criteria which together are almost impossible for a low-cost school to satisfy (Härmä, 2008). To remain open, school operators resort to paying bribes (Mehrotra and Panchamukhi, 2007).

1.3 The provision of education by state and non-state schools in sub-Saharan Africa

The system of education adopted by most countries in Africa prior to independence mirrored the domestic model of the colonial powers (Pritchett, 2013). There was no intention to educate all children as the colonies needed only sufficient numbers to work in administrative positions, on the railways or in other useful parts of the economy (Pritchett, 2013). Curriculum and school organisation was designed to train a local elite to be effective allies of the colonial state and maximise the distance between them and the rest of the population (Banerjee and Duflo, 2011). For 60 years, many African countries have struggled with the legacy of colonialism, as reflected in policies driven by northern government and donor agencies to increase state education access and quality, regardless of the ability to finance or resource it (Härmä, 2021). This adoption of Western models of state-provided education reflects asymmetric global power and results in widespread

corruption with local elites and officials benefitting from procurement contracts and extracting funds for personal benefit from aid flows and education budgets (Härmä, 2021).

Following independence, most African governments adopted the education system inherited from their former colonial rulers (Kitaev, 1999; Adelabu and Rose, 2004). Governments continued with state-funded schools and worked with, or took over, missionary schools, as in Nigeria (LeVan, 2015). Newly independent countries followed the education objectives of making citizens and building economies, as had informed the growth of Europe in the nineteenth and twentieth centuries (MacPherson et al., 2014). Developing a sense of patriotism and unity was clearly an objective of primary education in countries such as Uganda (Al-Samarra, 2005). The language of the ex-colonial power became the language of instruction in most schools, as did the models of classroom discipline and pedagogy (Harber, 2016).

The goal of universal primary education (UPE) was adopted by most countries in the 1970s, often with the support of donors, despite national governments' inability to afford the provision of free basic education to all children (Adelabu and Rose, 2004). Countries borrowed to finance the investment in human infrastructure (education and health) and physical infrastructure (schools, universities, roads, power, ports and railways) but indebtedness and an inability to service foreign loans led to the introduction of structural adjustment programmes (SAPs) in the 1980s, led by the World Bank and the International Monetary Fund (IMF) (Cohn, 2014).

These SAPs were implemented in two-thirds of African countries (Cohn, 2014), resulting in public spending cuts. SAPs often included teacher redundancies, cuts in salaries and a freeze on recruitment of civil servants, including teachers (Kitaev, 1999). The SAPs of the 1980s and 1990s resulted in state education spending falling in real terms by 50% in sub-Saharan Africa (Marmot, 2015). This coincided with high demographic growth, compounding a situation where the number of state schools was already insufficient and resulting in the emergence of low-cost schools (Kitaev, 1999; Tooley, 2009; Baum et al., 2018a; Härmä, 2021).

Notwithstanding the static or reduced state education provision resulting from SAPs, in the 1990s Education for All (EFA) was promoted by the IMF, the World Bank, international donors, INGOs and international teacher trade unions (Härmä, 2021). However, there were not enough educated people to become good teachers, the infrastructure and the teaching and learning materials were not in place, nor was the necessary funding, resulting in overcrowded state schools and overstretched systems that were unable to maintain education quality. As this inability to provide UPE became increasingly evident, low-cost schools emerged to meet the demand. Although not officially recognised, the phenomenon of low-cost schools became largely a post-independence phenomenon (Adelabu and Rose, 2004).

Low-cost schools grew in response to a state failure to provide primary schooling that was locally accessible and of sufficient quality (Adelabu and Rose, 2004). Whereas private education in developed economies is a function of differentiated demand, in developing countries it is a function of unmet demand (Kitaev, 1999). Kitaev (1999) saw non-state education as an indigenous African community-led response to an anachronistic colonial legacy education system. Tooley (2009) researched the phenomenon of low-cost private schools in Nigeria, Kenya, Zimbabwe and Ghana and observed that in such countries, the colonial legacy was an inherited bureaucratic state monopoly with no accountability, no quality assurance and culturally impropriate pedagogy. The cost of bureaucracy involving inspectors, regulators and administrators increased the cost of state education compared with that of low-cost schools (Tooley and Stanfield, 2003).

Most of the research into the phenomenon of non-state education in Africa has tended to be at the city and national level (Kitaev, 1999; Adelabu and Rose, 2004; Härmä, 2011; Alcott and Rose, 2016; Mackatiani, 2017; Edwards et al., 2019; Whaitanji and Mutisya, 2021). Looking at India, Nigeria and Uganda, Phillipson et al. (2008) gave reasons why the number of low-cost schools has increased in Africa, notably the hidden costs associated with state schools attendance such as uniforms, parent teacher association charges and examination fees, high private tuition costs (in high-fee schools), a preferable language of instruction (typically the language of the former colonial power), poor state

school performance (i.e., academic achievement) and religious preference. Tooley (2009) claims that low-cost private schools are likely to provide lower teacher absenteeism due to increased accountability to parents and school owners, more engaged teachers due to more local recruitment, smaller class sizes and more individualized attention.

Edwards et al. (2019) observed in Lusaka that the emergence of low-cost schools was very much a local phenomenon, with entrepreneurs responding to the lack of state schools. In Mtendere, the oldest slum area in Lusaka, Edwards et al. (2019) found only one state pre-school existed in the entire settlement versus 91 low-cost schools. Even if the government had funds to build new schools, the state finds it difficult to expand provision due to lack of space in overcrowded communities (Edwards et al., 2019).

The shortfall in state education provision and the phenomenon of non-state schools in Lagos is referred to in Chapter 1, Section 1 in connection with the Developing Effective Private Education Nigeria (DEEPEN) programme that revealed 70% of enrolled children were attending low-cost schools (Härmä, 2011). Many low-cost schools operate as informal SMEs, and survive with poor cashflow, related to schools' lack of management capacity (including financial management) and parents' inability to pay school fees in full and on time (Rosales-Rogge et al., 2014). The cost of regulation in Lagos is a deterrent to small-scale providers, who are only able to charge relatively low school fees (Rose and Adelabu, 2007). The cost element of completing all eight stages of certification was estimated to be the equivalent of seven students' annual fees or one teacher's salary in unapproved schools, in addition to which the annual renewal fee would equate to 2 to 14 times the level of annual student fees (Rose and Adelabu, 2007). These schools see themselves as social enterprises with the twin objectives of being both viable enterprises and addressing the social needs of their communities (Edoren, 2018).

Although the phenomenon of low-cost schools has been recognised in Africa, little research has been conducted to establish the shortfall in state provision and the extent of low-cost education,

with the exception of the census performed in Lagos (Härmä, 2011). There has also been little research on the financing of such schools.

2 Political economy of education policy, regulation and government funding

The political economy of education has been a concern of societies since ancient times. The Greek philosopher Aristotle wrote that "the fate of empires rests on the education of youth" (cited in Whelan, 2009 p.15). The Romans required citizens to train their sons in physical arts at their own expense so they were prepared for military service (Gradstein et al., 2005). Political economists such as Adam Smith (1776), Thomas Paine (1792) and John Stuart Mill (1891) considered that the education of the young ought to be a central concern of society (Gradstein et al., 2005). By contrast, economic theories of education see its value deriving from certain contributions to economic welfare, including building human capital, providing a screening mechanism to identify ability, building social capital by instilling common norms of behaviour and providing a consumption good valued for its own sake (Gradstein et al., 2005).

The education systems that evolved in European countries after the Reformation and Enlightenment were inherently political, often drawing on strongly held religious views of vested interests, as was the case in France with the Catholic establishment, and in England with the established Church opposing non-conformists (West, 1994). As seen in Section 1.1 above, with the increasing role of the state in the provision of education in England, growth in government funding coincided with the changing role of government in society (Cheeseman, 2018).[17]

Likewise, the political economy of education in Africa plays an important role when trying to understand education policy making and why institutions operate in the way they do (Hoffman et al., 2007). Political economy affects the regulatory environment surrounding schools and education

[17] Following Weber, the state is here understood to refer to a compulsory political organisation with centralised government that lays claim to the legitimate monopoly of physical force (Cheeseman, 2018).

funding, with power and vested interests at work (Giugale, 2014). In their review of the political economy of education systems, Kingdon et al. (2014) found that most research is on developed countries, Latin America and South Asia, whereas most countries in Africa and South-east Asia remain under-studied.

2.1 Education policy

(i) Education policy, colonial legacy and neo- colonialism

The policy-prescribed curriculum and organisation of schools in Africa often dates back to a colonial past when schools were meant to prepare a local elite to be effective allies of the colonial state (Banerjee and Duflo, 2011). Colonial metropoles designed education policy based on practice in the home country, with those in power determining the kind of policies adopted in the light of their understanding of the purpose of education (Rodney, 1972; Härmä, 2021,)). If their concern was for economic growth, unity and stability, as it appeared to be post-independence, education policy was seen as an instrument of nation-building, promoting an official language and cultivating a certain attitude to history, culture and traditions (Kitaev, 1999). Most post-colonial governments subscribed to this view, seeing the objective of primary education as creating a sense of patriotism and unity (Al-Samarra, 2005).

Colonial legal structures and related ancillary laws continue to predominate in many African countries (Mutua, 2000). In British former colonies, these legal systems resemble those of the British systems, and changes remain minimal (Shomade, 2021). For Harber (2016), looking at education and political development, the history of colonial education in missionary and state schools in Africa was more an authoritarian form of political socialization. This could also be seen in the characteristics of education such as verbatim repetition, rote learning and character development – forms and practices of classroom discipline and teaching methodology that continued beyond the colonial period. Harber points out that schools existed to control local populations and supply subordinate personnel necessary for the effective functioning of the colonial administration. This authoritarian nature of education underlies the socializing role education can play, as evidenced in the unity

schools in Nigeria and national schools in Kenya, which were created to educate different tribal groups and create citizens who would be loyal to the newly independent nation (Harber, 2016).

As the primary outside influence on policy, the colonial powers have been largely replaced by global education institutions, international donor agencies, bilateral institutions, multilateral institutions, and implementing partners such as INGOs who, individually or together, design education systems in Western metropoles based on their own national systems (Härmä, 2021). Given that financial support from aid budgets comes with the donors' agendas, donors are in the policy driving seat (Moyo, 2010). INGOs and agencies are part of a broad elite that influence education policy in developing countries, often under the UNESCO- and UNICEF-sponsored Education for All umbrella, which is endorsed by the World Bank and IMF (Kingdon et al., 2014). This neo-colonial approach is widespread, even if the models do not deliver learning outcomes (Härmä, 2021). Such an approach may even have weakened the national education reform processes (Kingdon et al., 2014).

As independent African nations adopted the colonial institutions and policies left behind, the new elites had a vested interest in seeing them continue (Joireman, 2001). The colonial extractive power was replaced in effect by a post-colonial extractive power (Dercon, 2022). The adoption of a neo-colonial approach to education policy in low-income countries may have been unintentional, but it is compounded by the fact that most of the elite, the rich and educated, are often a privileged minority who have themselves been educated or professionally trained in the colonial metropoles and steeped in those traditions and languages (Fanon, 1961; Rodney, 1972; Mutua, 2000). Schumacher (1974) identified this preference for the elites to follow the fashions of rich countries and to be unconcerned about the poverty of their fellow countrymen.

(ii) Education policy, vested interests, elites and unions

Research on India, such as Kingdon et al. (2014), has identified other domestic vested interests, including teacher unions, which exert influence on education policies arising from their political power. In Latin America, Grindle (2007) found that education ministries were controlled by unions

that were able to influence electoral outcomes and exercise disruptive capacity to extract economic rents. Although not true of all teacher unions in low-income countries, the literature highlights how they can contribute to a loss of local accountability and educational inefficiency by protecting inefficient and absentee teachers from dismissal, militating for higher pay irrespective of teacher performance, and lobbying against decentralised school management (Kingdon et al., 2014).

Preserving the education bureaucracy's and teachers' interests is also found in opposition to reform where reform challenges vested interests (Härmä, 2021). In Kenya an initiative in 2012 to improve education quality through the use of contract teachers who were paid 25% of state teacher salaries but generated better educational outcomes was blocked by teacher union strikes. Similarly, in India, civil servants opposed and ended the community managed Education Guarantee Scheme (1997-2000) to build schools at a much lower per-student cost (Pritchett, 2013). The vested interests of teachers' unions, education officials and others will not change policies if they benefit from them, particularly when the status quo facilitates high levels of corruption, as seen in Africa and Asia (Sen, 1999). Moreover, researchers agree that political economy constraints, lack of political will, and vested interests hinder the improvement of administration, governance and provision of community information, as well as a reduction in corruption (Tooley, 2009; Dercon, 2022).

(iii) Education policy and corruption

"Corruption involves the violation of established rules for personal gain and profit" (Sen, 1999 p. 275). Kingdon et al. (2014) observe that rent-seeking and political patronage are rife in educational systems in low-income countries where, under the banner of expanding access rather than improving education quality, it is more convenient to build more schools, employ more teachers and continue spending on underperforming political stakeholders, than address inefficiencies. Where policies focus on increasing access, resulting in more schools, more teachers and more textbooks, this strengthens teacher unions and centralised bureaucracies, which increase in power and size, and can oppose attempts to improve education quality (Grindle, 2007).

Policies that focus on access and inputs into schools provide scope for corruption, particularly where officials possess power but may themselves be relatively poor (Härmä, 2021). Furthermore, Banerjee and Duflo (2011) opine that another form of corruption encouraged by policies requiring teachers to have teaching qualifications but not requiring them to attend school creates massive inefficiencies. Quality-enhancing policy reforms which may focus on accountability and cost effectiveness threaten the interests of teachers, textbook and material manufacturers, as well as civil servants, who in turn can block their implementation (Grindle, 2004).

Of relevance to the shortfall in state education provision, is that governments have often failed to establish schools in urban slums that develop around and within major cities fuelled by rural-urban migration, for fear of conferring legitimacy on these officially illegal settlements (Härmä, 2021). The case study in Lagos in Chapter 5 underscores the relationship between corruption, use of land for personal advantage and abuse of power resulting in a lack of state schools in slum areas of the city.

(iv) Education policy, early childhood development (ECD) and climate

Two areas of African government policymaking that impact the extent of education provision by low-cost schools and the lack of recognition given to them by the state, are ECD and the importance of girls' education (as it relates to fertility rates, population growth, the climate and economic growth).

As noted in Section 1.3 above, newly independent countries in Africa pursued policies of universal primary education and did not prioritise ECD (Adelabu and Rose, 2004). This was consistent with the UN's MDGs and initiatives such as Education for All, until ECD was introduced as a goal by SDG 4 (UN, 2015). It is noteworthy that this took place 50 years after Castle (1966), reviewing the state of education in East Africa in the early 1960s, had emphasised the importance of nursery schools, child-centred education and the role of play and nutrition. Similarly, Shafik (2021) identifies that children's education is significantly affected before the age of six by levels of nutrition, mental stimulation and parental engagement. Learning is cumulative and therefore a stronger foundation in early life enables more to be built on top, amplifying the benefits of early-years education (Shafik, 2021).

Marmot (2015) reinforces the importance of ECD, noting that inequalities in education are caused in part by inequalities in early child development. Readiness for school, and therefore ECD, is a predictor of school success as recognised in Europe, where children enrolled in formal ECD achieved better Programme for International Student Assessment (PISA) scores at 15 years old (Marmot, 2015).

The second policy area that Marmot (2015) emphasises as important is girls' education. With education, women and girls have better nutrition, a more secure future, greater chances of obtaining paid employment, control over the decision of whether and when to marry, control over sexuality and childrearing, and an increased chance their children will survive and be healthy (Marmot, 2015). Similarly, McMahon (1999) argues that the benefits of girls' primary education in poor countries and the higher levels of education attained by girls is strongly associated with lower infant mortality, greater participation of women in the labour force, lower birth rates and greater use of birth control. Other externalities include lower crime rates, better public health and lower poverty rates (McMahon, 1999). The education of girls was a stronger predicter of reduced infant mortality than household income or wealth (Marmot, 2015). However, Kohli et al. (2022) point out that the countries with the world's ten highest fertility rates are all in Africa and that in 2021, 40% of the continent's population was below 15 years old, compared with the global average of 26%. Researchers have established evidence that link women's education and the lowering of fertility across different countries (Sen, 1999; Sachs, 2005; Lutz, 2009; Marmot, 2015).

The World Bank (2019) observes that the African fertility rate of 4.8 is twice the global average. Marmot (2015) suggests that it is the lack of education that has led to fertility rates actually rising between 1970 and 1990 in sub-Saharan Africa, when they declined in every other region of the world. In Bangladesh, for example, the fertility rate fell from 6.6 in 1975 to 3.1 in 2000, as rising female literacy, combined with access to family planning and contraception, changed women's attitude to childrearing (Sachs, 2005). In Iran, the fertility rate fell from 6.7 in 1979 to 2.6 by 2000

due to more girls being in school after the Iranian revolution, thus increasing girls' literacy, which contributed (indirectly) to a tendency to desire fewer children (Sachs, 2005).

2.2 Education regulation

(i) Education regulation and colonial legacy and neo-colonialism

Härmä (2021) points out that in an ideal world, non-state schools should be regulated to ensure, first, child protection and the general health and safety of students and staff; second, a minimum acceptable quality of facilities and materials present in sufficient quantity; third, that schools are sufficiently staffed with qualified, well-prepared and well-paid teachers; and fourth, that students and their families are fairly treated. Unfortunately, this is seldom realised in low-income countries (Baum et al., 2018a). Sen (1999) observes that the regulatory apparatus in many low-income countries is often a colonial legacy preserving the wellbeing of the few (with power) at the expense of the many (without power). Such power asymmetry exists whereby "the elites see no material benefit in championing changes to these landscapes in a way that minimizes the influence of colonial legacy" (Mutua, 2000 p. 2).

In the governance of schools, this is most evident in the input-based regulations inherited from the colonial powers and perpetuated in most low-income countries (Baum et al., 2018a), including all of the countries covered in this thesis. Low-cost school are seldom able to obtain a license from the education authorities due to the unobtainable requirements that have to be met, such as the size of playgrounds (Tooley, 2009) or the ownership of land (Härmä, 2011). It is noteworthy that, under the colonial administration, land ownership for schools was not an issue, as the colonial power either already owned the land or could secure it with relative ease.

The focus of regulation on inputs means there is poor impact evaluation and lack of accountability for the quality of education to parents or policymakers (Lewis and Patrinos, 2012). It also creates opportunities for corruption and rent-seeking (Tooley, 2009). In Lagos, for example, the cost of registration - schools must obtain eight different approvals including from the environmental agency

and the ministries of health, fire, the water corporation, and education (Adelabu and Rose, 2004) – results in low-cost school proprietors bribing officials to prevent inspectors closing them down (Tooley, 2009). Al-Samarra (2005) similarly found a weak link between resources spent on education and outcomes in Malawi and Uganda, where governments pursued a policy of universal primary education (UPE) but did not accompany it with an increase in resources for teachers and classrooms. As a result, aid dependency and corruption prevailed.

As a result of onerous regulations, low-cost schools remain unregistered or unrecognized typically operating in the informal economy in peri-urban areas on the outskirts of cities (Tooley, 2009; Härmä, 2011; Edwards, 2017). Informality is prevalent when the regulatory framework is burdensome, and the state's monitoring and enforcement power is weak (Loayza and Serven, 2010). Moreover, uncertified schools are missing from official statistics so that the full extent of non-state education provision is unknown (UNESCO, 2021). Suspicion, fear of comparison, fear of financial obligation and embarrassment over state failure all fuel opposition to transparency of information and reform (Sen, 1999). This lack of information affects both policy and practice (Baum et al., 2018a).

(ii) Education regulation and vested interests

Lewin (2007) comments that in sub-Saharan Africa, the consequence of weak regulation and oversight opens possibilities for rent-seeking, excessive profits, malpractice and fraud. Härmä (2021) notes that failure to regulate is intimately linked to corruption and rent-seeking which takes place in all sectors, state and private, and at every level of government bureaucracy. Moreover, aid money protects teachers' unions, regulators, civil servants and rent-seeking ministers (Sen, 1999).

(iii) Education regulation and corruption

Where input-based regulations are overly cumbersome, unnecessarily restrictive (e.g. land ownership) and unenforced, they are used as an opportunity for rent-seeking (Heyneman and Stern, 2013). This is true in India where, despite the regulations, most teachers are untrained, qualifications

and salaries are below regulatory minimum levels, school facilities are inadequate, playground size is too small, and libraries are lacking, so bribes are paid and corruption is endemic in the school inspection system (Mehrotra and Panchamulkhi, 2007). An area that is not commented on by most researchers is the conflict of interest that exists as a result of the state being both regulator and provider. Heyneman and Stern (2014) refer to this in Nigeria and Malawi, where government can oppose non-state schools which are seen to be competing with state schools. This is not assisted by the observation that the registration of low-cost schools is rife with corruption and the political arena makes education reform fragile (Härmä, 2021).

(iv) Education regulation and institutional voids

In many low-income countries, the state is weak, made evident in that the institutions responsible for certifying schools and supervising them fail to accomplish their regulatory roles (Baum et al., 2018a). As Hoffman et al. (2007) noted, it is not possible to analyse policies and regulations independently of the institutions that generate and implement them. Regulatory bodies can be unaccountable, with no effective complaint or redress mechanisms in place, or functional (UNESCO, 2021). Härmä (2021) argues that where low-fee private schools are thriving, the regulatory bodies that are meant to oversee the sector are so dysfunctional as to be virtually non-existent - inspections, if they occur, are generally occasions for rent-seeking, rather than quality assurance or child safeguarding.

2.3 Government funding of education and international aid

The regulation of the sector is closely related to the funding available. For the countries considered in this thesis, the state's funding in post-colonial times has been dependent on international aid (Easterly, 2002).

(i) Education funding, colonial legacy and aid

Banerjee and Duflo (2019) question how realistic it is to expect low-income countries to support a centralized education system, modelled on the Western model of education, when tax revenue is

insufficient – typically less than 11% of GDP in sub-Saharan Africa, compared with nearly 18% in Europe (World Bank, 2018a). Aid to low-income countries is modelled on an approach consistent with the post-Second World War Marshall Plan, but low-income countries do not necessarily have the well-functioning institutions that European recipients of Marshall Plan aid had (Dixon, 2013).

Policy conditions attached to aid result in priorities being set outside Africa (Kohli et al., 2022). Aid can be shaped by the strategic interests of donors who adopt a top-down solution often adapted from the northern hemisphere (Riddell, 2008). When aid results in the recipient country adopting the production and consumption patterns of the rich, it can create dependency and unintentional neo-colonialism (Schumacher, 1974). Easterly (2006) argues that a donor-driven Western model approach is inferior to solutions that are home-grown and established by insiders who have enough knowledge to find local solutions. Giugale (2014) similarly criticises aid as achieving little and creating dependency. Museveni (2011) argues that Africa has failed to adjust education systems to fit the continent' demands. Mills (2021) argues that aid legitimises Western hegemony and typically engages with those in power and not with popular participation. A colonial approach to teacher remuneration in African state schools has been adopted, with salaries increasing regardless of what is being delivered (Dixon and Humbles, 2019). Meanwhile, donors typically ignore private provision of low-cost schools, preferring to address the needs of state education, assuming the private sector profit making enterprises are self-sufficient (Kitaev, 1999).

(ii) Education funding, vested interests, elites and unions

Smith (1776) identified the influences of vested interests in guaranteeing inflated profit from the threatening effect of competition. This can result in the allocation of state funds to priorities set by the elites. Steer and Smith (2015) have shown that even when there is more than sufficient spending, allocations are skewed to favour children from the wealthiest households. In low-income countries, on average, 46% of public resources are allocated to the 10% of students who are the most educated (Steer and Smith, 2015). In most developing countries, more is spent on state tertiary

education for the rich, including the children of ministers, business elites and civil servants, than primary schools for the poor (Guigale, 2014). This elite capture leaves little left to invest and results in insufficient state schools (Dercon, 2022).

Sen (1999) observes that aid is too respectful of authority in non-Western societies, which benefits the elites. Where current funding of education benefits vested interests, the introduction of more cost-effective ways of providing education is hindered (Andrabi et al., 2015). Power has been accumulated by certain institutions that favour the status quo and impacts education reform (Härmä, 2021). Andrabi et al. (2015) argue that the cost of educating a child in a state school is twice as high as in a private school. This is largely due to teacher salaries in state schools, which are four times more in Hyderabad and three times more in Nairobi than their low-cost school counterparts (Tooley, 2015). Teachers' unions have a vested interest in preserving the status quo and not linking pay to performance and educational outcomes (Pritchett, 2013).

Regarding elites, Dercon (2022) comments that UN goals (MDGs or SDGs) tend to be irrelevant as a mechanism to achieve progress, with no evidence to indicate that targeting an end to extreme poverty is the way to succeed in developing a country, unless there is an elite bargain to promote long-term growth. This idea will be discussed in Chapter 7 in the light of the research findings in Chapters 4 to 6.

(iii) Education funding and corruption

Corruption is reinforced by lack of accountability and results in reduced funds for education (Härmä, 2021). Dixon (2013) argues that billions of international aid agency dollars have been put into state schooling in Africa and India with very little or no effect. Moyo (2010) criticises aid as promoting corruption and harming development. Härmä (2021) argues that aid money leaks at multiple levels, including the central level of education administration through having "ghost teachers" on the payroll and even "ghost schools", misuse of school grants at the district level and misuse within the school of cash and resources. In the Uganda Public Sector Tracking Study, only 20% of government

spending on education reached the targeted primary school (Moyo, 2010). The waste, corruption, theft and mismanagement that is associated with aid to low-income countries has perpetuated low-quality education and a failing state education system (Heyneman and Stern, 2014)

(iv) Education funding and alternative models

There are alternative funding models of education whereby the state works with the private sector (Bangay, 2007). Such public-private partnerships (PPPs) can leverage the physical and human capital of private schools to increase access and learning (Evans and Mendez Acosta, 2020). Within the field of education, PPPs are contracted relationships between the public and private sector to deliver a range of different kinds of education services (Macpherson et al., 2014). With a mixed provision of education, the state can decide to finance low-cost schools, which involves considerations of efficiency, accountability, diversity, access and equity (Kitaev, 1999). Under the Liberia Educational Advancement Plan (LEAP), the Liberian government outsourced the management of a number of state schools to non-state providers (Hook, 2017; Romero et al., 2020; Kim et al., 2022). Randomised control trials (RCTs) indicated better education outcomes in LEAP schools, which is encouraging the state to entrust more schools into the hands of non-state operators (Kim et al., 2022).

Conditional cash transfers (CCTs) are a PPP mechanism whereby payments are made to parents, and often directly to the mother, provided they enrol their children in low-cost schools, thus benefitting women's autonomy, social standing and ability to earn (Sen, 1999). Under such an arrangement, governments have an incentive to make it worthwhile for parents to send children to school (Banerjee and Duflo, 2011). Banerjee and Duflo (2011) remark that in Mexico, Progresa was the first such programme to demonstrate that CCTs could increase girls' enrolment, in this case from 67% to 75%. In Malawi, a CCT resulted in lower female dropout rates and lower school-age pregnancies.

Pakistan acknowledged the failure in its supply of state schools resulting from public sector fiscal pressure and weak management of public systems (ILM, 2012). The country implemented the Education Sector Reform Action Plan 2001-2006, under which the government's role was reframed

from provider to facilitator and financier of education services with multiple partners. This used financing mechanisms such as vouchers, CCTs, targeted scholarships and per-student subsidies (Macpherson, et al., 2014).

Pakistan also piloted new institutions and, using donor funds, established five foundations to support the establishment and maintenance of non-state primary and secondary schools through grants, loans, state infrastructure, community facilities and other services. In 2006, as described in Section 1.2 above, PEF was established with funding from international donors to target poor children and offered public subsidies, conditional on minimum learning levels, in low-cost schools. If schools failed to achieve a pass rate of 40% in the tests on two consecutive attempts, the school lost the subsidy (Dixon, 2013). Pritchett's (2013) research on Chile, Turkey, Bangladesh and Cambodia shows that CCT trials have increased enrolment and attendance, particularly of girls. However, CCTs tend to ignore education quality, absenteeism and private sector involvement (Pritchett, 2013).

Vouchers are another form of state funding, enabling poor parents to make school fee payments (Lewin, 2007). Such ideas are not new: at least as early as the eighteenth century, Thomas Paine (1792) advocated the use of them (with finance directed at the scholar rather than the school) so that children could receive instruction in order to reduce crime (West, 1975). Tooley (2015) argues that targeted vouchers could be used with low-cost schools in order that all children without the ability to pay could receive an education. However, more research is needed to establish what impact vouchers and CCTs have on learning (Pritchett, 2013).

UNESCO (2021) points out that governments can also utilize tax instruments to influence education supply, with non-state providers already enjoying tax exemptions and other fiscal incentives in 173 of 200 countries. Shafik (2021) identifies governments playing a financing role if it sees education as an investment. This will be considered in the Lagos case study (Chapter 5) where the central bank provided concessionary funds to women-run enterprises, including low-cost schools. Härmä (2021) notes the improved education quality in Vietnam and the role played by a form of PPP. Under an

approach termed “socialisation”, for 20 years parents have been encouraged to make a 20% contribution in cash or kind to increase the schools’ resources and share the burden of good service delivery in education (Härmä, 2021).

PPPs recognise the role of the public sector in scaling innovations to meet social, environmental and economic challenges and can develop the ecosystem of actors to pilot innovation (OECD, 2019). Chapter 7 will discuss the relevance of PPPs and state engagement with the low-cost school sector.

3 Institutional voids

Small and medium enterprises (SMEs) across Africa face barriers to finance with persistent credit market imperfections limiting access to formal bank credit for many firms (Beck et al., 2020). Sen (1999) argues that the availability and access to finance can be a crucial influence on the economic entitlements that economic agents, such as SMEs, are able to secure. Rosales-Rogge et al., (2014) observed this lack of access to conventional finance with small low-cost schools in Lagos, where only 29% of them were able to get bank loans. The importance of functioning institutions, such as regulators, and institutional voids, where such institutions are lacking or weak, sheds light on the barriers faced by low-cost schools in accessing finance, particularly in low-income contexts where resources are constrained (Mair et al., 2012; Gao et al., 2017).

Institutions are important drivers of the success or failure of a society, and good economic institutions encourage citizens to invest, accumulate, and develop new technology (Acemoglu and Robinson, 2012). North (1990, p. 3) defines institutions as “the rules of the game in a society or, more formally, the humanly devised constraints that shape human interaction”. These encompass both institutions such as legislatures and regulators, and informal institutions and practices (established norms and customs), forming broadly understood rules that individuals cannot break without exposing themselves to some form of sanctions.

For any market system to work, institutions and codes of behaviour are based on values such as mutual trust (Sen, 1999). Banerjee and Duflo (2011) point out that promoting markets has limits

without the analysis of local contexts and institutional arrangements that shape those markets and market activity. Shafik (2021) observes that the structure of society is determined by institutions such as political, legal and economic establishments, as well as the ways in which the family and society are organized, with norms and rules determining how these collective institutions operate.

Acemoglu and Robinson (2012) argue that weak, often top-down, institutions are the main reason for low-income countries' lack of growth, and that they are very persistent, whereas institutions that grow up from below i.e., from poor communities, are important and deserve attention. Improving institutions can benefit the poor most, and is most needed in countries where it is most difficult to achieve (Clague, 1997). In low-income countries, institutional arrangements that support markets are either absent or weak, and often the pervasiveness of constraining institutions impedes full market participation (Easterly, 2006). Where institutional arrangements that support markets are absent, weak, or fail to accomplish the role expected of them, institutional voids exist (Mair and Marti, 2009). Gao et al. (2017) observe that markets in low-income countries are characterised by a lack of institutions that help facilitate market transactions, such as access to credit. Such an absence or weakness of supportive institutions, i.e., institutional voids, are prevalent in low-income communities, resulting in the poor being excluded (Mair and Marti, 2009).

This section reviews literature on the conventional financing of SMEs in the light of institutional voids, as this relates to the lack of financial intermediaries serving the poor in low-resource contexts. Small enterprises are defined as having three to 20 employees, and medium enterprises as having 21 to 100 employees (Beck and Cull, 2014).[18] This thesis finds that the majority of low-cost schools examined fall within the small category. After considering how microfinance institutions successfully addressed the institutional void servicing formerly excluded micro-entrepreneurs, this section

[18] Fowowe (2017) uses 10 to 50 employees for small and 50-100 as medium. Beck and Cull (2014) suggest small enterprises have 1-20 employees and medium enterprises have 21 to 100.This thesis adopts the Beck and Cull definition with a lower boundary of 3.

considers literature on the role non-conventional sources of finance can play in addressing institutional voids.

3.1 Conventional finance and barriers to finance faced by SMEs

SMEs perceive access to finance as the most significant obstacle hindering their growth (Wang, 2016).[19] Large numbers of SMEs[20] are underserved by commercial banks, with the International Finance Corporation (IFC) estimating the unmet demand for finance to be US$2.1 to US$2.5 trillion (Stein et al., 2013). At country level, taking Kenya as an example, 68% of SMEs see access to finance as their main challenge (World Bank, 2019). Raikundalia (2018) estimates that 50% of Kenyan SMEs have not approached a bank and only 36% have had access to loans, compared to an average of 51% in OECD countries. Similarly, Souza et al., (2018) find that lack of capital is the largest constraint to SME growth in Kenya. This lack of available capital has also been a barrier that has retarded the progress and growth of the low-cost school sector in developing countries (Dixon, 2013).

(i) Information asymmetry

Banks, the conventional providers of credit, operate in the formal sector, whereas many SMEs operate in the informal sector, which hinders their access to credit (World Bank, 2019b). An estimated 80% of all enterprises in developing economies, approximately 280 to 340 million, are SMEs (Stein et al, 2013).

One area in which the informality of SMEs creates a barrier to accessing finance is in the provision of information (Klyton and Rutabayiro-Ngoga, 2017). Informal firms feature non-transparent operations and rely on cash-based transactions, partly to hide from tax authorities and partly due to the unavailability of bank accounts (Beck et al., 2020). The cash-based nature of SME income and expenditure, combined with weak record keeping, results in banks having inadequate information to enable provision of credit (Beck, 2013). Sako (1998) similarly finds that financial management in

[19] Drawing on the Enterprise Survey from the World Bank, which covers data from 119 low-income countries (Wang, 2016).
[20] As distinct from micro-entrepreneurs, which are typically subsistence-level businesses based on self-employment and informality (Beck, 2013).

SMEs is weak and financial record-keeping often limited. The literature highlights the role which information asymmetry plays in banks' unwillingness to lend to such enterprises. There is a lack of awareness of the market opportunity, as well as a lack of financial information of the enterprise's operations, cash flow and historic performance (Berger and Udell, 1998). Such information asymmetry increases both risk perception and transaction costs (Armendariz and Morduch, 2010). Within a low-cost school context, high levels of cash transactions and poor fee collection systems hinder reliable financial information (Caerus, 2016). Moreover, it appears that low-cost schools have an unwillingness to provide data to conventional providers of finance (Yang et al., 2019).

(ii) Collateral and perception of risk

With an absence of equity capital for SMEs, debt is the dominant channel for them to access finance (Quartey et al., 2017; World Bank, 2019b). Banks, providing debt financing, typically require collateral to protect themselves in case of default. Where SMEs have insufficient collateral, this becomes a constraint on SMEs' access to conventional finance (Armendariz and Morduch, 2010; Gupta and Gregoriou, 2017). In an education context, ILM (2014) found that in Pakistan, only 1% of schools that had applied for a loan received one, due to the supply of finance being constrained by lack of collateral. Lack of collateral increases the perception of risk, as do enforcement difficulties arising from weak legal systems (Armendariz and Morduch, 2010; Beck, 2013). This in turn leads to a high cost of finance charged to the borrower to compensate for the high lending risk (ILM, 2013; Gupta and Gregoriou, 2018). For example, interest rates in Pakistan are as high as 32% (IMF, 2014). Furthermore, where banks perceive SMEs as poorly managed, this increases their perception that lending to them is high-risk (Klyton and Rutabayiro-Ngoga, 2017).

Although there is little literature on the financing of low-cost schools, Tooley (1999) did observe that barriers to conventional finance exist due to the lack of collateral held by the schools, interest rates being too high and banks' lack of familiarity with schools as a business.

(iii) Regulatory risk and certification

Informal enterprises operating in low-income communities often depend upon the ability to ignore government regulations (Remenyi, 1991). However, the formal and legal status of SMEs is important to banks if they are to lend to them. Low-cost schools are different to most SMEs, given that they operate in a regulated environment, in which the obtaining of certification to run a school is a legal requirement (Härmä, 2021). This is illustrated in Lagos, where 75% of low-cost schools are without a license to operate but still provide early-years and primary care, indicating the trust of households (50% of the schools have operated for over ten years) but not the trust of banks (29% have accessed bank loans) (Rosales-Rogge et al, 2014). As Helms (2018, p. 313) points out, "domestic funders comprise one group of actors particularly sensitive to consistent, reliable legal and regulatory frameworks". Moreover, regulation and its costs have a disproportionate impact on SMEs, for example in being able to demonstrate compliance (Cantor et al., 1992). Not only is obtaining school certification difficult but regulatory uncertainty, which could result in certified schools becoming uncertified, increases the risk of lending to the sector (Caerus, 2016).

(iv) Size of enterprise and years of operation

Financing constraints are not only higher for smaller firms, but are also more of a growth impediment for smaller than for larger enterprises (Beck, 2013). Smaller enterprises are generally seen as riskier loan recipients than larger ones (Quartey et al., 2017). This is partly due to the greater likelihood that larger firms can supply financial information to prove creditworthiness and have adequate collateral, an adequate credit history and a developed bank borrower relationship, all of which facilitates securing conventional finance (Quartey et al., 2017). Looking across World Bank data from 30 African countries, Fowowe (2017) finds that larger and older SMEs have better access to credit. Size also makes larger firms more attractive to banks given the transaction costs incurred when processing and monitoring a loan (Beck, 2013).

(v) Financial exclusion

Because banks are typically outside low-income communities, SMEs in low-income areas often have no relationship with any bank (Armendariz and Morduch, 2010; Gupta and Gregoriou, 2017). Hulme and Mosley (1996) find that enterprises serving the poor are often located in shanty towns on the edge of cities, generally with no access to banks. An underdeveloped bank-borrower relationship hinders access to credit (Quartey et al., 2017). With regard to financing schools in Africa, it appears that conventional finance providers focus on high-fee schools, mid-level school groups and tertiary education providers (Caerus, 2016). Owing to lack of collateral, geographic isolation and high cost of transactions, Prahalad (2005, p. 293) argues that banks do not serve the poor because of "simple social prejudice". Furthermore, Berger and Udell (2006) find that market and institutional failure hinder SME growth, and exacerbates SME financing constraints. Mair et al. (2012) find that especially women run enterprises are excluded from participating in and accessing markets – highlighting an institutional void where they are excluded from financial systems and access to credit, to which this chapter now turns.

3.2 Institutional voids and weak institutions

As noted above in 2.2 (iv), state capacity appears to be weak in low-income countries (Shafik, 2021). Fielder et al. (2016) observe that regulatory systems in low-income countries are underdeveloped and less reliable and effective than in developed markets, leading to institutional voids. Within a regulated environment such as education, if regulatory institutions are weak, so that private schools face difficulties obtaining certification and thereby legitimacy, this creates barriers to entry (Baum et al., 2018a). Chakrabarty and Bass (2014) argue that market inefficiencies can be due to a lack of functioning intermediaries in a country such as: ineffective government institutions, ineffective regulatory agencies, and regressive laws and regulations.

Current policy frameworks across sub-Saharan Africa largely overlook the regulation of information dissemination (Baum et al., 2018a). This is relevant to information on the composition of the education sector, and roles of non-state actors (Day Ashley et al., 2014). Institutional weakness

results in “immense gaps in knowledge of the scale and coverage of the non-state sector and how it operates” (Day Ashley et al., 2014 p. 31). Information dissemination on education quality is an important factor for households in making school decisions, and inadequate information gathering, weak analytical capacities and scarce resources hamper the effective development of civil society (Cheeseman, 2018).

The political economy issues of post-independence Africa contributed to this situation (Härmä, 2021). Colonial powers did little to encourage institutional development so that when they withdrew, the weak shell of state crumbled (Dercon, 2022). Consequently, most countries lacked suitable institutions and adapted legacy ones whereby new rulers held onto old institutions which had been established to extract resources for the colonial power (Banerjee and Duflo, 2012). Lacking codes of good business behaviours, rent seeking and self-interest prevailed (Clague, 1997). The old powers were replaced by elites with no concern for the long-term growth of the economy, but rather for self-enrichment through rent seeking (Dercon, 2022). The weakness of post-colonial institutions was compounded in many countries by the limited capacity of government and a lack of adherence to official regulations, leading to graft and corruption (Heyneman and Stern, 2015). Corruption and patronage systems prevailed over rule of law, quality bureaucracy and a meritocratic approach to appointments (Easterly, 2002).

Acemoglu and Robinson (2012) argue that the root of many economic and political institutions in sub-Saharan Africa can be traced back to the colonial period. Where institutions continue to be extractive in the state-run education sector, public finance available to invest in basic public services such as ECD and primary education is limited, and elites perpetuate their power at the expense of the majority (Dercon, 2022). Cheeseman (2018), looking at institutions and democracy in Africa, argues that societies became increasingly exposed to demands for bribes from corrupt bureaucrats and that independent agencies could play a useful role, as with the privatization agencies operating in Zambia and Nigeria – in the former, between 1990 and 2005, 93% of state bodies were privatized compared with 23% in Nigeria, which suffered from low support and limited budget and resources.

Within an education context, low-income countries are characterized by extractive institutions such as regulators and education ministries (Banerjee and Duflo, 2011). Where such institutions are weak, the challenge for education policy is not that of more resources, but of creating an institutional system where all involved are provided with incentives to improve efficiency and student performance (Baum et al., 2018a). Educational outcome comparisons between regions and countries, as measured by pupil performance, is not necessarily a question of more resources, but institutional differences such as centralised examinations, school autonomy in process and personnel decisions, teacher autonomy over teaching methods, and competition from private schools (Kingdon et al., 2014).

3.3 Institutional voids, intermediaries and microfinance

In Bangladesh in the 1970s, an institutional void existed where formal providers of finance, the banks, were failing to provide credit required by micro-entrepreneurs, most of whom were women, due to the absence of specialised intermediaries that support and facilitate transactions between buyers and sellers (Gao et al., 2017). Microenterprises, especially women-led ones in rural areas, were financially excluded and unable to obtain loans from banks that were not prepared to service them, as they believed them not to be credit-worthy; MFIs, as new financial intermediaries, responded to address this void (Mair et al., 2012). Microfinance is "the provision of low-cost, short term financial services, mainly saving and credit, to poor households that do not have access to traditional financial institutions" (Cohn, 2014 p. 330). Ryrie (1995) observes that microfinance is a private-sector initiative to address market failure in the provision of credit to large populations underserved by the formal financial sector.

Grameen commenced operations in 1976, following a famine in Bangladesh, responding to the exclusion of women from the banking sector (Nicholls, 2015). Initially funded personally by Muhammad Yunus, a professor of economics and the founder of Grameen, it persuaded the Central Bank of Bangladesh to set up a special branch to increase the finance available to cater for the poor of the village of Jobra (Sengupta and Aubuchon, 2008). Having demonstrated that women-led

microenterprises could borrow and repay small loans, Grameen became a bank in 1983 and in the 1990s attracted donor agencies who viewed microfinance as a key strategy to alleviate poverty (Yunus, 1998). Grameen combined the scale advantages of normal banking with the mechanisms of traditional models of informal group lending in order to manage credit risk and keep repayments high (Armendariz and Morduch, 2010). In 1993 the World Bank provided a US$2m grant to Grameen to expand internationally. In 1995 the Consultative Group to Assist the Poor (CGAP), a partnership of more than 30 leading development organizations, was created to increase resources for microfinance globally (Cohn, 2014). The Grameen model was replicated in Bolivia, Chile, China, Ethiopia, Honduras, India, Malaysia, Mali, the Philippines, Sri Lanka, Tanzania, Thailand, the United States and Vietnam (Sengupta and Aubuchon, 2008). By 2005, default rates of Grameen's 2.5 million customers were on average 1.5%, kept low by group lending models based on mutual trust and responsibility and thereby contradicting the perception that the default rate was likely to be higher among poor customers than rich ones (Prahalad, 2005). An important element of Grameen's success was its approach of only lending to women and demonstrating that women can play an important role in building markets and economic development (Prahalad, 2005).

A second MFI in Bangladesh, BRAC (the Bangladesh Rural Advancement Committee), grew out of a relief organisation started in 1972 by Fazle Abed (Smillie, 2009). BRAC expanded into microfinance in 1979 (Remenyi, 1991). Like Grameen, BRAC saw itself as a social enterprise responding to the social and financial needs of the poor (Smillie, 2009). However, it was not a powerful actor but operated under conditions of extreme resource constraint (Mair and Marti, 2009). In such conditions, BRAC survived by adopting a "bricolage" approach to enable ultra-poor women to access finance and participate in the economy (Mair and Marti, 2009). Bricolage is an approach of "making do" with whatever is at hand, which is what entrepreneurs in resource-constrained environments adopt as a strategy to survive (Mair et al, 2012). BRAC had an explicit purpose of achieving financial inclusion of the formerly excluded, renegotiating the social order between the marginalised poor women and those who marginalised them, the elite and religious leaders (Mair et al., 2012). Second, BRAC

looked to legitimise new actors to influence and be used to overcome resistance to those who guard the status quo, in a context rich in informal institutions but poor in institutions that characterise modern market economies (Mair et al., 2012). As a result, BRAC was involved as an intermediary in inclusive market building along with other local institutions, rather than "on top of" such institutions (Mair et al., 2012).

A third Bangladeshi MFI, the Association for Social Advancement (ASA), started in 1978 with a mission of responding to the social needs arising from post-war independence and moved into microfinance in 1991, adopting a group lending model. Such MFIs were instrumental in what has become a global movement, where microfinance is seen as a way to address the institutional void created by the failure of formal banks to meet the credit needs of the poor. MFIs do this by functioning as financial intermediaries, reducing transaction costs and overcoming information problems (Armendariz and Morduch, 2010). By 2021, MFIs had 140 million borrowers, 80% of whom were women, 64% in Africa, 65% with rural credit portfolios of US$124 billion (US$37 billion in South Asia, US$1.5 billion in Africa) and portfolios at risk (loans in arrears of 90 days or more) of 7% (Microfinance Barometer, 2021).

The literature on institutional voids and microfinance is relevant to this thesis as it illustrates how institutional voids in low-income contexts can be addressed, not by adopting a Western model, but by bottom-up social enterprises (Armendariz and Morduch, 2010). BRAC, Grameen and ASA created social enterprises to engage in institutional entrepreneurship by altering and challenging existing cultural, economic and regulatory institutions (Mair and Marti, 2009). MFIs addressed the barriers to conventional finance, identified above, primarily in four ways.

First, MFIs were able to correct for information asymmetries. Formal providers of finance have limited access to authentic information in terms of transaction history and expected behaviour and so resort to seeking excessive information, thereby adding to transaction costs. One of the main innovations in microfinance has been to bridge this gap through a series of trust-based surrogates

that take the transaction-related risks to the people who have the information — the community, through measures of social collateral. Sriram (2005) points out that microfinance uses trust as an effective mechanism to address one of the issues of imperfect information in financial transactions. Second, MFIs have been able to lend successfully to those traditionally ignored by commercial banks because of their lack of collateral and credit scores (Sengupta and Aubuchon, 2008). MFIs addressed these barriers to finance by adopting group lending strategies, which changed repayment dynamics. These strategies resulted in low default rates, thus demonstrating that formerly excluded women, previously seen as unbankable, were creditworthy and could bear the transaction costs of their loans (Sachs, 2005). Given the high cost of formal contractual lending practiced by banks, MFIs look to minimise these contracts, that formally set out the legal nature of the financial relationship, using trust as a surrogate (Fukuyama, 1995). Third, financial inclusion was a deliberate strategy adopted by Grameen and others to address the exclusion of women borrowers (Yunus, 1998).

Finally, MFIs looked to address the transaction cost and size issue by providing an intermediary mechanism of transaction aggregation and by rationalizing transaction costs (Sriram, 2005). Microfinance demonstrates that poor people can pay interest rates high enough to cover transaction costs and address the consequences of imperfect information markets in which lenders operate (Ledgerwood, 1999). To be sustainable (i.e., recover costs and eventually become profitable), scale is important. MFIs aggregate many small loans using outreach and repayment as a proxy for impact (Ledgerwood, 1999). Together, the above practices adopted by MFIs increased trust between the provider of finance and the borrower, and reduced the transaction costs associated with providing finance to previously excluded micro-entrepreneurs (Fukuyama, 1995).

3.4 Institutional voids and unconventional finance - impact investing and philanthropy

MFIs arose in response to the institutional void that hindered access by micro-enterprises to finance from conventional finance providers such as banks (Mair and Marti, 2009). As the sector grew and received greater recognition, MFIs attracted funding from unconventional providers of finance such as impact investors, DFIs and philanthropic foundations (Cohen, 2021). International donors, such as

USAID, supported MFIs, indicating that aid can be given to encourage institutional innovation in lending institutions (Clague, 1997). Impact investing is typically seen as occupying the space between philanthropy at one end of a continuum and commercial investing at the other (Nicholls et al, 2015). Acs (2013) argues that some of the philanthropic impulses that developed in America in the 18th and 19th centuries can be traced back to the religious and cultural values of English immigrant communities. The newly immigrated Americans could look back at their forebears and see the establishment of schools such as Eton, established for the poor, and colleges at Oxford and Cambridge, established by philanthropic gifts (Little, 2015). Acs (2013) maintains that such philanthropy has played a critical role in the American capitalist system over two centuries and that, in particular, the funding of education by philanthropy created new opportunities for the next generation of innovators and wealth creators.

In the twentieth century, programme-related investing (PRI) grew out of the philanthropic activity of foundations that adopted it as an alternative to grant-making. Social needs could be addressed through investing in entities aligned to a foundation's mission, rather than through the traditional model of using foundation capital to maximize financial returns, in order to make grants (Nicholls et al., 2015).

Education has for centuries been a target of philanthropy, both in Tudor- and Victorian-era Britain (Bishop and Green, 2008) and in the USA, being seen as a social good. Grants come from philanthropic sources such as individuals, family offices and foundations (Acs, 2013). However, traditional philanthropic bodies, including new family foundations emerging in Asian and middle-income countries, tend to focus where philanthropies always have, in providing scholarships and funding named chairs and institutions in tertiary education. Such an approach seldom reaches the poor or most marginalized in Africa (Avelar and Patil, 2020).

In Africa, philanthropy includes NGOs, foundations and international child sponsorship of an estimated 9.1 million children (through organisations such as World Vision, Action Aid, Compassion

and Plan International) (Wydick et al., 2014). Avelar and Patil (2020) opine that such philanthropy, from the rich north to the global south, has been a characteristic of international financing for development for more than a century. Easterly (2006) argues that philanthropy can be top-down and inappropriate, derived from economic and political power (Avelar and Patil, 2020). The term "impact Investing", coined in 2007 under the leadership of the Rockefeller Foundation (Nicholls et al., 2015), has grown as a means of addressing social needs while simultaneously generating a financial return (GIIN, 2016). Early impact investments were made in micro-finance, health, education and clean energy (Nicholls et al., 2015) by NGOs, foundations, investment banks and wealth managers. DFIs, such as the Commonwealth Development Corporation (CDC, UK), IFC (USA) and European Investment Bank (EIB, Luxembourg), provide long-term investment to foster economic development in low-income countries, including finance to SMEs via banks and private equity funds (Hinton and Penemetsa, 2015).

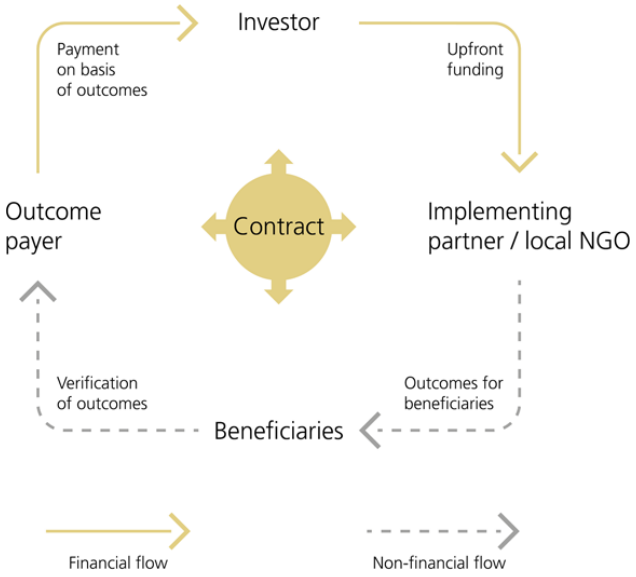
Griffiths-Jones and Ocampo (2018) argue that national development banks (NDBs) are an important source of domestic finance, but have been neglected in academic literature. Many were formed in the 1960s, backed by DFIs and domestic governments, to provide long-term funding and incentivise banks to lend to private sector firms in priority industries (Kohle et al., 2022). Many closed in the 1980s and 1990s due to corruption and lending based on political patronage (Helms, 2006; Collier, 2018), but by 2015, NDBs numbered 147 in Africa (Griffiths-Jones and Ocampo, 2018). Following the 2008 financial crisis, NDBs have received renewed support as a provider of long-term development finance, given that commercial banks in low-income countries provide no or insufficient credit (Griffiths-Jones and Ocampo, 2018).

Development impact bonds (DIBs) encourage private sector investment to fund development focused on measurable impact. The three parties involved in a DIB are an outcome payer, who agrees to pay for the social outcomes that are achieved by a programme; the risk investors, who provide upfront working capital to the implementing partner and receive a return only if the

programme's outcomes are achieved; and an independent evaluator, who verifies the results of the programme based on pre-agreed metrics.

Figure 2 illustrates the workings of a DIB

Figure 2 Educate Girls' DIB



Source: UBS (2020)

Impact investors fund the implementing organizations and receive a return if performance indicators are met. The 2015-2018 Educate Girls DIB was the first DIB in education, involving UBS Optimus Foundation, the Children's Investment Fund Foundation, Educate Girls and Instiglio (IDinsight, 2018). Its goal was to increase the enrolment rate of girls and improve learning outcomes for children in rural Rajasthan. The DIB achieved 116% of the enrolment target and 160% of the learning target in its final year (IDinsight, 2018). DIBs utilise blended finance (Cohen, 2021) and Clark et al. (2015) argue that through such blending of private capital, philanthropic investment and public capital, new funding is brought to underserved markets.

UNESCO (2021b) points out that funding of low-cost schools raises international political economy issues, as seen with a number of recent cases. For example, in 2018 the European Commission was instructed by the European Parliament to not fund for-profit education; similarly, the World Bank's Global Partnership for Education's (GPE) is prohibited from supporting for-profit core education

services. The following year, the IFC froze investments in the non-state education sector after years of pressure from civil society organizations. Such political economy pressures may account for the low philanthropic appetite for market-driven solutions in funding African pre-primary education, which is estimated to have a demand for impact investing of US$1.2 billion (Caerus, 2016). The case studies in Chapters 5 and 6, where low-cost schools attracted impact investing, examine the suitability of such finance for low-cost schools.

4 Trust

The literature on trust informs our understanding of how trust is built and maintained between low-cost schools and three key actors: providers of licenses (regulators), providers of finance (banks) and households. As Lyon et al. (2015) note, trust is a context-bound phenomenon influenced by traditions and settings. The importance of people being able to trust one another penetrates every aspect of human life (Mill, 1891) and is vital for economic development, a nation's wellbeing and global competitiveness (Fukuyama, 1995; Sapienza et al., 2007). Sen (1999) points out that individuals operate on some presumption of trust in their interactions on what they are offered and can presume to receive in exchange. Transparency assists openness and disclosure, but if violated, can adversely affect direct and third parties where such guarantees can be instrumental in preventing corruption, financial irresponsibility and underhand dealings (Sen, 1999).

Rousseau et al. (1998, p. 395) argue that the study of trust crosses disciplines, including economics, anthropology and markets, and can be defined as "a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another". Sztompka (1999, p. 25) states that "trust is a bet about the future contingent actions of others" and, in the case of schools, can be seen with parents having faith the school will safely educate their children.

Gold (2014, p. 135) points out that "a truster makes herself vulnerable to her trustee, exposing herself to the risk that her trust will not be fulfilled." With low-cost schools in Africa, parents are the

trusters and the school proprietor the trustees. The truster cares about the provision of a safe and suitable environment in which their child can be educated and will pass the end of primary school exam in order to progress to secondary school (Jerrard, 2014). From a neoclassical perspective, the school proprietor, as the trustee, is self-regarding and will seek to be trustworthy in order to avoid punishment (withdrawal of the child or non-payment of fees) or receive rewards (continued attendance and payment of fees) (Gold, 2014). This would be particularly the case where the relationship may last several years.

However, Gold (2014) criticizes the neoclassical approach, arguing that it "conflates trustworthiness with reliability" and that behaviour that is motivated by the pursuit of rewards, or the avoidance of punishment, is reliable rather than trustworthy. To qualify as strong trust, as opposed to weak trust, Gold maintains that "strong trust must involve a non-self-regarding motivation on the part of the trustee" (ibid., p. 138). This is reflected in the motivation of the trustee to fulfil commitments, particularly non-contractual ones, or to build goodwill where the trustee is driven by a concern for the truster's outcome. In a school context, the trustee school proprietor is motivated by goodwill and looks to deliver a certain quality of care and education quality to the truster (Härmä, 2011). Competence trust is important (Sako, 1998), where competence is "the perceived ability, or expectation that the other party has competence to successfully complete its task" (Ehren and Baxter, 2021, p. 10). Where this exists, the levels of uncertainty implicit in the decision to trust are reduced (Williamson, 1985). The ability of schools to deliver education quality in Africa, as measured by end of primary school examinations, is critical (Mackatiani, 2017). Andrabi et al. (2017) found that providing parents in the Punjab, Pakistan, with information about test results facilitated comparisons across providers and improved test scores, as well as attendance and education quality, in both state schools and non-state schools.

4.1 Trust and regulators

Education regulators in low-income countries entrust a school with a license based on the school's ability to meet minimum requirements (Baum et al., 2018a). State schools receive certification

automatically, but there is a trust deficit between education regulators and low-cost schools (Härmä, 2011), with colonial legacy certification requirements providing an opportunity for rent-seeking. School certification does not consider issues such as education quality or school leadership, which can improve teacher performance (Whelan, 2009). For households to trust the regulator's assurance of education quality, they require information to make a good judgement about the school to which they send their children (Six, 2022). This information is lacking in low-income countries, so the inspection systems cannot be trusted (Ehren and Baxter, 2021).

4.2 Trust and banks

Banks are risk-averse entities and entrust finance to SMEs based on formal criteria such as minimum legal requirements, financial information, collateral and the character of the borrower (Beck, 2013; Klyton and Rutabayiro-Ngoga, 2017). Where this information is lacking, banks will refuse to lend. Rosales-Rogge et al. (2014) found a trust deficit between banks and low-cost schools in Lagos, with only 23% of such schools obtaining finance. Klyton and Rutabayiro-Ngoga (2017) found that SMEs in Rwanda do not trust banks to accurately assess them and that banks distrust SMEs to provide reliable financial information.

4.3 Trust and households

The trust deficit between households and state schools seen in India (Banerjee and Duflo, 2011) is also evident in Lagos, where 30% of children attend such schools (Edoren, 2018). In contrast, the type of trust placed in small enterprises, such as low-cost schools, in low-income contexts is an informal, personalized trust where relationships are an important means of reducing uncertainty (Lyon and Porter, 2010).

When choosing schools, households consider the main criteria of: competence trust and education quality (Sako, 1998; Rolleston and Adefeso-Olateju, 2014), accountability (Dixon, 2013; Gold, 2014; Day Ashley et al., 2014) and reputation (Tooley, 2009; ILM, 2014; Dixon and Humbles, 2019).

(i) Trust and education quality

Gambetta (1988) argues that trust clearly depends on the information one has about the object of one's trust. There is a lack of information on the quality of education in schools in low-income countries. (Tooley, 2009; Härmä, 2021; Gray-Lobe et al., 2022). Information is lacking where the state prefers not to publicly disseminate the performance in examinations (Baum et al., 2018a).[21] Uncertified schools are not allowed to operate as exam centres and cannot enter their children directly for exams but have to do so under the umbrella of certified schools (Mackatiani, 2017). The lack of data on individual school performance makes comparison between schools difficult (Srivastava and Walford, 2007).

Low-cost schools provide higher standards of literacy and numeracy than state schools (Day Ashley et al., 2014; Gray-Lobe et al., 2022). Kingdon and Sipahimalani-Rao (2010) find that households do not trust Indian state schools to deliver positive educational outcomes and that low-cost schools achieve better educational outcomes. Households acknowledge that state education maybe free but that it is of little value if their children do not learn (Tooley et al., 2008). Dahal and Nguyen (2014) show that low-cost schools perform at least as well as state schools, at significantly lower costs in India, Nepal and Pakistan. Lewis and Patrinos (2012) indicate that the non-state sector can improve learning outcomes. In India, 47% of state school children were unable to read at the second-grade level compared with 32% in low-cost schools, and in Pakistan, by the third grade, low-cost school children were 1.5 years ahead in English and 2.5 years ahead in mathematics, relative to state

[21] For example, Baum et al. (2018a) found that in a sample of 22 countries, 86% required private schools to participate in standardised exams, of which 19% of the countries publicly disseminated the results, and 43% required inspections but only 5% of these disseminated the results.

schools (Banerjee and Duflo, 2011). Amjad and MacLeod (2014) similarly find that low-cost school students in Pakistan outperform their state school counterparts.

Rolleston and Adefeso-Olateju (2014) find Ghanaian and Nigerian low-cost schools operate at a lower cost and produce better education quality than state schools. Alcott and Rose (2016) show that Kenyan and Ugandan private schooling improves the learning of children relative to their peers in state schools. Similarly, Alcott and Rose (2016) find that children in low-cost schools are 6-8% more likely to have learnt basic literacy and numeracy by the end of primary school. In Nigeria, Bridge schools, a low-cost chain owned by the same entity that started the Nairobi case study schools (Chapter 6) performed better than similarly priced low-cost schools in reading but not in mathematics (Lipcan et al., 2016). Baum and Riley (2019) estimate a positive effect in Kenya, and Andrabi et al. (2015) indicate that there are significant gains in tested subjects for children who attend low-cost schools. Rising Academy schools in Sierra Leone perform significantly better than low-cost schools in reading and mathematics (Johnson and Hsieh, 2019). In Kenya, Gray-Lobe et al. (2022), using RCTs to research Bridge low-cost schools (see Chapter 6), find children enrolled for two years increased test scores by 0.9 additional years of schooling for primary school pupils and 1.5 years for pre-primary pupils.

The above studies reveal that low-cost schools can provide as good as, or better, education outcomes than state schools, indicating better teacher quality (Immelman and Roberts-Lombard, 2015). It is reasonable to assume that parents continue to pay fees and send their children to such schools because they are satisfied with the standard of education. The level of trust built by low-cost schools and their communities plays an important role among parents, who take advice from other parents about which school to send their own children to (Woodhead, 2002).

In the absence of publicly available information on quality, households rely on obtaining information on examination performance directly from the school and use other proxies of quality such as teacher assessment and class size (Adelabu and Rose, 2004). Regulators place reliance on teacher

qualifications as an indicator of competence, but households do not (Lagos, 2019). Rolleston and Adefeso-Olateju (2014) point out that, despite parents' recognition of state teachers as more qualified, the quality of low-cost school teachers in Nigeria is seen as being better and increases the chance of children gaining access to state secondary schools. Lipcan et al. (2016) assessed learning outcomes, teaching and management quality in all 37 Bridge schools in Lagos State along with matched samples of state and other low-cost schools and find no correlation between teaching degrees and child learning. Gray-Lobe et al. (2022) find that Bridge schools in Kenya deliver better education quality than other low-cost schools and state schools, despite less than a quarter of the teachers having more than a secondary school education, compared to three-quarters of teachers in state schools. Relative to state school teachers, Bridge teachers were younger, less experienced and worked longer hours, including Saturdays. Low-cost schools employ teachers from their own communities, reducing the social distance with their pupils (Tooley, 2015) and possibly increasing teacher commitment and motivation, with teachers in low-cost schools being more present and engaged with children (Rolleston and Adefeso-Olateju, 2014). Macpherson et al. (2014) identify that low-cost school teachers are more motivated than their state school counterparts even though they lack teaching qualifications, impacting the teacher-learner relationship, which is key to the learning experience (Instance and Paniaagua, 2019).

Finally, education quality is perceived to be better as low-cost school teachers have greater contact time (Edoren, 2018) and teach smaller classes, typically 20-30, compared with 100 or more in state schools (Härmä, 2011).[22] According to DFID (2012), teaching in private schools tends to be better, in terms of greater teacher presence and teaching activity, and in the use of teaching approaches that are more likely to lead to improved outcomes, than in state schools. Macpherson et al (2014) find that better performance by low-cost schools in Ghana, Pakistan and Nigeria is the result of lower absenteeism of teachers and their greater accountability.

[22] Whelan (2009) notes that a PTR above 60:1 impacts the quality of learning.

(ii) Trust and accountability

Smith (1759) believed that accountability and trust, between different parties to a transaction, play a key role in the proper functioning of a market economy. The accountability of low-cost schools to households plays a role in establishing their trustworthiness because parents pay fees and have the right to withdraw their children if not satisfied with the service provided (Tooley, 2009). This relationship between fee-paying parents and schools brings higher accountability between truster and trustee (Dixon, 2013; Gold, 2014; Day Ashley et al., 2014). Accountability is a contextual condition enhancing trust because it changes the trustee's calculation of interests and adds an extra incentive to be trustworthy, namely to avoid censure and punishment which increases the enforcement of trustworthiness (Stzompka, 1999).

Levels of accountability are much higher with low-cost schools than with state schools, as is particularly evident in the realm of teacher absenteeism (Kitaev, 1999). Across eight African countries in various years between 2010-2014,[23] Bold et al. (2017) found 20% of teachers absent from state schools on the day of an unannounced visit, with another 20% absent from the classroom although at school, giving a combined 40% absentee rate. Hartwig (2013) finds similar levels of teacher absenteeism in Tanzania. Kingdon (2007) finds teacher absenteeism in Indian state schools to be 60%. Absenteeism in low-cost schools is lower where there is a higher propensity for teachers to turn up for work (Adelabu and Rose, 2004; Dixon, 2013). Macpherson et al. (2014) argue that the factors that encourage teacher attendance include the competitive nature of the environment which incentivizes teachers to attend, perform well and teach regularly, for fear of dismissal. Kingdon (2007) finds higher teacher attendance is due to the increased accountability of teachers to employers and greater accountability of school principal to parents, in order to secure fee payments

[23] The countries and years studied included Tanzania, 2010; Senegal, 2011; Kenya, 2012; Nigeria, 2013; Togo, 2013; Uganda, 2013; Mozambique, 2014; and Tanzania, 2014.

and maintain the reputation of the school. This in turn provides an incentive to the principal to ensure teachers are in class and on task (Whelan, 2009; Instance and Paniaagua, 2019).

Higher accountability of smaller enterprises to local communities is linked to the ability to apply sanctions (Lyon and Porter, 2010) which, in the case of schools, is the ability to withdraw children from a school. Macpherson et al. (2014) find that it is hard for low-income families to hold state providers of education accountable for the quality of education delivered. In a review of 26 parental choice studies in 14 countries, UNESCO (2021) identifies that alongside education quality, the main reason for choosing a school is responsiveness of the school to parents. This contrasts with the power asymmetry with state schools observed by Rolleston and Adefeso-Olateju (2014) in Ghana, where parents felt intimidated by the higher social status of state school teachers, but found low-cost schools to be more responsive. Power asymmetry may result from parents in low-income areas working in informal labour markets (Whaitanji and Mutisya, 2021). Trust and accountability are enhanced by locality, with Stzompka (1999, p. 89) observing that location and address enable clear accountability, to which this chapter now turns.

(iii) Locality

The importance of locality in sub-Saharan Africa is evident when state provision of education is completely lacking (Tooley, 2009). Schools are local catchment-driven entities (Roddis, 2020) and the proximity of school to home is important, with parents preferring their children to attend a school within 2km walking distance of the home (Rosales-Rogge et al., 2014). Porter et al. (2017) find evidence in Ghana, Malawi and South Africa of the importance of proximity to home in determining school attendance. Where state schools do exist, their locations can be inconvenient or inadequate due to overcrowding (Kitaev, 1999). Edwards, et al. (2015) highlight the lack of state provision as in Mathare Valley, the oldest informal settlement in Nairobi, Kenya, where in addition to extreme exclusion and poverty, the community has minimal access to state schools with only three state

primary schools in a child population of 250,000.[24] Adelabu and Rose (2004) offered the explanation that the non-state sector in Nigeria had grown in response to state failure to provide primary schooling which is both accessible and of appropriate quality. Where state schools are inadequate or non-existent, parents choose non-state schools instead (Dixon and Tooley, 2012).

Although distance to school, education quality and cost affects choice of school, physical distance may be more important in low-cost schools serving disadvantaged populations (Whaitanji and Mutisya, 2021). The importance of locality is underlined by the associated travel costs if households send children to distant state schools. Porter et al. (2017) attribute travel costs as contributing to very low numbers of children attending private or state senior secondary schools in Ghana (1.8%) and Malawi (6.3%). Gertler and Glewwe (1990) observe that parents are willing to pay more to reduce travel time to school, and such choices may be driven more by proximity than quality considerations, especially for parents with young children, who may feel safer walking as a group or with an escorting adult.

(iv) Trust, reputation and safety

"Trust is relational" (Hardin, 2002, p.3) and in low-income communities is linked to the proprietor's character and reputation. Lyons and Mehta (1997) distinguish between self-interested trust and socially oriented trust, finding that efficient exchange relations are facilitated when the parties trust each other. In order to secure continued payment of fees, low-cost schools need to keep parents satisfied and so attract more pupils through reputation (ILM, 2014). The past deeds of the enterprise build its reputation (Stzompka, 1999). Verification of whether a party is trustworthy relies on their reputation before entering a relationship and assists in addressing the uncertainty of performance and the vulnerability of the truster (Lazaric and Lorenz, 1998).

Within a low-cost school context, strong trust is operating (Gold, 2014). School proprietors are motivated to deliver on their commitment to provide quality education to children, are concerned

[24] See https://dignitasproject.org. Accessed 21 February 2022.

for their wellbeing and build goodwill to reinforce the school's reputation (Tooley, 2009). School numbers depend on reputation, which in turn depend on performance (Rolleston and Adefeso-Olateju, 2014). In a Ghanaian context of weak legal regulations and institutions, Lyon (2006) finds that trust is shaped by culturally specific norms and patterns of reciprocity. Trust is built through having information on the reputation of others and sourced from kin and community (Lyon, 2006). Trust and reputation reinforce each other in Monrovia, Liberia, where a key reason for choosing a low-cost school includes a reputation of trust built around a strong disciplinary environment (Dixon and Humbles, 2019). [25]

Stzompka (1999) links trust to three primary elements: reputation, performance and physical appearance, with past history playing a key role in establishing reputation. Trust is built on the past history of relationships that demonstrate trust or distrust. Trust tends to be built up slowly, so length of operation contributes to reputation (Lyon et al., 2015). Gao et al., (2017) find that reputation facilitates survival in ways that persist over time in challenging, uncertain environments, with reputation comprising prominence, perceived quality and an ability to withstand difficulties such as economic shocks. In Lagos, Rosales-Rogge et al. (2014) found that, although low-cost schools operated in the informal economy, 85% had been operating for more than six years and 56% for more than eleven years.

A key reputational factor linked to provision of ECD that informs parental choice is child safety, with children being in an environment where their teachers know their names and care for them all day rather than wandering out of the state school compound (Härmä, 2021). Adelabu and Rose (2004) observed that low-cost schools operate longer hours that state schools, effectively providing childcare for working parents. Safety also informs parental choice of school, with parents wishing

[25] Other reasons, consistent with other observations in the literature, included the quality of teaching (attendance and care) and safety and proximity to home (within walking distance and trusted by the community) (Dixon and Humbles, 2019).

children to avoid a journey that involves such dangers as crossing busy roads or navigating public transportation (Tooley and Yngstrom, 2014).

Child safety also includes avoiding situations of sexual violence perpetrated by teachers (Dunne et al., 2006). Parkes et al. (2016) found evidence that girls frequently drop out-of-school due to sexual violence, with male teachers taking advantage of their position of authority in the classroom. Teachers at low-cost schools are often young and female secondary school leavers from the local community (Rosales-Rogge et al. 2014). This may contribute towards these schools having a reputation for providing a safer environment than state schools, where there is a fear of male teachers exchanging grades for sexual favours (Dunne et al., 2006). This can be a significant problem in schools that are located some distance from the community where the children and parents live, in contrast to low-cost schools, where teachers, parents and children normally reside in close proximity, which facilitates greater accountability. Related levels of trust between teachers and parents can therefore be expected to be higher in the event of teacher malpractice (Dunne et al., 2006). Thus, low-cost schools may be perceived to be safer places for children generally, and girls in particular.

In many African countries, the historical norm has been to teach children in a colonial language given that the objective of many parents is for their children to be literate in it (Evans et al., 2020). The reputation of low-cost schools may be enhanced by using such language as the medium of instruction, which is often English, whereas in state schools English is taught as a subject only from age 11 (year 5) (Dixon, 2013).

This thesis contributes to the literature given that in emerging markets there is limited research on how reputation functions (Gao et al., 2017).

(v) Social enterprise and affordability

Doherty et al. (2014) define social enterprises as organisations that combine business with an embedded social purpose. This is consistent with Adam Smith's observation that human beings are

not solely guided by self-interest but also by sympathy (Smith, 1759). It is noteworthy that Edoren (2018) finds that low-cost schools in Lagos see themselves as social enterprises, and where they provide early-years care, it arises from women entrepreneurs meeting parental demand. Although the schools must generate sufficient income to cover costs and be sustainable, the clear motivation is the care and education of local children (ibid.). This characteristic informs the need to keep school fees low to be affordable in low-income communities. Low-cost schools offer concessionary spaces to AIDs orphans, street children without families or to families unable to afford the full fees (Heyneman and Stern, 2013). Affordability is important when one considers that most of the children attending these schools, and in particular the lowest fee schools, are from low-income households where the per capita income of the poorest is less than US$2 per day (Tooley, 2009). In the absence of household asset and income information, Härmä (2011) used the minimum wage in Lagos of N225,360 (US$1,323) per annum to calculate school fees as a percentage of income. These were, on average, 8.3% for uncertified schools in Lagos and 18.3% for certified schools, indicating that parental sacrifice is necessary to access low-cost schools. Edwards et al., (2019) find that families in the low-income community of Mtendere in Lusaka, demonstrate the value they place on education by making it the third largest expenditure, after food and housing.

Even where state schools do exist, they are not free (Adelabu and Rose, 2004) and parents pay for uniforms, materials, Parent Teacher Association fees, extra tuition from state teachers, examination entrance fees and other costs (Härmä, 2011). In Lusaka, Edwards et al. (2019) find the annual cost of state schools to be US$15, compared with a mean termly fee of US$39 in low-cost schools. Moreover, in some regions, non-state schools can cost less than state schools when taking into account informal fees charged by state schools (OI, 2020). The ability of low-cost schools to charge school fees that are affordable to their low-income communities is heavily dependent on a ready supply of relatively low-paid teaching staff (Rolleston and Adefeso-Olateju, 2014). Even so, both low-cost school fees and state schools' non-tuition fees are not affordable to the very poor (Alcott and Rose, 2016).

As economically active parents in low-income urban communities tend not to have extended family members with whom they can leave their pre-school children during the day, they resort to childcare, typically provided by enterprises run by women (World Bank, 2020). Having safe, early childcare increases employment opportunities for women in informal areas (Edwards et al., 2019) particularly in service industries. In Lusaka, over 90% of the ECD centres are low-cost, and school operators tend to be former teachers, businessmen and women or religious leaders, with the schools charging on average 2.5 times the level of fees charged by state schools (Edwards et al., 2019). Teachers stay after the teaching day and provide a childcare centre (Adelabu and Rose, 2004).

According to the 2010 Lagos census, many schools had been established by women, indicating a community-based response to a social need (Härmä, 2011). Instance and Paniaagua (2019) find that such schools provide other services, such as increased health and nutrition, and are seen as social centres, not just places of education. If this social agenda is true of most low-cost schools, it may contribute to the levels of trust established between the school and households, particularly if, as Gambetta (1988) identifies, the school owner has a sense of obligation to fulfil their duty and a willingness to place the interests of others above their own.

5 Conclusion

This thesis looks to add new insights to the political economy of education and low-cost schools. It establishes bridges between the political economy, institutional and trust theory literatures when considering the financing of low-cost schools in Africa. This provides a context and a framework of themes that inter-relate to facilitate addressing the research questions. The political economy of education policy affects the shortfall in state provision of ECD and primary education and provides some explanation for why low-cost schools appear to be unrecognized by regulators and official international bodies. The political economy of regulations (rules and institutions which vary across contexts) shape the entrepreneurial activity of low-cost schools, obtaining of certification and access

to finance. Power asymmetries and corruption affect the funding available for state education and non-state schools.

The concept of institutional voids is a useful nexus between institutional theory and the literature on political economy and trust, particularly as it relates to weak regulatory environments and a lack of financial intermediaries serving the poor. Interweaving these elements with the trust placed in low-cost schools, which appears to operate well on the basis of mutual trust and an implicit sense of obligation (Sen, 1999), provides a contrast to the trust deficit between households and state schools, low-cost schools and regulators, and low-cost schools and conventional providers of finance.

This research aims to address a lack of data on the shortfall in state education provision and the extent of low-cost school education provision. This lack of information is partly due to institutional weakness in regulatory institutions and the omission of uncertified schools from official statistics (Härmä, 2011; Baum, 2018; UNESCO, 2021). The thesis looks to contribute to the literature in three areas: the political economy of education; institutional voids and access to finance; and trust. This chapter reviewed literature in each of these areas.

The literature on the political economy of education in Africa is scant. Accordingly, this thesis looks to contribute to knowledge concerning the political economy of education policy, certification and government funding of low-cost schools. This thesis explores the impact of power asymmetry on low-cost schools and their access to finance. The literature indicates that institutional voids within regulatory bodies and ministries contribute to levels of corruption and leakage of funds for social spending such as education (Easterly, 2006; Moyo, 2010; Baum et al., 2018a). The research considers the domestic political economy aspects contributing to corruption, as revealed by the interaction of the state with low-cost schools. Information asymmetry, and its importance in the establishment of trust between households and both state and non-state schools is explored. The thesis also investigates the importance of ECD provision by low-cost schools and its relevance to education

quality delivered and its contribution to establishing trust with households (Sako, 1998). Few African governments have prioritised ECD from a policy perspective (Devercelli and Bowen Day, 2020).

Similarly, there is little literature on the financing of low-cost schools, and this thesis furthers knowledge in this area. In the light of the barriers to conventional finance faced by traditional SMEs, this research looks to address the point made by Beck (2013) that there is a need for more data on the importance of SMEs in the real economy and on the financing of them. This research contributes to the understanding of SME access to finance where the SMEs in low-income countries operate in a regulated sector, such as education.

The application of institutional voids to the financing of low-cost schools is novel and draws on the micro-finance literature which exemplifies the role financial intermediaries with a social mission (MFIs) can play in addressing such voids. The case studies investigate emerging financial intermediaries servicing the low-cost school sector and attracting impact investor finance.

Finally, this chapter reviewed literature which highlights a number of trust deficits that appear to exist with respect to low-cost schools and banks, low-cost schools and regulators and households and state schools. Research in Lagos highlights that there is a trust deficit between education regulators and low-cost schools, with only 25% of the schools being certified (Härmä, 2011). There is a trust deficit between households and state schools, with only 30% of children attending the same (Edoren, 2018). The trust literature sheds light on key aspects that help explain these observations and inform the research performed in this thesis. There is little research on how information asymmetry impacts policy and funding of low-cost schools, nor of how such asymmetry impacts levels of trust in state and low-cost schools.

There is a trust deficit between banks and low-cost schools, with only 29% of such schools in Lagos obtaining finance (Rosales-Rogge et al., 2014). Information asymmetry contributes to the risk aversion of banks to lend to enterprises without financial information (Beck and Cull, 2014). The thesis examines if such asymmetry exists in a context of low-cost schools operating in low-income

communities. The economic literature is also dominated by studies advocating the transfer of Western, neo-colonial market-oriented trading practices while largely ignoring the developmental issues of institutional infrastructure that support them (Cantor et al., 1992). By studying this phenomenon of low-cost schools, the thesis looks to address this dominance.

Chapter 3. Research methods

This chapter outlines the conceptual framework adopted and the research methods, design and data collection to establish and understand the phenomenon of low-cost schools in Africa, their financing and their experience in accessing finance. Data collected from primary research on 1,390 low-cost schools in seven cities allows for cross-national comparisons, indicating factors that provide a broad understanding of this phenomenon and the challenges of accessing finance. Two case studies add to the seven-city findings and explore how barriers to finance faced by low-cost schools might be addressed. Interviews with the two case study, low-cost school operators are triangulated through semi-structured interviews with relevant actors including regulators, low-cost school associations, parents of children attending low-cost schools, providers of conventional finance such as banks, providers of non-conventional finance such as impact investors and DFIs, international aid donors and policy advisors.

The data obtained from empirical research, combined with insights from the review of the relevant literature, shed light on the main research questions of the thesis: (1) What factors contribute towards the shortfall in the supply of state education in Africa?; (2) What is the role of low-cost schools in this context?; (3) How are low-cost schools financed?; (4) What factors contribute to the lack of access to finance faced by low-cost schools?; (5) How can the lack of access to finance faced by low-cost schools be addressed?

1 Research design and conceptual framework

The research methods adopted in the thesis have been informed by other studies in this area and by the author's experience in the Developing Effective Private Education Nigeria (DEEPEN) programme in Lagos.[26] The literature on low-cost schools (Prahalad, 2005; Tooley, 2009; Duflo, 2011; Dixon, 2013; Jerrard, 2014; Banerjee et al., 2015; Caerus, 2016; World Bank, 2018a; Härmä, 2021) indicates

[26] The author was senior adviser on the finance stream of work of the DEEPEN programme from 2013 to 2018, supporting local colleagues in Lagos. On average two visits a year were made to Lagos to engage with low-cost schools, the financial sector, government, aid agencies and other stakeholders.

that a shortfall in state education could be expected in the research cities. Because of the omission of uncertified schools from official data, the actual extent of low-cost school education provision is lacking in official statistics (Härmä, 2011; Baum et al., 2018a).

The 2010 Lagos school census mentioned in Chapter 1, Section 1 indicated that 70% of children were attending non-state schools (Härmä, 2011) and that official figures understated the percentage of children enrolled in non-state schools by a factor of 1.9x.[27] Uncertified schools exist in low-income communities where the shortfall in state provision is most evident (Härmä, 2011). Where official country figures are incorporated into statistics on education by bodies such as UNICEF and the World Bank, their figures will understate the role low-cost schools are playing in low-income countries.

Given that official data can be expected to ignore the role of uncertified schools and that a full school census was not feasible, a purposive sample of seven cities, in which to conduct a survey, was chosen with a particular focus on low-income communities. Cities were selected to provide representation from east, west and southern Africa. Capital cities were chosen as they tend to be the largest urban centres and were the easiest locations from which to engage with government officials responsible for education policy and regulation.

Figures 3 to 5 show, step-by-step, the various components of the conceptual framework adopted. Figure 3 indicates the sources of finance for state education (typically domestic government funding and international aid) and the factors that contribute to the shortfall in education provision, drawing on the themes of political economy, institutional voids and trust. Figure 4 illustrates the conventional sources of finance for low-cost schools (fees and bank finance) and the factors that contribute to the shortfall in supply of finance, drawing on the theoretical themes. Figure 5 illustrates the sources of finance for education identified in Figures 3 and 4 (government, aid, parental fees and conventional borrowing) plus alternative sources of finance, such as impact

[27] Own calculation.

investing, that could be available to low-cost schools. Figure 6 combines the elements of Figures 3, 4 and 5.

The framework evolved during the course of the research and was informed by the literature, data generated from the seven cities surveys and interview participants' responses. The framework considers the factors that contribute to the shortfall in state education, along with the role of low-cost schools within this context, and the shortfall in finance faced by such schools and sources of finance that might be accessed. This thesis adopted a qualitative approach to collecting data in the research cities to establish the extent of non-state schools vis-à-vis state schools in low-income communities and to address the following:

(i) The shortfall in state education in the seven research cities and the role of low-cost schools

To arrive at the extent of low-cost education provision, in collaboration with local contacts, areas were selected as being typical of low-income communities in each research city.[28] All schools in these areas, both private and state, were then visited to identify the number and type of schools (pre-primary and primary) operating in those areas and other key data. This provided a comprehensive picture of the school population and its composition in those locations. For example, in Kampala, of the 464 schools identified in the low-income areas, 438 (94%) were non-state, indicating the prevalence of such schools. Combining this primary research with official government statistics of state and certified school enrolments, it was possible to arrive at an estimate of the

[28] Low-income communities are sometimes called slums or informal communities and initially dwelt in by individuals and households migrating from rural areas or other countries. Over time, if not removed by the authorities for illegally occupying the land, such communities become established, even if not formally recognised by government authorities. Typically, these communities are given a name by the local people to identify them and distinguish them from other communities, such as Prampram as distinct from Banana Inn in Accra. They often comprise households living in informal houses erected out of materials such as wood, corrugated iron and breeze blocks. The land is seldom owned by the house owner but is often government owned on the outskirts of the central urban area. Typically, in the early days of such community development, there is little physical infrastructure such as tar roads, sewage systems, piped water and civic buildings. Governments can be averse to providing such infrastructure (including schools) for fear this could be seen as official recognition of an informal settlement that is illegally occupying the land.

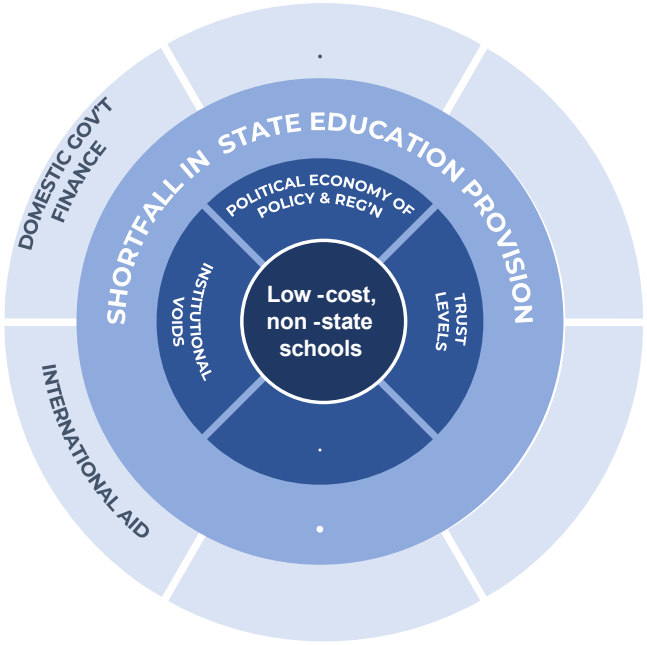
extent of non-state education provision per city. Section 3.1 below illustrates the basis of calculation for Kampala.

To obtain detailed information about the low-cost schools, a random sample of approximately 50% of the schools identified was drawn proportionately from the neighbourhoods where the schools were listed. Schools were surveyed to identify key characteristics such as history, fee levels, certification status, enrolment numbers, teacher and staff numbers, teacher qualifications and pupil-teacher ratios (PTRs).

The collection of such data was designed to identify factors contributing to the shortfall in government school provision and the choice parents make to send their children to low-cost schools. As seen in the survey of the literature, the existence of low-cost schools is partly due to the inability or unwillingness of government to provide state education, notwithstanding the strong demand from parents for quality education. Where there is insufficient provision, or the perception of quality in state schools is considered inadequate, low-cost schools step into the gap to address this demand (Tooley, 2009; Baum et al., 2018a; Härmä, 2021).

In the light of the theoretical themes outlined in Chapter 2, a framework was developed to assist with this research. The investigation of factors that contribute to the shortfall in government school provision and the choice parents make to send their children to non-state schools are included in the following section.

Figure 3 Factors contributing to shortfall in state provision and low-cost schools



In Figure 3, the outer circle indicates the sources of finance drawn on by state schools in low-income countries, namely government finance and international aid through budget support. Parents are not required to pay for tuition in state schools but do pay non-tuition related costs including uniforms, materials, exam entrance fees and parent teacher association levies (Tooley, 2009).

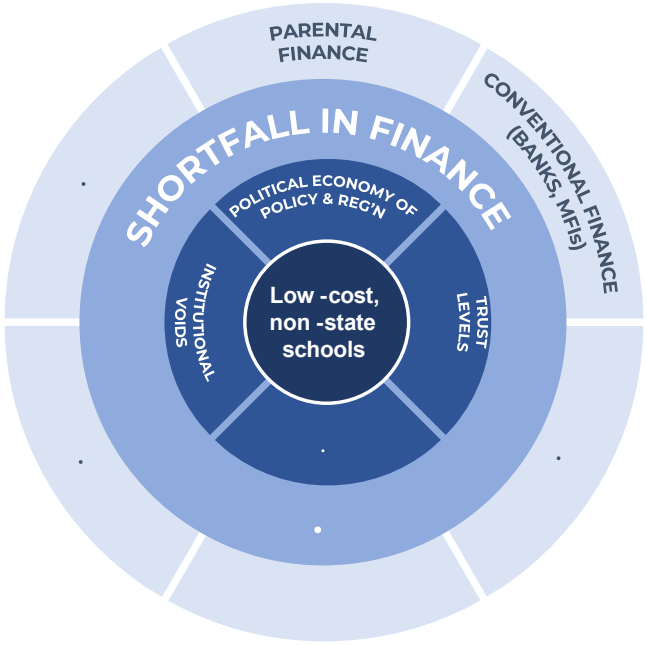
Where funding provided by domestic government and international aid (*the outer circle*) is insufficient to meet growing demand for education, this results in a shortfall in the supply of state schools (*third circle*) and the phenomenon of low-cost schools appears (*first circle, in the centre*). Drawing on the theoretical themes (*second circle),* various factors contribute to the shortfall in state provision of education and the existence of low-cost schools and are considered in the research findings of Chapter 4.

(ii) The financing of low-cost schools and the shortfall in the supply of finance to low-cost schools in the research cities

To understand how low-cost schools have been financed, the school surveys (Appendix 1) explored the sources of income to which they had access, the fee levels they charged, the banking relationships they had, the length of time the schools had been operating, and to what extent

schools had been able to access conventional finance. Data from school surveys included the amount of finance schools hoped to raise over the next three years and for what purpose. These data were then collated and calculations made in order to estimate the demand for finance per city and to give a combined seven-city estimate of a US$1.8 billion shortfall in the supply of finance to low-cost schools. Responses were used to identify factors that might contribute to this shortfall, drawing on the theoretical themes in Figure 4.

Figure 4 Financing of low-cost schools and factors contributing to the shortfall in finance



The *outer fourth circle* indicates the sources of finance drawn on by low-cost schools, these being parental finance in the form of fees and conventional finance. Research found that low-cost schools (*first circle)* in the seven cities receive no funding from domestic government or international aid. Factors that appear to contribute to this shortfall in supply of finance are informed by aspects of political economy such as certification, institutional voids such as unbanked schools and asymmetry of financial information.

(iii) Addressing the shortfall in the supply of finance to low-cost schools in the seven research cities

Follow-up research was performed through two case studies of low-cost school operators to add to the seven-city findings regarding factors that contribute to the shortfall in state education (research

question 1), the role that low-cost schools are playing (research question 2), how low-cost schools are financed (research question 3) and the factors that contribute to the lack of access to finance (research question 4). Interviews with case study interviewees used the checklist instrument in Appendix 2.

The case study approach used is compatible with the conceptual framework adopted, as it engages with actors to explore perceptions of the phenomenon of low-cost schools and their access to finance. A case study is not easily defined since it is an approach to research that has emerged from a range of disciplines. However, Miles and Huberman (1994) and Yin (2003) agree it is an intensive, in-depth, holistic study of a social phenomenon within its specific context. The literature focuses on several aspects of a case study: first, the research process where the boundaries between a phenomenon's variables and their context are not clearly evident; second, the unit of analysis, which is always a bounded system and may be child, a school, or a community; and third, the end product. Qualitative case studies have been characterized as being particularistic, descriptive and heuristic (Merriam, 1998). They investigate the complexities of the phenomenon; dissect different perceptions often demonstrating the influence of critical actors; generate greater understanding; provide new meanings, relationships and insights that may lead to a reconceptualization of the phenomenon; suggest ways forward; and may influence future practice and policy (Merriam, 1998).

Semi-structured interviews are well suited for the exploration of the perceptions and opinions of respondents regarding complex and sometimes sensitive issues and enable probing for more information and clarification of answers (Barriball and Wile, 1994). Interviews with case study operators were triangulated with interviews with parents, regulators, school associations, education policy advisors and providers of finance, including international aid agencies, banks, MFIs and impact investors (together, case study interviewees). In-person interviews by the author with school operators and several providers of finance had been completed by the time of the COVID-19 pandemic, and semi-structured interviews with the remaining case study interviewees were carried

out via phone or a virtual means of communication. All participants were fluent in English, obviating the need for translators.

The purposive selection of the case study operators and case study interviewees was designed to add to the findings from the seven-city research in response to the first four research questions. A case study approach facilitated the exploration of research question 5, i.e., how the lack of access to finance faced by low-cost schools might be addressed.

To the best of the author's knowledge, at the time of research, there were few other low-cost schools in the seven cities that had received non-conventional finance.[29] The case study school in Nairobi provided an example of a school chain that had received non-conventional finance in the form of impact investing. In the absence of a low-cost school in Abuja that had received non-conventional finance, a low-cost school in the Lagos was selected that had received both impact investing and conventional bank finance. The Lagos case study operates one affordable early-years and primary school and a secondary school from the same site. The Nairobi case study operates a chain of 220 schools in Nairobi and throughout Kenya.

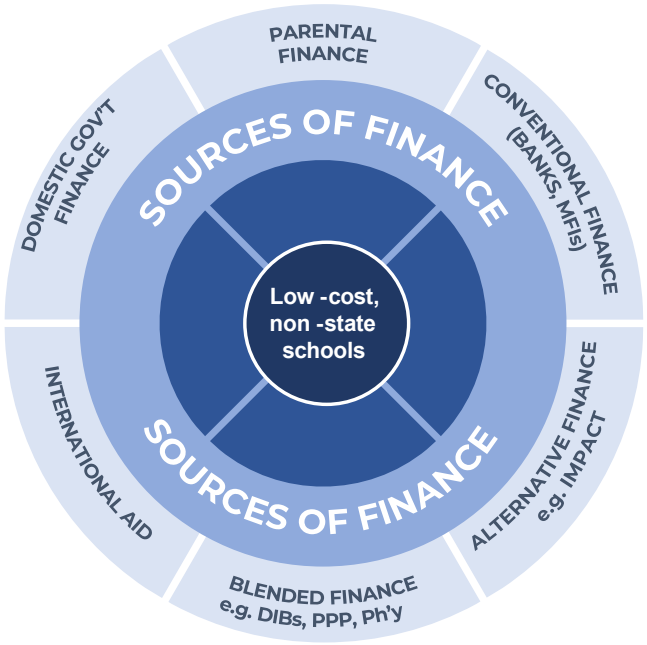
Domestic and international political economy factors, such as pressure from teaching unions and international NGOs, were explored to investigate what impact they might have on the provision of finance to the low-cost school sector. The strength of state and non-state institutions, institutional voids and their impact on access to finance, plus desirable policy changes, were also explored. Interviews covered issues of trust with regulators, parents and providers of finance. Interviews addressed the role of non-conventional finance for the low-cost school sector and what might be the individual or combined roles of government finance, international aid, philanthropy, impact investing, non-bank financial institutions, public private partnerships (PPPs) and development impact

[29] Omega Schools in Ghana is one example, having attracted impact finance from PALF and Imaginable Futures (formerly Omidyar) See https://omega-schools.com/. Accessed March 2022.

bonds (DIBs). Issues of the researcher's positionality and reflexivity were constantly reviewed, as commented on below in Section 5.

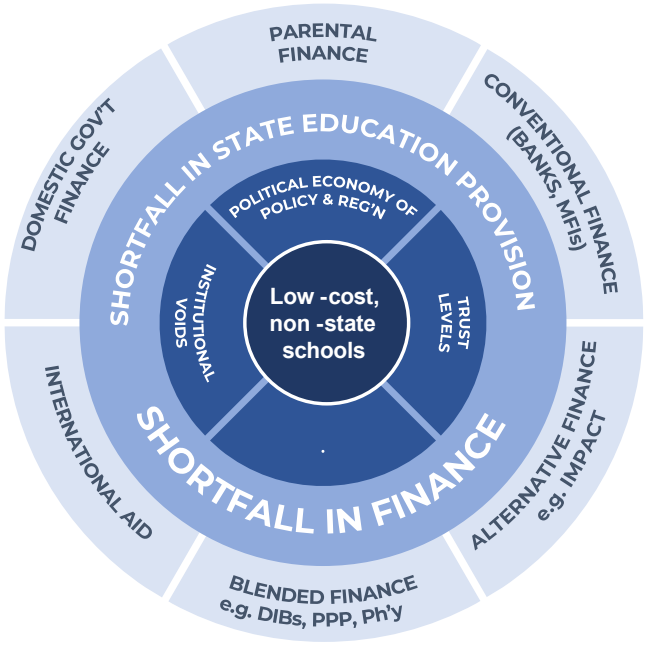
Figure 5 indicates sources of finance that could be accessed by low-cost schools.

Figure 5 Sources of finance for low-cost schools



Combining figures 3, 4 and 5 above provides a conceptual framework as illustrated in Figure 6.

Figure 6 Conceptual Framework



The *inner circle* is the phenomenon of low-cost schools that is the focus of this research.

The *second circle* from the centre describes theoretical themes drawn upon to assist with answering the research questions. The research finds that asymmetry of information plays a role in both state policy and low-cost schools' access to finance.

The *third circle* from the centre outlines the focus of the research questions. The first two questions are concerned with factors contributing to the shortfall in state education provision and the role of low-cost schools. The third and fourth research questions are concerned with the financing of low-cost schools and the factors that contribute to the shortfall in the supply of finance to these schools. The fifth research question considers how the barriers to finance might be addressed.

The *outer circle* describes the actual and potential providers of finance to low-cost schools in Africa. These range from the current providers of finance to state schools (government and international aid) to providers of finance to low-cost schools, including parents and conventional FIs such as banks plus non-conventional sources, including impact investing and philanthropy. Chapter 7 discusses how sources of finance such as domestic government and international aid that have historically focused on state schools could, with the necessary policy changes, play a role in financing low-cost schools.

2 Data collection

To obtain data in the seven research cities, over a three-week period, local research teams were trained and data collection took place. Two teams were used consisting of four enumerators and one supervisor. The supervisors were graduates with at least five years of field experience, while the enumerators were graduates with little or no experience in data collection or fieldwork. The gender composition of the teams was 50:50. Training comprised of in-class training using a seminar format on the first day, with further familiarisation with the survey instrument and role-play (mock interviews) taking place on the second day. The third day was dedicated to piloting the instrument in the field, with the team coming back together in the afternoon to discuss the experience, lessons learned and any changes that would be needed on the survey questionnaire. Small changes to the

survey instrument were made when needed to take account of slight differences in terminology or for local aspects of the education system. The pilot, school listing, and all school survey questionnaires were carried out using the 'Survey to Go' software on small, mobile phone-sized tablet devices.

After piloting and modifying the questionnaire, the main fieldwork commenced with four days of school identification and listing. In each city, teams were split up to comb every street and alley of selected low-income areas to find and list all schools. Questioning of multiple people helped identify all schools in the sampled areas. A school was included provided that it was the main or only institution attended by children enrolled and the national curriculum taught. If the school was faith-based, it would be excluded if religion was the only subject taught, but included if core subjects of the national curriculum were taught. Childcare centres providing crèche (day care) services only were not intended to be included in the study, but where schools with pre-primary upwards also had crèche, information was gathered regarding this level of provision. Private (supplemental) tutoring centres and "cramming" centres, which help older pupils pass examinations, were not included (and in any case, few were found).

Approximately 50% of listed schools were randomly selected and followed up over eleven days by the researchers, who arrived at schools unannounced to conduct the survey. Unannounced visits were preferred to obtain a candid impression of the school, but when the proprietor or other appropriate person was not available, an appointment was made to return. Some interviews had to be conducted over two days if certain information was unavailable, and in other cases, certain missing details were sought later by phone. Meetings were held with regulators and school associations.

Data collection was carried out in each city as follows:

Abidjan

Research was performed in the low-income areas of Abobo, Yopougon and Port Bouet. Of the 344 schools identified, surveys were carried out with a random sample of 150 (44%) in March 2018.

Abuja

Research was performed in low-income communities of Mpape, Kabusa, Karmo and Gwagwa (two adjacent communities), Karon-Majiji and Kuchingoro (two smaller adjacent communities), and Kikwoyi. Of the 491 low-cost schools identified, surveys were conducted with 258 (53%) in February 2016.

Accra

Research was performed in low-income areas of Accra Metropolitan, Ashaiman Municipal, Ga Central Municipal, Ga East Municipal, Ledzokuku-Krowor Municipal, Ningo Prampram and Shai Osudoku. Of the 634 low-cost schools identified, surveys were conducted with 242 (46%) in November 2017.

Dar es Salaam

Research was performed in low-income areas of Mbagala and Temeke. Of the 327 low-cost schools identified, surveys were conducted with 212 (65%) in April 2016.

Kampala

Research was performed in low-income communities of Kawempe, Makindye, Rubaga 1 and Rubaga 2. Of the 438 low-cost schools identified, surveys were conducted with 223 (51%) in June 2016.

Lusaka

Research was performed in the low-income communities of Lilanda and George Compound, Kanyama and John Laing, Mtendere, and Chawama. Of the 352 low-cost schools identified, surveys were conducted with 209 (59%) in May 2016.

Nairobi

Research was performed in low-income communities of Githurai, Mountain View, Kilimani, Kimaiko, Dandora, and California. Of the 259 low-cost schools identified, surveys were conducted with 96 (37%) in February 2016.

3 Research methods and instruments

Research methods and instruments were deployed as follows:

3.1 Seven cities—the shortfall in state provision and the role of low-cost schools

To arrive at estimates of the shortfall in state provision, the research findings were combined with the official data regarding children enrolled in state and certified schools whilst recognising official figures on uncertified schools are absent. Calculations on the extent of non-state education provision was performed on a city-by-city basis, as illustrated below in the case of Kampala. The general approach was to calculate from official city population data (for example, from the latest census where available) the school-going population (pre-school and primary). Official data on children enrolled in state and certified schools at the latest available date provided the numbers that government had recorded. To establish the total number of actual children enrolled as opposed to the official number, household survey data was used to give a gross enrolment ratio (GER) figure indicating what percentage of children are in any type of school. Applying the GER to the school-age population of children gives an estimate of the number of children enrolled in school. Deducting the official number of enrolled children from the estimated enrolled number of children indicates the number of children in school who are very likely in uncertified schools. Dividing that number by the average number of children enrolled in low-cost schools (based on the surveys with low-cost schools) enables the number of schools to be derived.

Taking Kampala as an example, the latest National Population and Housing Census data (2014) indicated the number of the city's pre-primary aged children to be 167,420 and primary aged children 360,857, giving a total school-aged population of **528,007**. Official numbers of children

enrolled in school per government census figures provide the number of children enrolled in pre-primary and primary schools as follows: in 2014 there were 61,520 children in government schools, 45,100 children in certified non-state pre-primary schools and 103,789 certified non-state primary schools. Adding children in non-state schools (148,889) with children in state schools (61,520) gives a combined state and non-state school enrolment of **210,409**. These figures indicate that officially, 40% (210,409 out of 528,0070) of pre-primary and primary aged children are in school and that the state is educating 29% of enrolled children.

However, the 2012-13 Uganda National Household Survey indicates that the Kampala primary school Gross Enrolment Rate (GER) is 108.7 (no data is available for pre-primary) and not expected to have changed significantly by the date of the research in 2016.[30] Applying the GER to the census figures for primary-aged children gives the actual number of children in primary school as **392,251** (1.087 multiplied by 360,857) to which the official pre-primary children of 45,100 is added to give **437,351** children enrolled in pre-primary and primary (**83%** of school aged pre-primary and primary children, 437,351 out of 528,007**)** and an out-of-school percentage of **17%**. It follows that 226,942 children (437,351 enrolled minus the official 210,409) are mainly in non-state uncertified schools. Deducting the state schools' number of 61,520 from this total of 437,351 enrolled pre-primary and primary-aged children indicates that **375,831** or **86%** of enrolled children are in non-state pre-primary and primary schools.

4.1 Seven city research

Data from the surveys established the main challenges faced by low-cost schools: unpredictable cash flow, lack of access to credit and the experience of low-cost schools in accessing other forms of

[30] GER is the ratio of total enrolment, regardless of age, to the population of the age group that officially corresponds to the level of education shown. This can be greater than 1 where children are held down a school year when end of year exams are not passed (World Bank, 2018)

finance. 15% of schools had been able to access finance from conventional sources (see Chapter 4, Table 2). Factors contributing to this shortfall were identified and comparisons made between cities.

To calculate the low-cost schools unmet demand, have for finance, a similar approach was adopted for each city. Surveyed schools were asked whether they have a need for finance and, if so, what it would be over the next three years and for what purpose. This generated an average amount that both certified and uncertified schools in each city looked to borrow. Typically, certified schools were larger and wanted to borrow more. Given that a school may have a demand for finance but might not be profitable, the calculation of total loan demand took the average loan amounts per certified and uncertified schools and limited the number of eligible schools to the proportion of schools that were profitable, as obtained from the data in the surveyed schools. The justification for this approach was that banks would be averse to making loans to loss-making schools.

Taking Kampala as an example, 93% of the sampled low-cost schools indicated that they were profitable and able to service a loan. The sampled certified schools had an average three-year[31] demand for finance of US$17,295 per annum; for uncertified schools, the figure was US$11,756. Applying the 93% profitability percentage to the two categories of certified and uncertified school population provided the potential number of profitable schools that could in principle take out a loan. Multiplying the number of profitable schools (inflated in years 2 and 3 for the 6% historic growth rate of non-state schools)[32] by the finance desired (increased by the historic rate of inflation of 10% in years 2 and 3) generated a demand for expansion finance of US$99m for land, new classrooms, equipment and vehicles. To this was added the demand for working capital of US$58m, equal to three months' operating costs and demand for staff loans of US$5m, equal to 20% of staff taking loans of three months' salary. The combined total demand for finance in Kampala was **US$162million.**

[31] 3-years was assumed to be a reasonable period for schools to estimate their financial needs.
[32] Based on historic growth in the surveyed schools.

3.2 Case studies

In the light of the findings from the school surveys and the conceptual framework above (Figure 6), semi-structured interviews investigated the first four research questions in further depth and addressed the fifth question concerning how barriers to finance might be addressed. An example of the semi-structured interviews instrument is in Appendix 2 for providers of finance.[33]

The researcher made contact with research participants in Lagos and Nairobi, drawing on networks established during the DEEPEN programme and from professional networks established when investing in sub-Saharan Africa for organisations such as CDC. Interviews were conducted with the school operators to understand the barriers to conventional finance, how trustworthiness was established with impact investors and how impact investing finance differs from conventional finance. Impact investors were interviewed to understand their perceptions of the shortfall in the supply of education by the state, the role low-cost schools are playing and barriers to finance faced by such schools. The research explored the barriers investors face and how trustworthiness was built with the investee school operator.

Other stakeholders, including education regulators, financial institutions, school associations, aid agencies and policy advisors were interviewed to explore issues of political economy, institutional voids and trust as well as to identify the barriers to finance faced by low-cost schools. Interviewees were asked how such barriers might be addressed and how trustworthiness could be built between low-cost schools and providers of finance, including impact investing and government.

The following table shows the number of in-depth, semi-structured interviews that took place in person and remotely over the period April 2018 to August 2020 with reference to the type of participants.[34]

[33] Other instruments for regulators, policy advisors, impact investors and school operators etc are available on request.

[34] Details of participants can be provided on request.

Table 1 Participant case study interviewees[35]

Interviewee	Target	Actual
Operator /proprietor	2	2
Regulator	2	2
School association	2	2
Impact investor	4	7
FI - banks, MFIs	4	9
Non-bank FI	2	2
Policy advisor	4	6
Donor agency	2	4
Total	**24**	**34**

4 Ethical issues

The nature of the research was deemed to be low risk per the Central University Research Ethics Committee (CUREC). Approval for this research and the school survey and case study interview instruments was received in Hilary term 2016. Undertakings of confidentiality were provided to interviewees to facilitate unambiguous and informative replies to research questions. Completed participants consent forms for the case study interviews are stored in hard and soft copy and available on request. Data was securely stored on the researcher's computer and backed up on the University of Oxford's secure servers.

5 Research validity, limitations and positionality

A number of challenges were encountered in the process of surveying schools, with some respondents being reluctant to speak openly about rent-seeking by government officials and about school financial performance, for fear of such information finding its way to official bodies such as tax authorities. However, such occurrences were few.

[35] Details of interviewee, date of interview and location available on request.

One limitation of the approach taken concerns survival bias among the schools surveyed. SMEs have, in general, a high failure rate, with 80% expected to fail in the first three years of operation (Beck and Cull, 2014; IFC, 2014). By surveying areas in order to locate all the schools operating there, this research finds all schools regardless of how long they have been established. This approach therefore included newer schools as well as older ones. However, although it identifies challenges faced by schools such as unreliable fee payment (true of both those surviving and also presumably those no longer operating), it does not address why some schools have stopped operating altogether. Consequently, it is possible that relevant factors explaining lack of access to finance have been omitted.

A further limitation of the approach taken concerns the potential Africa-wide significance of the research, given its focus on urban centres. It is acknowledged that provision of education by state and low-cost providers can differ significantly in urban and rural contexts (Tooley, 2009). The findings of this research can be applied to other urban contexts in the countries where the seven cities are located and where similar regulatory regimes and financial sectors exist, but they may not be applicable to rural areas. Factors identified as being relevant to the financing of low-cost schools as drawn out by comparison between different urban contexts will have to be tested to establish how applicable they are to rural contexts.

The thesis recognises the importance of positionality, by which the researcher's own identity as a European, white male and his role in the research interacts with the data collection design, process, and analysis; and the ways in which it shapes the outcome of the research findings. Virtually no researcher approaches the field with no preconceptions; most realize that at the very least, their own training and interests create so-called tacit or personal theories about how the world works and influence what they notice in the field (Preissle et al., 1984).

The professional and academic background of the researcher in Africa facilitated performance of the research. Experience of over 20 years interacting with bank regulators in East, West and Southern

Africa, when the researcher was investing in banks and financial institutions was valuable when engaging with Ministry of Education officials and school regulators. Networks established through teaching on impact investing at Said Business School, University of Oxford from 2013-2022 facilitated access to targeted case study participants (Table 1) and, through snowball sampling, carry out additional interviews until responses indicated content saturation levels. The researcher was able to draw upon contacts with DFIs, aid agencies, the World Bank, UN bodies such as UNICEF, impact investors deploying finance in Africa, education specialists and policy makers.

Research with the DEEPEN programme in Lagos, prior to this research, provided valuable experience in obtaining data from low-cost schools in low-income areas and engaging with relevant actors including parents and financial institutions. Excerpts from interviews have been included in Chapters 4 to 6 to demonstrate the interactions with such actors and to convey relevant, new, trustworthy and worthwhile knowledge (Kvale and Brinkmann, 2009). Intervening periods between the interviews were allowed in order to review the questions and adapt them accordingly.

The practice of constant reflexivity was also employed throughout the study (Hardy et al., 2001). Semi-structured interviews looked to employ open questions wherever possible, with every effort made to allow the participants to identify issues they felt were important rather than to confirm the researcher's opinions. Obtaining data from the seven research cities, and the case studies in two different countries, emphasised the importance of context and that what may hold in one city did not necessarily apply to another. This helped the researcher adopt an approach of openness to new findings, observations and viewpoints.

6 COVID-19

The school surveys in the seven cities had all been completed prior to the outbreak of the COVID-19 pandemic in early 2020, as had in-country visits of the case study schools and associated interviews with operators and, in the case of Nairobi, with a group of parents. The triangulation interviews could not be carried out in person due to COVID-19, so they were performed instead through a

combination of written responses to the interview instrument, follow-up emails, phone calls, and Zoom, Microsoft Teams and WhatsApp conversations. The means of performing interviews revolved around the preference, comfort levels and availability of participants.

7 Conclusion

Data collected from primary research with 1,390 low-cost schools in the seven research cities plus two case studies provided rich data with which to address the research questions. The methodology adopted was deemed appropriate given that such data were not available from other sources. The survey of the literature (Chapter 2), responses to the surveys and case study interviews confirmed that, in the seven countries considered, little research on low-cost schools has been carried out to investigate the delivery of the individual and public good of quality education by these schools. Furthermore, responses from case study interviewees confirmed that little research has been performed on the financing of low-cost schools, their financing needs and their ability to access finance. The thesis now turns to reporting these findings in Chapters 4 to 6.

Chapter 4. Results from research in the seven cities

This chapter reports the findings from the research adopting the methodology and conceptual framework described in Chapter 3. The seven research cities are: Abidjan, Abuja, Accra, Dar es Salaam (Dar), Kampala, Lusaka and Nairobi. After providing a summary of the key findings, this chapter details the full results and makes comparisons between the cities. This comparative approach reveals how differing policies on state versus private provision have been highly significant in affecting the extent of low-cost education provision. Comparisons between cities identify the barriers to conventional finance such as lack of certification and lack of school financial information.

1 Summary of results - education provision

Regarding the actual provision of education by state and non-state schools, Table 2 demonstrates that 52% of children in the seven cities attend non-state schools. The table ranks the results in order of the proportion of enrolled children in non-state schools, from Kampala with 86% to Dar with 14%. Other columns indicate factors such as proxies of education quality that contribute to the decision by households to send their children to low-cost schools rather than state schools.

Table 2 Summary findings–shortfall in state education provision and school choice

City (pop'n million)[1]	**State ed s'fall** Children attending non-state schools	**Affordability** Avg. annual fees charged by low-cost schools US$	**Affordability** Avg. per capita income US$[2] (fee as % of avg. income)	**Ed'n quality** % Qualified teachers in low-cost schools	**Ed'n quality** PTR of low-cost schools (state schools) [3]
Kampala (1.6m)	86%	165	604(27.3%)	89%	23:1 (42:1)
Nairobi (4.4m)	78%	220	1,507(14.6%)	81%	15:1 (31:1)
Accra (4.0m)	58%	107	1,641(6.5%)	17%	24:1 (42:1)
Abuja (4.0m)	45%	102	1,968(5.2%)	64%	18:1 (38:1)
Abidjan (4.7m)	44%	83	3,820(2.1%)	23%	37:1 (42:1)
Lusaka (2.1m)	40%	84	1,509(5.6%)	79%	17:1 (42:1)
Dar (4.3m)	14%	112	936(12.0%)	83%	35:1 (51:1)
Average	**52%**	**125**	**1,712 (7.3%)**	**62%**	**24:1 (41:1)**
State provision	**48%**				

Source: own research and analysis except: 1: Source of 2018 population figures http://www.citypopulation.de. Accessed April 2020; 2: National figures (World Bank, 2018a). 3: National figures of state primary school pupil teacher ratios UNESCO (2018).

The 52% shortfall in state education provision indicated in column 2 is far from uniform and is most evident in Kampala, where the state schools educate 14% of enrolled primary school children and non-state schools 86%, compared with Dar, where state schools educate 86% and non-state 14%. The different policies adopted by the two governments towards non-state schools helps explain such a difference. In Dar, non-state primary schools were not legally permitted until 1995, whereas Kampala allowed such schools decades earlier (UNICEF, 2015). In the area of regulation of non-state primary schools, Dar has been far stricter and discouraged their establishment even after 1995 (UNICEF, 2017). By contrast, school regulators in Kampala have been far more accommodating, giving schools time to meet the minimum requirements of certification (UNICEF, 2015).

Columns 3 to 6 show factors that inform the choice households make to send children to non-state schools. Affordability (Columns 3 and 4), especially in low-income communities, is critical if schools are to attract and retain sufficient fee-paying households upon whom they depend to operate a

sustainable enterprise (Tooley, 2015). Although households spend on average 7% of their income on a child's education (Column 4), this proportion increases to as much as 27% in Kampala. This willingness to invest in education is consistent with the observation by Edwards et al. (2019) that in Mtendere, a low-income area of Lusaka, households make it the third largest item of expenditure, after food and housing.

Perceptions of education quality also contributes to the choice of school, with households perceiving the education offered at the government schools to be low quality based on their own experiences in state primary schools (Baum et al., 2018a). In the absence of publicly available information on academic performance at the school level, households turn to other proxies of education quality (Columns 5 and 6).

2 Summary of results - access to finance

Table 3 sets out summary findings concerning low-cost schools and access to finance.

Table 3 Summary findings – low-cost school access to finance and contributing factors

City	Access to finance % low-cost schools that have received a loan in past 10 years	Certification % low-cost schools with certification	Financial inclusion % low-cost schools with a bank or MFI account	Financial information % low-cost schools with separate financial records	Size of school Avg. no. of children enrolled in each low-cost school
Lusaka	25%	44%	67%	77%	173
Accra	22%	83%	62%	79%	192
Kampala	20%	64%	41%	91%	209
Dar	18%	23%	53%	67%	70
Nairobi	17%	70%	62%	*Note 1*	*132*
Abuja	15%	34%	48%	57%	123
Abidjan	9%	76%	59%	77%	336
Average	**15%**	**54%**	**56%**	**74%**	**164**

Source: own research and analysis.
Note: Data not collected in Nairobi, being the first city surveyed but collected in subsequent research cities.

The finding that only 15% of low-cost schools have been able to access finance from conventional providers, such as banks is noteworthy. Four key factors appear to contribute to this low access: certification, financial inclusion, financial records, and school size.

Low-cost school access to finance is significantly below the average SME figure in sub-Saharan Africa of 50% (IFC, 2017; Quartey et al., 2017). A factor of particular relevance to low-cost schools is that, unlike many SMEs, they operate in a regulated sector and have to meet minimum certification requirements to operate; failure to do so can result in closure (Härmä, 2011). Across the seven cities, certification is lacking in 46% of low-cost schools (Column 3) and acts as a barrier to accessing loans

from conventional providers of finance, who require certification before considering a loan (Rosales-Rogge et al., 2014). The case studies in Chapters 5 and 6 explore the political economy surrounding the regulation of low-cost schools and their ability to obtain certification.

A second important factor affecting access to finance is financial inclusion, as measured by schools having an account with a bank or MFI. An average of 44% of low-cost schools do not have such an account, so they are financially excluded and illustrate an institutional void (Mair and Marti, 2009). The case studies in Chapters 5 and 6 explore such voids and the recent emergence of financial intermediaries focused on low-cost schools to address them.

Access to finance is affected by lack of financial information due to school owners failing to keep separate financial records of the school operation (Beck, 2013). Although, on average, 74% of schools do keep such records (Column 5), there are significant variations, with Kampala, where access to finance is higher, at 91% and Abuja, where access to finance is much lower, at 57%.

Column 6 indicates that size of school given that Beck and Cull (2014) argue that the larger an enterprise, the greater access to finance. This appears to be the case in most of the cities, but not Abidjan, which has the largest schools measured by pupils (336 versus an average of 164) but the lowest access to finance (9% versus an average of 15%). Lower fee levels in Abidjan lead to lower profitability despite higher number of pupils. Furthermore, schools in Abidjan have poorer financial records, which appears to be a more important factor in accessing finance than size of school.

3 Shortfall in state provision in seven cities and the role of low-cost schools

The 52% shortfall in state education provision (Table 2) is a striking finding. Low-cost schools are educating the majority of children in three of the seven cities. Dar is an outlier, with only 14% enrolled in non-state schools. Removing Dar from the data gives a low-cost school provision of 59% to state provision of 41%. Albeit that this result is for cities, when compared with the World Bank (2018) official statistics of non-state education in sub-Saharan Africa of 13.8% (Chapter1, Figure 1) this finding would support the observation that official figures understate the extent of non-state

school schools as they omit uncertified providers (Adelabu and Rose, 2004; Baum et al., 2018b; Härmä, 2021). In Lagos, where the 2010 Census could be compared with official statistics, government figures understated the role of low-cost schools by a factor of 1.9x (Chapter 3, Section 1). If official statistics do not take account of 46% of the schools that are uncertified (Table 2), then government officials, international bodies, aid agencies and providers of finance cannot appreciate the role low-cost schools are playing. The underestimate of official statistics was evident in the interview with Ministry of Education officials in Kampala, which was of the opinion that the ratio of non-state to government schools was 3:1 and not 6:1 per this research.[36]

The under-acknowledgement of the extent of non-state education provision has implications for education policy, regulation and government funding. It also raises political economy issues of vested interests, notably those of civil servants and politicians, who may not want to see official recognition of a sizeable non-state education sector in case it sheds a bad light on them and they are accused of failing in their responsibilities.[37]

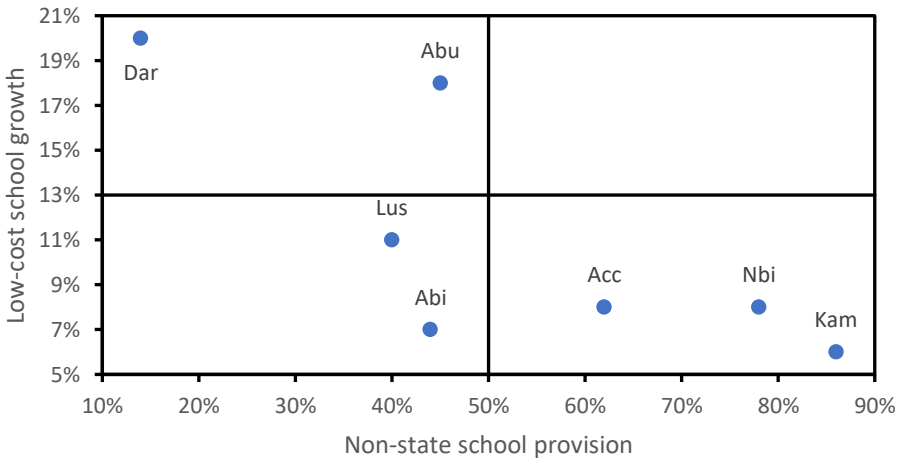
The conceptual framework (Chapter 3, Figure 3) illustrates that in low-income countries, state schools are typically funded by domestic governments, often with budgetary support from international aid. Shortfalls in state provision of education occurs where governments have been unable to finance new schools or train sufficient numbers of teachers to meet the increasing demand for education. Aid finance provided in budget support to education ministries is subject to corruption and leakage, which reduces funds available for education and thus contributes to the state shortfall (Moyo, 2010). Government officials may prefer the status quo of non-recognition of low-cost schools so they can benefit from rent-seeking from uncertified schools and divert aid for personal advantage (Mills, 2021). With limited government financial resources and static or low growth in government provision, the number of low-cost schools has proliferated to meet the

[36] Interview with Assistant Commissioner for Basic Education at the Ministry of Education, Kampala, August 2016.
[37] See quote from the policy advisor (iii) in the Lagos case study (Chapter 5, Section 5.1).

growing demand for education in the research cities (Härmä, 2021). This demand, particularly for early-years and primary education, has been fuelled by urbanisation, immigration and population growth (Tooley, 2009; World Bank, 2018a).

In the face of this demand one of the factors contributing to levels of low-cost school provision is the finding that these schools exhibit strong growth in communities where there are few, if any, state schools. Figure 7 illustrates the rate of growth of low-cost schools, as measured by children enrolled. For this and subsequent figures in this chapter, Quadrant 1 refers to the top left quadrant, Quadrant 2 to the bottom left, Quadrant 3 to the top right and Quadrant 4 to the bottom right.

Figure 7 Low-cost school 10-year growth rates and provision



Source: own research and analysis. Rate of growth of school enrolment over previous 10 years up to the previous full year at the time of survey.

Figure 7 illustrates that low-cost schools have been growing at a strong rate over the past ten years. The seven-city average growth rate is 11% and ranges from 6% in Kampala to 20% in Dar. This finding is consistent with the observation by Baum et al. (2018a) that inadequate state supply is the strongest predictor of growth in non-state schooling markets. With no state schools in a low-income area, households face the choice of paying for transport and non-tuition costs levied by the nearest

state school, send their children to a local low-cost school, ideally within walking distance of the home or withdraw their children from school (Edwards et al., 2019).

In Accra, the 8% annual growth rate of low-cost schools compares with the official numbers showing government schools have been increasing by only 2% per annum (Ghana Ministry of Education Annual School Census, 2015). With such different growth rates, within five years non-state schools will be educating an estimated 80% of children in Accra.[38]

The lower growth rates in Kampala, Nairobi and Accra are to be expected, given that these cities have the highest levels of low-cost school provision, the market is more mature and non-state supply is already above 60% (Quadrant 4). In contrast, Lusaka and Abidjan (Quadrant 2) appear to be catching up with these cities: within two years, if historic growth rates continue, low-cost schools will be providing the majority of education. Similarly, if growth rates continue in Abuja at 18%, in four years non-state school provision will double to 90%.[39]

The findings of Alcott and Rose (2016), who look at national figures for non-state education provision, are consistent with the relative city shortfalls in state education seen in Dar, Nairobi and Kampala. Based on official statistics and data collected by the Kenyan NGO Uwezo in 2013, private school enrolment rates varied greatly across the three countries, from 2% on average in Tanzania to 11% in Kenya and 26% in Uganda (Alcott and Rose, 2016).[40] Comparison of national data with research city data underlines observations made in Asia that education provision by non-state schools is higher in urban settings than rural ones (Kingdon, 2007; Tooley, 2009; Dixon, 2013). National level numbers blend higher non-state provision in urban areas with lower non-state provision in rural areas, which has implications for policymaking, certainly in towns and cities, and the government's willingness to recognise the increasingly important role of low-cost schools.

[38] Own calculation.
[39] Own calculation.
[40] Uwezo adopts a similar approach to the Indian NGO Pratham and conducts household surveys to establish levels of learning in schools at the country level in East Africa.

3.1 Political economy and policy on education provision

The finding that low-cost schools are providing the majority of early-years and primary education in the seven cities highlights the importance of the effect different government policies can have on the levels of non-state education provision. This is true of the provision of both non-state early-years and non-state primary education.

First, as reviewed in Chapter 2, post-independence governments in Africa adopted a similar approach to education regulation as their colonial predecessors. Universal primary education was the priority of post-independence governments which, with growing school-age populations, were in need of more financial resources for additional primary schools and teachers. Importantly for this thesis and with respect to answering research question 1, early-years provision was not a policy priority. Few government resources went into early-years education but rather into primary and tertiary provision (Devercelli and Bowen Day, 2020).

By contrast, this thesis observes that early-years care was a priority for households—particularly in urban centres. Households, especially in low-income urban communities, required a safe place for their children whilst they worked or sought work. In the absence of early-years state provision, non-state providers emerged to care for young children. This finding is substantiated when one considers the typical evolution of low-cost schools. The research in the seven cities found that low-cost schools typically follow a pattern of a female founder responding to the needs in her local community and starting a nursery providing early-years care and basic education for local children. Having done a reasonable job in the first year, she is asked by the households to carry on the following year. Each year a cohort is added, young teachers are employed and by the eighth or ninth year, the school is educating the whole range of early-years and primary-aged children. Such schools evolve to educate children from early-years (for two or three years) through to the end of primary (for another six years). Thus, in six of the seven cities (Dar being the exception), the most common type of low-cost school is a combined early-years and primary school as illustrated in Table 4.

Table 4 Types of non-state school per city

City	Early-years only	Combined (early-years & primary)	Other (e.g. primary only, primary & junior secondary)
Accra	8%	90%	2%
Abuja	5%	80%	15%
Kampala	21%	79%	0%
Nairobi	22%	78%	0%
Lusaka	5%	69%	26%
Abidjan	5%	51%	44%
Dar	83%	8%	9%
Average	**21%**	**65%**	**14%**

Source: own research and analysis.

After removing Dar from the data, the number of combined early-years and primary low-cost schools account for 75% of schools in the six cities, underlining the dominance of this type of school.

It is noteworthy that in Dar, the combined low-cost early-years and primary school accounts for just 8% of school type. Again, Dar is unusual in that 83% of low-cost schools are only early-years enterprises, compared with a seven-city average of 21% (and a six-city average, ex- Dar, of 11%). The prevalence of early-years schools in a Dar context is reinforced when one looks at the average size of school. Dar has the lowest of the seven cities, with an average enrolment of 70 compared with the seven-city average of 164 (Table 3).

A comparison of Dar and Kampala concerning education provision at the early-years and primary levels provides insights into the effect of policy on the levels of education provision by low-cost schools. Dar has the lowest non-state school provision levels and Kampala the highest (Figure 7). Both cities adopted similar policies to early-years provision, leaving that largely to the non-state sector. With regard to the large unregistered pre-primary school sector in Dar, although the government is aware of its existence, there is currently no alternative to private provision, so closing

down private early-years schools is impracticable.[41] Consequently, the government sees the private early-years sector more as partners, and state officials meet regularly with school associations.[42] Moreover, in Tanzania, government policy has facilitated investment in the early-years sector with few enforced regulations and few administrative hurdles to meet low set-up costs, and therefore a more profitable proposition for providers (World Bank, 2012).

Even when governments change policy regarding early-years provision with a view to increasing early-years state provision, if it is not accompanied with greater resources, little changes. For example, in 2015 the Tanzanian government instructed state primary schools to provide one year of pre-school education. However, it did not supply additional resources to schools to do this, either in terms of physical infrastructure or human resources, so little early-years state provision was added (UNICEF, 2017).

In contrast to this more accommodating approach to non-state early-years provision in Dar, the Tanzanian government adopted a negative and hostile policy towards non-state primary schools (Hartwig, 2013). Tanzania only allowed non-state schools to operate at the primary level in 1995 (UNICEF, 2017). The opposition to non-state primary schools reflects the country's more socialist policies adopted by the government at independence in 1964 and continued thereafter (Hartwig, 2013). This opposition was accompanied by a commitment to allocate resources to state primary provision.[43] The government policy of universal primary education, combined with financial resources focused on primary provision in Tanzania, had the result that despite large class sizes, the country had achieved nearly universal access to primary education by 2007 (UNICEF, 2017). With its success in providing access to primary schooling, households felt little incentive to look beyond government schools. This position largely held until 2007, after which the financial constraints faced by the government contributed to the increase in the non-state primary sector (UNICEF, 2017).

[41] Interview with school association TOMONGSCO, Tanzania, April 2016.
[42] Ibid.
[43] Interview with Government Education Quality Improvement Programme, Tanzania, April 2016.

This policy position in Tanzania has discouraged new entrants into primary education, with the result that secondary[44] and pre-primary school provision has been largely left to non-state actors. Moreover, the adverse policy approach to private primary schools has hindered the evolution of early-years schools into combined early-years and primary schools, as seen in Kampala and the other cities.

Uganda, by contrast, adopted a more accommodating policy position towards non-state primary education provision and has facilitated the growth of the non-state sector. The Assistant Commissioner for Basic Education at the Ministry of Education in Kampala explained, "Private schools started to appear in the 1970s; the trend gathered momentum in the 1980s, but things really changed after 1990 with a real take-off of growth".[45]

In Uganda, it appears there was a two-decade period of slow growth of non-state schools followed by accelerated growth in the 1990s and beyond. The 1990s expansion coincided with the structural adjustment programme (SAP) adopted by Uganda. Across Africa, SAPs typically resulted in limited expenditure on state education (including the building of new schools) and limited or frozen recruitment of civil servants (including new teachers) (Sapri, 2001). Redundancies of state school teachers also resulted in these teachers setting up low-cost schools in order to generate an income. As a representative of one local INGO noted, "In Uganda, groups of teachers come together to establish low-cost schools as ways of creating employment for themselves." [46]

Political economy factors have informed not only policy towards low-cost schools, but also the role of the state as education funder. The state as policymaker and funder of education is conflicted in the funding of education where it funds its own schools in preference to non-state schools. As reported below in Section 4.1, low-cost schools in the seven cities receive no funding from the state.

[44] At the secondary level, non-state schools have been allowed since 1978.
[45] Interview with Assistant Commissioner for Basic Education at the Ministry of Education, Kampala, August 2016.
[46] Interview in Kampala, with Ugandan-based education INGO, March 2022.

State teacher trade unions have a vested interest in retaining government spending for state schools and paying their members' salaries.

As teaching bodies are often the largest body of civil servants in a low-income country, they can wield their political power in two ways: by threatening strike action, which tends to embarrass the government, making it less electable, [47] or by using their members' votes at the ballot box to support parties acting in the interests of state teachers. This places them in a strong position to influence both policy and the allocation of resources. Also, in all cities studied, governments' negative approach to funding non-state schools appears to arise irrespective of whether these schools are providing a quality education, providing early-years care or serving otherwise neglected communities. Government officials are also in a position of power to influence the regulatory framework, to which this chapter now turns.

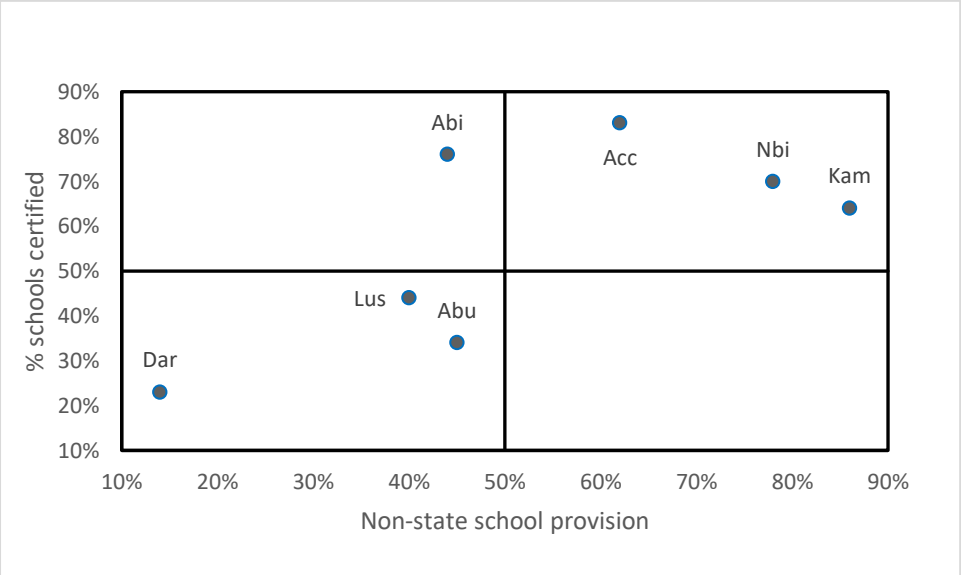
3.2 Political economy of school certification

The state's role as both regulator and provider of education creates a conflict of interest. If non-state schools are seen by the state as competitors of state schools, attracting pupils away from state schools, then to reduce the levels of competition, the regulator can make it more difficult for competing schools to be established, as seen in the case of Tanzania above. The relevance of regulation to low-cost schools is most clearly demonstrated in the difficulty such schools face in obtaining certification. As seen in Table 3 above, an average of 54% of low-cost schools are certified.[48] The different levels of certification in the seven cities relative to the levels of school provision are illustrated in Figure 8.

[47] On the other hand, disrupting education also tends to alienate parents.

[48] It is worth noting that state schools appear to be certified regardless of whether they meet the minimum requirements (Härmä, 2011). Both in colonial times and post-independence, ownership of land has not been an issue for state schools given that the state often owned the land and buildings were purpose built. Moreover, there appears to be less incentive to inspect state schools. Survey responses indicated that government schools are visited less often, as there is little pecuniary benefit to the inspecting officials.

Figure 8 Non-state school certification and provision



Source: own research and analysis

Despite high levels of education provision, the overall picture is that 46% of schools are not officially recognised by the certifying authorities (Table 3). In all cities, regulators have continued to adopt the colonial approach to certification based on school inputs rather than outcomes. These inputs are primarily linked to physical infrastructure, such as ownership of land and purpose-built structures of brick, and human infrastructure, such as the requirement to employ qualified teachers. This focus on inputs is adopted in preference to a certification-based approach on meeting required standards of education quality, such as how pupils perform in the end of primary school exams. Importantly, a regulatory framework that focuses on inputs provides rent-seeking opportunities for officials, such as school inspectors and other Ministry of Education civil servants.

Figure 8 shows that higher levels of non-state school certification are associated with higher provision of education by non-state schools. This is evident in Quadrant 3, where official recognition by the regulators in Accra, Kampala and Nairobi and levels of non-state school provision are both over 58%, in contrast with Quadrant 2, where in Lusaka, Dar and Abuja, official recognition and non-state provision are below 45%. Two elements of regulation appear to play a role in determining these different levels of certification: the regulations themselves, which set out the minimum

requirements and dictate what a school has to meet before it can operate, and the enforcement of such regulations.

First, with regard to the type of regulations, the Quadrant 2 city regulators in Lusaka, Dar and Abuja have adopted demanding minimum requirements that schools must meet to obtain certification compared with the cities in Quadrant 3. In Dar and Abuja, for example, schools can only be certified when they are in full compliance with regulations. In both of these cities, land ownership by the school is required in order to comply with minimum requirements.

In Abuja, schools are required to have a minimum of 1.5 hectares of land, a large hall for assemblies and examinations, a playing field, and a sick bay with a trained nurse on staff.[49] Such requirements are usually beyond what many low-cost schools can afford or achieve. In the low-income areas of such cities, where most of the low-cost schools operate, housing is often informal and high-density, with availability of large open spaces rare. Even were land available, acquiring it can be prohibitively expensive. Moreover, gaining secure title or even a simple lease on a piece of land can be extremely difficult. Thus, meeting the minimum land requirement in terms of area, ownership and affordability is a barrier to certification in these Quadrant 2 cities. Quadrant 3 cities, in contrast, do not have such minimum land requirements.

Moreover, education provision by low-cost schools is predicated on an economic model that charges fees that are low enough to be affordable to low-income households living locally. If schools did manage to satisfy the minimum input requirements, the risk is that the associated costs would force the school to increase fees that would be higher than households could afford. This would make the school unviable in a low-income community context. If a school moved farther away to secure cheaper and sufficient land in order to comply with the regulations, it would no longer be operating in the community it serves. As confirmed in the Lagos and Nairobi case studies (Chapter 5 and 6), locality plays an important role in households choosing low-cost schools. In Quadrant 2 cities, no

[49] Interview with Ministry of Education, Department of Quality Assurance, February 2016.

concession is made by the regulator to schools in low-income areas of cities that cater to families in poor, informal settlements. Rather, the same regulations apply to high-fee and low-fee schools.

In the Quadrant 3 cities, by way of contrast, the regulators have adopted a more flexible, school improvement approach to the certification of schools rather than a strict compliance to meet the minimum requirements. In Accra, where 83% of non-state schools are certified, schools can be registered without meeting all the requirements, with the expectation that they will improve over time. Consistent with this accommodating approach, it was reported that Ghana Education Services seldom closes schools.[50] In Abidjan, with levels of certification of 76%, registration requirements enable new schools to open and then apply for a provisional license that allows them to operate for five years while fulfilling the criteria for full registration. As the director of the private school division of the Ministry of Education commented, "No unregistered entity can be considered a school and all schools must meet minimum standards".[51]

Consideration of the two cities at the extremes of non-state provision, Kampala and Dar, again provides useful insights into elements surrounding school regulation and how they facilitate or constrain non-state school entry into the sector. In Dar, non-state provision is 14% and certification 23%, compared with Kampala, which is 86% and 64% respectively. In a similar way that the hostile policy in Dar towards private primary schools has restricted entry of low-cost schools into the education sector, so too has the city's approach to regulation.

With regard to the regulations themselves, primary school operators in Dar must seek registration before commencing. Strict regulations include a requirement that the school has a minimum five-hectare[52] land area, proof of land ownership, a declaration of ownership, a bank account with a constant minimum balance of US$30,000, a certificate from the government engineering office, a certificate from the government health office, approval of architectural plans and a report from the

[50] Interview with Ministry of Education, Accra, November 2017.
[51] Interview with Ministry of Education, Abidjan, March 2018.
[52] Interview with Ministry of Education, Dar, April 2016.

school inspector's office. When the school is operational, the Tanzanian government also sets requirements regarding class size, PTRs, teaching and learning materials, the number of school days per year and pupil registration, as well as requirements regarding curriculum and examinations (Heyneman and Stern, 2014). Such requirements create significant barriers to entry for low-cost schools. They also increase the cost base, resulting in the need for a school to charge higher fees to be viable.

Barriers to entry for low-cost schools are further exacerbated by the requirement for primary schools to employ qualified teachers. There is already a shortage of qualified and skilled Tanzanian teachers, and challenges in obtaining visas make it extremely difficult to hire foreign teachers. According to responses from surveyed schools, qualified teachers are typically paid three times what an unqualified teacher earns, which raises school operating costs. This in turn makes it more challenging to provide non-state education to low-income communities at fee levels that are affordable.

In Dar it is noteworthy that although 23% of all early-years and primary schools are certified, this blended figure disguises the effect strict regulation has had on the number of low-cost primary schools. When the figure is disaggregated, 72% of primary schools in Dar are certified, compared with 13% of early-years schools.

By contrast, in Kampala, surveyed schools indicated that the regulatory requirements are more accommodating of primary schools. There is no prescribed minimum land area; rather, there must be sufficient space depending on the type of school and its size and context. In Kampala, different requirements apply to smaller schools compared with larger ones, and rural schools compared with urban ones. Unlike Dar, one size does not fit all. Schools are also required to obtain a license within the first five years of operation, not beforehand, so that registration is expected after operating for several years. This allows schools in Kampala time to build up the necessary minimum infrastructure

and generate income before meeting the requirements. The barriers to entry are therefore lower compared with those in Dar.

With regard to the enforcement of regulations, school surveys in Dar revealed that the government adopts a rigorous approach to the primary school sector both by making regular inspections and by enforcing the rules. Schools that fail to comply can be threatened with closure and are likely to be closed. In contrast, if a school fails an inspection in Kampala, regulators provide schools with recommendations and an opportunity to improve. Non-compliant schools are rarely closed.

Moreover, regulators in Dar apply different standards to state and non-state schools. For example, state schools are automatically certified regardless of meeting required physical standards. Maximum PTRs are enforced at private schools but not at government schools. The adoption of a different approach to state and non-state schools in Dar was highlighted by missionary staff at one Catholic non-state school where the nuns (one Irish and one Tanzanian) reported that "government inspectors do an extremely thorough and proper job".[53]

Such inspections routinely last many days in a row while a team of inspectors goes over every detail of the school's operations. By way of contrast, the Catholic school reported that officials do not inspect the government school a very short distance away on the same road, which caters to several thousand students. Ostensibly this is because it is a waste of time with no recourse for improvement of the government school. Moreover, in Dar, there is a clear incentive to inspect private schools because each school has to pay a per-child fee of US$2.50 to the government for the inspection.

In addition, school respondents reported that inspectors expect additional perks at private schools, particularly at those whose facilities may not be 100% compliant with regulations. In Quadrant 2 cities, where the minimum input requirements are hard or impossible to meet, school operators have to be prepared to operate as uncertified schools and, per the survey responses, satisfy the

[53] Interview with mission school, Dar, April 2016.

rent-seeking activities of government officials in order to remain open. Such rent-seeking also highlights the power asymmetry between low-cost schools and government officials.

Rent-seeking activity of this kind is common in all the research cities where officials can threaten closure unless unofficial payments are made. Even in more flexible regimes such as Accra and Kampala, according to the schools surveyed, the flexibility during the extended period when "improvements" are being made to comply appears to bring with it rent-seeking behaviour. For example, a school proprietor in Kampala, as well as the representative of the school association, stated that there is corruption in the registration process and that bribes will make the process much easier.[54] Similarly, in Accra, it is expected that schools pay the government officials their so-called "transport costs" when making a visit.[55] Such rent-seeking places a further financial burden on school operators. Government officials have a vested interest in maintaining and prolonging the certification process based on input requirements, as this provides them with a reliable source of unofficial income.

3.3 Institutional voids: under-resourced regulatory bodies

A contributing factor to the number of uncertified schools in the research cities appears to be under-resourced regulatory bodies. Institutional voids tend to occur in low-resource environments (Mair and Marti, 2009) and in low-income countries, governments have shown a limited ability to adequately oversee the non-state school sector: inspection visits are rare and rent-seeking and corruption are common, thus indicating institutional weakness (Baum et al, 2018a). As seen above in Section 3.2, the approach taken by regulators and their ability to enforce the rules can vary by context, with regulation in Dar and Abuja being far more rigorous than, for example, in Kampala and Accra.

In a low-resource environment, the regulatory function is hampered from fulfilling its role of certifying new schools and monitoring standards in existing state and non-state schools (Härmä,

[54] Interview with school proprietor, Kampala, June 2016.
[55] Interview with school proprietor, Accra, November 2017.

2021). In addition, the inputs-based approach to school regulation inherited from colonial administrations requires physical visits. It is far more challenging to apply this approach when promoting universal primary education, introduced post-independence, that created a larger state school sector.

In Abuja, the Director of Quality Assurance stated that although their department had the legal authority to close down 550 private schools for non-compliance with regulations, they refrained from doing so because, "firstly, the department simply lacks the resources to carry out the closures and many schools would simply pop back up in some other similar, or the same, location soon after being closed. Secondly, there is no provision for the education of children whose schools would be closed."[56]

The pressure on regulators has increased further with the rapid growth in low-cost schools, as indicated in Figure 7. This seven-city average growth rate of 11% per annum (Figure 7) requires more resources for the regulator to meet the increased oversight requirements. In the same way that governments have been constrained in financing schools and teachers, so too with regulation. With the regulatory burden placed on officials increasing and with insufficient resources, both physical in terms of vehicles and human in terms of inspectors, the void has increased.

The geographic location of low-cost schools also plays a role. Although the local nature of low-cost schools is important to their ability to serve their communities, this increases the challenge of regulatory oversight. These schools are widely dispersed, large in number and in often difficult-to-reach locations, increasing the demands placed on regulators.[57]

[56] Interview in Abuja with Ministry of Education, Department of Quality Assurance, February 2016.

[57] A visit to one school in East Africa involved the vehicle going as far as possible along the dirt track in the urban slum area before passengers had to disembark and walk the remaining distance of one kilometre to the site of the school. In West Africa, a school visit involved cars and dug-out canoes to reach the school, which was on stilts in a slum area surrounded by water. The visit involved interaction with gangs looking to extract protection money from the canoe paddler. School inspectors and officials may understandably be reluctant to navigate such types of terrain and prefer to remain on tar roads or in their air-conditioned offices.

Added to such logistical difficulties, the rent seeking activity of officials, noted above, compounds the lack of government capacity at the regulatory level (Baum et al, 2018a). Survey responses indicated that officials seek to enrich themselves through rent extraction from uncertified schools by taking advantage of the input-based regulations. Such officials have an interest in preserving the status quo and not moving the basis of certification to an outcomes-based assessment where the focus is on whether children are actually learning (UNESCO, 2017). To households, however, as confirmed in the case studies, the school's proximity to home and its ability to deliver education quality as measured by education outcomes is important, a point to which this chapter now turns.

3.4 School choice and trust: locality, education quality and affordability

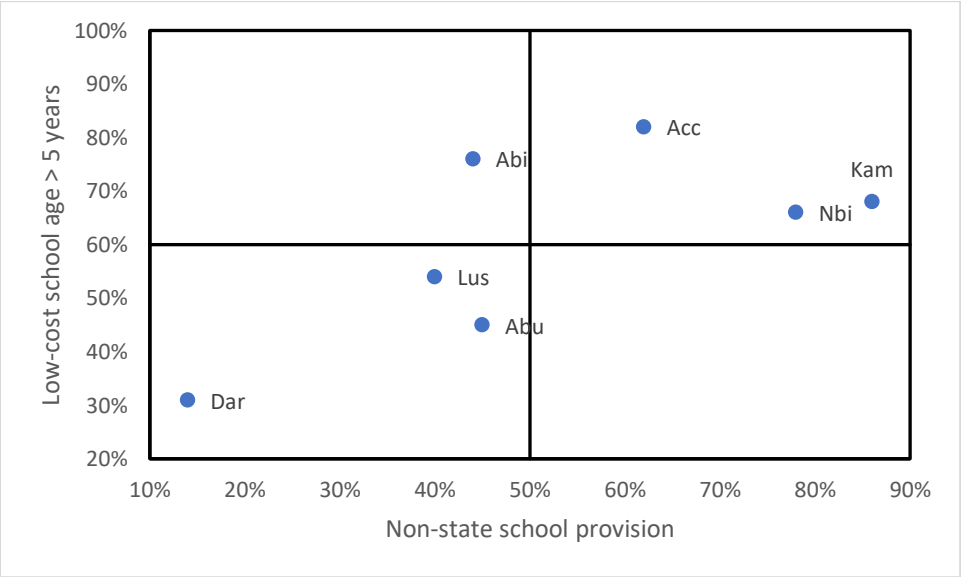
The shortfall in the supply of state education observed above faces households with a choice as to what they should do with their children if they are engaged in work during the day and want their offspring to receive an education. The regulatory status of the school and whether it is certified does not appear to be an overriding consideration for parents choosing to enrol their children in uncertified schools (Table 2), for if it were, they would not choose such a school. The decision to entrust the care and education of children to low-cost schools in the seven cities appears to be consistent with the survey of the literature in Chapter 2 and to be more informed by proximity to home (Edwards et al., 2019), education quality and competence trust (Gold, 2014) and affordability (Tooley, 2009).

(i) Locality and proximity to home

With little or no state provision of education in the low-income communities researched, the extent of low-cost schools has reached well over 50% in three of the seven cities. The role these schools are playing in locations where state schools are absent, or few in number and overcrowded (Härmä, 2021), helps to explain their existence. The importance to households of local, safe childcare for their young children whilst they are economically active is also underlined in the Lagos case study in Chapter 5. Proximity to home reduces dangers associated with travel, the likelihood of road accidents and risks of other harm, including sexual abuse.

Importantly, even if state schools operate in the locality but do not offer pre-school care, households have little choice but to use non-state providers for early-years care. If the service provided at this level is acceptable and performance trust is established, the school owner hopes that households will continue to send the child to the school as they move into primary education. The longevity of such schools provides an indication of the success low-cost schools have achieved in establishing such trust and retaining children throughout their early-years and primary education. This important finding is illustrated in Figure 9.

Figure 9 Non-state school longevity and provision



Source: own research and analysis

Figure 9 indicates that in four of the seven cities, the proportion of schools that were operating for at least five years prior to the study is 60% or more. Comparing the two extremes is instructive. Kampala, with 68% of such schools, compares with 31% in Dar. Furthermore, looking at the proportion of low-cost schools that have been operating for more than ten years, 51% of Kampala schools fell into this category, compared with 13% in Dar. Dar stands out as having the youngest non-state school sector compared with other cities. This finding reinforces the observation that in these two cities, policy and regulation have had a real impact on the levels of non-state education provision. Similarly, it underlines the earlier observation that the combined early-years and primary schools were found to be the most common type of school in all the cities except Dar.

(ii) Education quality

As important as proximity of schools is in affecting parental choice of school, so too is perception of education quality (Edwards et al., 2019). In all seven research cities, there is a lack of publicly available information on the academic performance of schools, both state and non-state. In none of the seven cities is data published on the examination results of all schools at either the national or regional level (UNESCO, 2018). As found in the Lagos and Nairobi case studies of Chapters 5 and 6 respectively, governments do not disseminate the exam results of state and certified non-state schools to the public for various reasons, notably including a fear of embarrassment if non-state school results suggest a higher quality of education than in state schools.

However, to progress to secondary school, children have to achieve a minimum result in the national end of primary school exams, so performance in the examinations is important to households and to low-cost schools if they are to retain trust with parents. [58] Asymmetry of information on examination performance is compounded by the fact that uncertified schools are not eligible to become exam centres and enter children for the exams in the school's own name. Consequently, informal arrangements are made so that the uncertified school pupils can enter examinations under a certified school's umbrella. Absorbing such children in this way impacts the results, for better or worse, of the accepting school—be it a certified, non-state school or a state school. Households can obtain information on a school's examination performance by visiting a school, as results are often posted on school noticeboards. Thus, proximity facilitates access to such information and, in turn, trust in an individual school's performance.

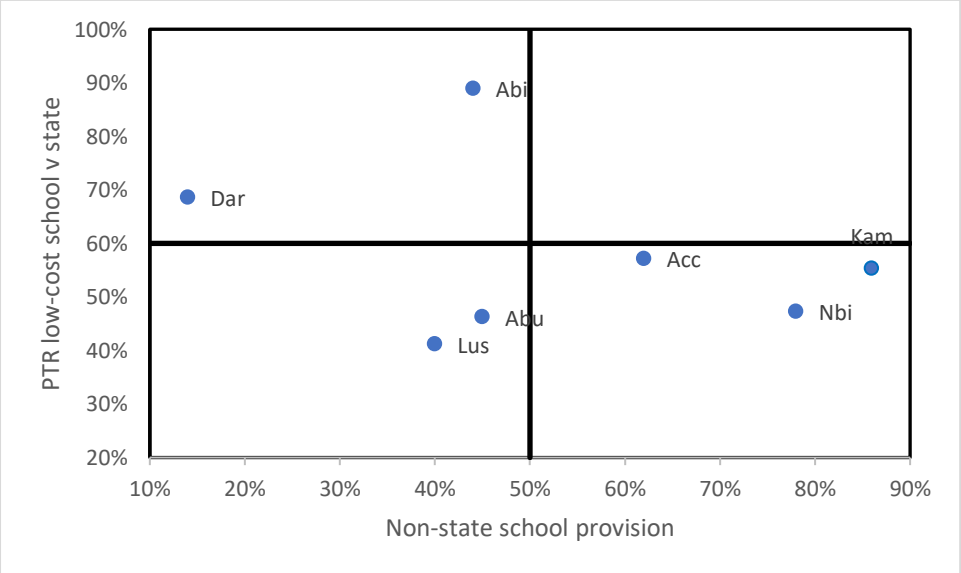
[58] This is not to say that performance in national exams is the best measure of a school's educational performance, as it ignores qualitative aspects of education and subjects that are not examined such as the creative arts. Nor does it demonstrate how much education has been added by a school relative to the levels of numeracy and literacy children had in a particular school at the beginning of primary school, since such baseline data or tests at earlier ages tends not to be collected. However, given that performance in the end of primary school exam is important for children wanting to progress to secondary school (and in countries such as Kenya, a minimum result has to be achieved to attend a state secondary school), such results do provide an indication of the academic achievement of children in a particular school.

In the light of this lack of available information of the relative quality between state schools and non-state schools based upon end of primary school exams, a more visible, proxy of education quality is the PTR. If low-cost schools have a lower PTR compared with state schools, households may infer that their child will receive more teacher attention and thus a better quality of education. In all seven cities, low-cost schools have better PTRs compared with the state (Table 2).

Because sub-national PTR figures are not available, comparisons of low-cost school PTRs are made with national PTR figures. According to UNESCO (2018), only 20% of countries provided sub-national figures on education. National figures give some level of comparison but are likely to understate the state PTR, particularly for schools in urban areas, where overcrowding is often reported (Heyneman and Stern, 2014). When households see state schools as being overcrowded with large PTRs, it is understandable that they choose low-cost private schools if affordable.

Figure 10 illustrates the PTR of low-cost schools relative to the reported national ratios in state schools (UNESCO, 2018).

Figure 10 Non-state school provision and the ratio of low-cost school PTR to state



Source: own research and analysis. State PTRs (UNESCO, 2018)

Although Abidjan has high certification levels, it also has below average provision, which is probably due to the perception of low education quality in low-cost schools. The low-cost school PTR in this

city is the closest to the state PTR in contrast with the other cities. Where this is used as a proxy for education quality, households may be less likely to choose a low-cost school for their children.

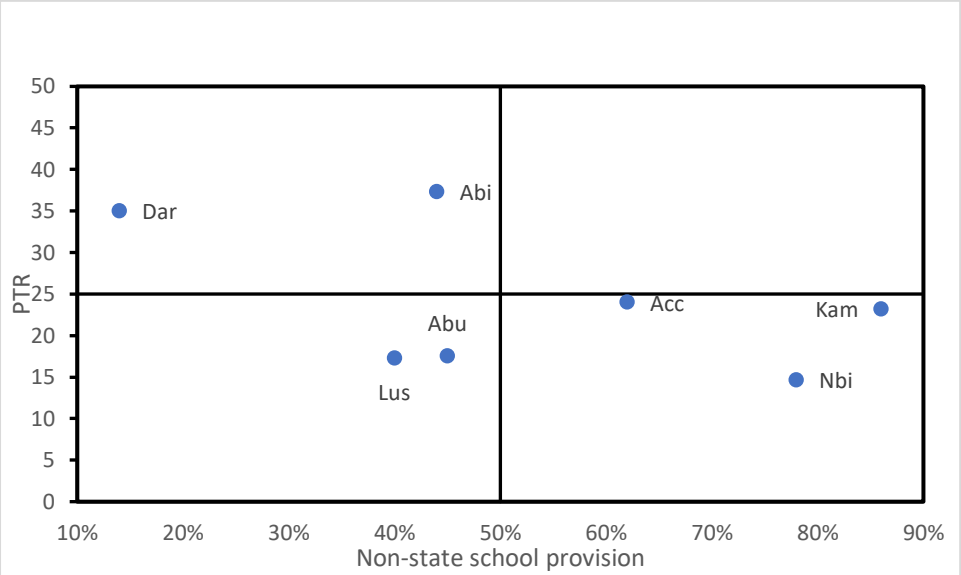
Comparing national state school PTR numbers with researched individual city low-cost school PTR numbers is not ideal, but in the absence of PTR data for state schools at the city level, the use of national numbers provides an acceptable approximation. In all seven cities, low-cost school PTRs are lower, and therefore better than what is found in state schools. In the three cities in Quadrant 4, with the highest non-state provision, low-cost school class sizes are on average half that of state schools.

However, the national PTR is likely to understate the real number in urban centres. Other studies have found state PTRs to be up to three or four times that of low-cost schools. Härmä (2011) observed primary state schools having PTRs of 80:1 in Lagos compared with low-cost schools of 22:1 (i.e. 3.6x). Dixon and Tooley (2012) in Nairobi during the period 2003-7, found that the PTR was over three times higher in the government schools compared with low-cost schools (state PTR 88:1 to non-state 28:1). In taking the national average state PTR, the seven city findings may understate the PTR differences but still indicate that PTRs in low-cost schools are better.[59]

The low-cost schools in the seven cities are reasonably small in size with, on average, 164 children enrolled (Table 3). Assuming schools are providing eight years of education (two ECD or pre-school years and six primary school years), this equates to an average PTR of 22:1 compared with the average state PTR of 41:1 (Table 3). Figure 11 indicates the different low-cost school PTRs per city.

[59] Similar gaps can be seen at secondary schools. In Tanzania, Hartwig (2013) found that the PTR in state secondary schools was on average three times that in non-state schools on (PTR 61:1 compared with 24:1).

Figure 11 PTR and non-state school provision

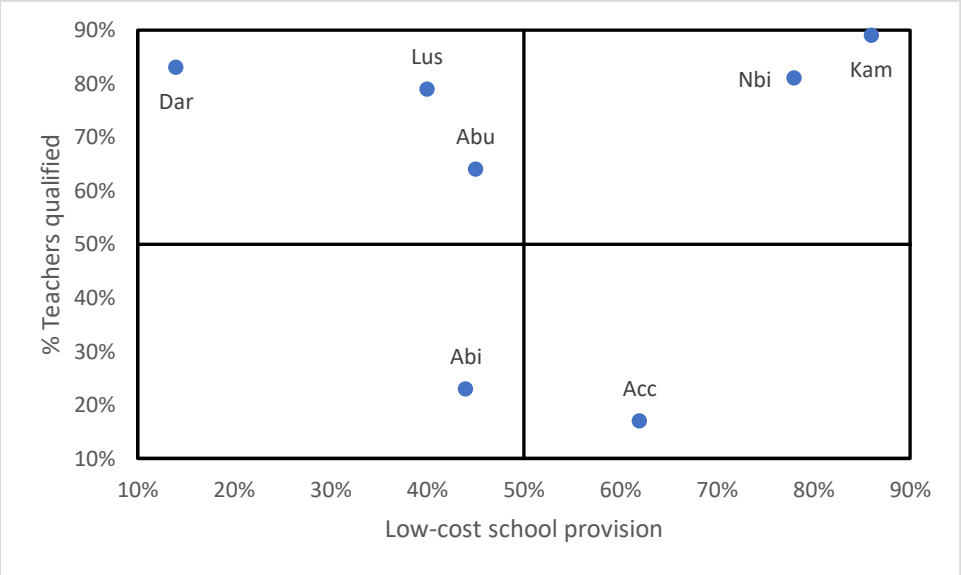


Source: own research and analysis

As reported in Chapter 2, absenteeism of teachers in state schools has been a concern of bodies such as UNESCO and a contributing factor to low learning levels (UNESCO, 2018). Official PTRs assume teachers are present all five days of the school week. However, research indicates that state teacher attendance is typically three days per week rather than five (Hartwig, 2013), in which case a PTR of 41:1 effectively becomes a PTR of 70:1. The greater accountability of low-cost schools to households and the associated expectation that teachers are not absent reinforces the perspective that children are more likely to learn there than in a state school.

Another proxy for education quality that households might consider is the qualifications held by teachers. Taking the percentage of teachers who are qualified may indicate to households that if teachers meet the minimum required qualifications set by the regulator, the quality of teaching will be better. Figure 12 illustrates this.

Figure 12 Percentage of qualified teachers and non-state school provision



Source: own research and analysis

As per Table 2, an average 62% of low-cost school teachers meet minimum qualifications but with wide variations, as seen in Figure 12, from 17% in Accra to 89% in Kampala. The criteria for teacher qualifications vary between cities, with most regulators officially requiring all primary school teachers to be qualified, with a teacher certificate, in order for schools to get a license. In Nairobi, revisions to the regulations for affordable private schools moved from a requirement of having all teachers qualified to a third (APBET, 2015).

Comparing Kampala with Accra, if households in Kampala do attach importance to teacher qualifications as a basis for choosing a school, this does not appear to be the case in Accra. In Accra, regulators have adopted a pragmatic approach to input-based requirements such as teacher qualifications and school certification is higher than the seven-city average, despite teachers not being qualified.

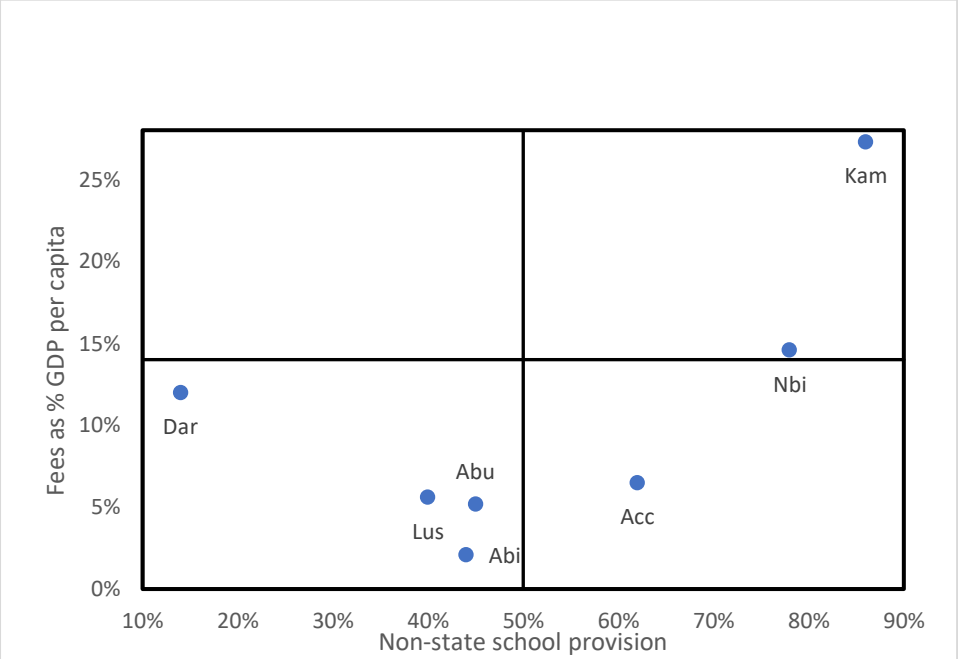
This proxy of teacher qualification and education quality does not necessarily hold true, as demonstrated in Accra, where 58% of children attend non-state schools although only 17% of the teachers meet the minimum qualification standards. It might be the case that parents consider a combination of characteristics in determining education quality, including performance in end of

primary exams, certification, PTR and teachers' qualifications. In Accra, for example, households may conclude that despite the low proportion of qualified teachers, other indicators such as a high certification rate, past exam performance and better PTRs suggest a school can provide a satisfactory quality of education.

(iii) Affordability of education

A key factor affecting parental choice and the role low-cost schools play in it, particularly in low-income communities, is the affordability of school fees, as illustrated in Figure 13.

Figure 13 Non-state school affordability and provision



Source: own research and analysis

Affordability of education is a factor for both state and non-state schools. Households sending children to state schools, although not liable for tuition fees, do incur other costs, such as paying for uniforms, materials, exam entrance fees and parent association fees.[60] The existence of such costs can result in the poorest in the community not being able to afford to send children to any school and helps explain why there are so many out-of-school children in all the research cities.

[60] Survey respondents indicated that non-tuition costs in state schools in Kampala typically equate to US$66, equivalent to 40% of average low-cost school fees.

Where state schools do exist but are not located in the community, transport costs will also be incurred. Households take this and the above costs into account when comparing the total cost of the distant state school compared with the total cost of a local, low-cost alternative. It is also noteworthy that some low-cost schools provide transport by operating their own school bus.

A comparison between Kampala and Dar is instructive in understanding the role affordability has on the role of low-cost schools. Both countries have low per capita GDPs. In Kampala, with the highest low-cost school provision, households appear to pay the highest percentage of household income, at 26%, compared with 12% in Dar. This reveals important factors concerning the type of school, fees for primary low-cost schools compared with early-years schools and the impact of regulation on school payroll costs.

In Kampala, 74% of the low-cost schools are the combined pre-school and primary compared with 17% in Dar. This is reflected in the average enrolment of low-cost schools in Kampala of 209 compared with 70 in Dar. A parent choosing a low-cost pre-school in Kampala might reasonably expect that the child remains in that school until the end of primary school. In Dar, where there are far fewer combined schools, most households with children in pre-school would expect the child to move to a state primary school at the end of pre-school.

In addition to greater availability of government primary school places in Dar, lack of affordability may also help explain why non-state education appears to be relatively uncommon at the primary level. As explained above, most of the non-state education provision in Dar is at the pre-school level. In Dar, however, the tuition fees of non-state primary schools are typically twice as expensive as the pre-schools (US$257 versus US$102).[61] Dar is atypical of the seven cities, where primary school fees are generally less than early year fees (for example in Kampala the pre-school fee is US$172 and the primary fee is US$165). The cost of primary schools in Dar as a percentage of per capita GDP is

[61] Exchange rate used is 2,200 Tanzanian Shillings to USD$1, September 2016.

27%,[62] making this city the least affordable, measured on that basis, compared with the other cities in column 4 of Table 2.

The lack of combined schools in Dar not only reduces the number of low-cost schools that households can choose from but also adversely impacts the associated fees. Larger schools in Kampala can spread out the overhead costs of running a school across several age groups, typically nine, whereas in the smaller schools in Dar, such costs will spread over three years and be passed on in the form of higher fees. However, the biggest cost factor of low-cost schools is staff costs, and in Dar, the regulations that are enforced require all primary school teachers to be qualified. Since qualified teachers are typically paid up to three times as much as unqualified teachers,[63] this increases the fees low-cost schools need to charge in Dar.

In Dar, the picture that emerges is that many families are working on constrained budgets and choose to pay for education only where they must. At the early-years level, the government provides very few places, meaning that for most people the private sector is the only option. It is no surprise, then, that there is a relatively robust market at the early-years level only, while most households continue to opt for cheaper state primary schools as access is easier (despite large class sizes) and direct costs are much lower.

It was noted in Section 3.2 above that the political economy of policy and regulations in Dar impacts levels of non-state education provision. What had not been appreciated before was the impact political economy has had on the affordability of non-state primary provision in Dar. By making low-cost primary provision in Dar relatively more expensive than the more usual combined early-years and primary schools seen in other cities, low-cost schools in Dar are less affordable.

[62] Own calculation: US$257 divided by US$936.

[63] In low-cost primary schools in Zambia, teachers earned, on average, one-third of the monthly salary received by their government counterparts (Edwards et al., 2019). Average monthly earnings were US$93 when fees were US$39–a school needed three children per term to cover the teacher cost. This is similar to findings in Lagos (Rosales-Rogge et al., 2014) and India (Tooley, 2009) of ratios of state to low-cost school teacher costs.

4 Financing of low-cost schools and access to finance

In order to address research questions 3 and 4, this section sets out the research findings on the financing of low-cost schools, the extent to which they have been able to access conventional sources of finance, the shortfall in the supply of finance to meet the perceived demand identified by such schools and factors that contribute to the lack of access to finance. The two main challenges identified by the low-cost schools surveyed were erratic cash flow and access to credit.

4.1 Current financing of low-cost schools

School proprietors were asked how the schools are financed and what were their levels of profitability. Table 5 indicates that, on average, school fees account for 94% of income. The balance comes from contributions made by proprietors (4.6%) and a small proportion (1.4%) from the philanthropic support of religious bodies such as churches and mosques.

Table 5 Funding sources of low-cost schools and irregularity of fee payment

City	School fees as the main source of funding	Other funding e.g. proprietor (prop) & church/ mosque	Percent of schools with irregular / late fee payment
Lusaka	97%	3% (prop 2%)	59%
Kampala	96%	4% (prop 3%)	36%
Abuja	95%	5% (prop 4%)	63%
Abidjan	95%	5% (prop 3%)	69%
Accra	91%	9% (prop 7%)	61%
Dar es Salaam	90%	10% (prop 9%)	48%
Nairobi	*Note 1*	*Note 1*	64%
Average	**94%**	**6% (prop 4.6%)**	**54%**

Source: own research and analysis. Note: Nairobi being the first city surveyed, data was not collected.

A key finding in all the seven cities, which was further confirmed in the Nairobi case study, is that non-state schools receive little or no financial support from domestic governments. For example, since 2005, the Kenyan government has in principle been providing US$9 per pupil per annum to non-state schools for the purchase of textbooks in return for schools becoming registered (Edwards

et al., 2015). This research in Nairobi found that 7% of sampled schools reported receiving any books from government and only 2% reported receiving any funds. Rather, respondents indicated that such schools are seen by government and government officials as a source of income—both officially (through license fees and taxation) and unofficially (through rent-seeking). In addition, such schools receive little or no funding from international aid agencies, INGOs, corporates, or local or international philanthropy.

Table 6 illustrates a pro forma typical low-cost school income statement, drawing on three cities in East, West and Southern Africa.

Table 6 Pro-forma income statement of a low-cost school (assuming 70% fee collection)

(Average no children)		**Acc (192)**	**Kam (209)**	**Lus (173)**	**Avg. (191)**	**Avg.**	**Avg.**
Income		**$000**	**$000**	**$000**	**$000**	**% of fees**	**% of costs**
Fees		14	26	12	18		
Costs							
Payroll		10	13	8	11	60%	76%
Premises		2	3	1	2	11%	13%
Other		1	2	1	1	8%	11%
Total		12	19	11	14	79%	
Net income		**2**	**7**	**2**	**4**	**21%**	

Source: own research and analysis

Dependence on fees paid by households is the norm, but 54% of schools report difficulties with irregular and late fee payment (Table 5). Irregularity and late payment of the main source of school income places cash flow pressure on schools whose principal outgoing is a monthly obligation to pay the wages of staff representing approximately 76% of costs.

An important factor contributing to the cash flow concerns of low-cost schools is the finding that not all households from low-income communities pay the school fees owing in full. On average, respondents indicated that 70% of fees due are collected. The inability of households to pay fees on

time, or in full, reveals the following observations regarding the schools and their contexts. First, the affordability of fees is a challenge for households in low-income communities. Second, fees charged in low-income communities must be low if they are to be affordable. A school's business model has to accommodate this reality. Third, where households are economically active and their own income is generated on a day-to-day basis, their overall income level is unpredictable and they have limited ability to pay termly school fees in advance. To accommodate this, low-cost schools permit households to pay what they can when they can. In Accra, for example, households can pay daily amounts. Fourth, non-payment of fees results in a cross-subsidisation of non-paying or part-paying households by full fee-paying households. Concessions or reduced-fee spaces are provided to students most in need. Finally, low-cost school proprietors fund the schools from their own resources and accommodate late or non-payment as much as possible.

School proprietors indicated that when households faced difficulties in paying fees, their response was to ask households to pay what they could, sometimes allowing payment in kind, rather than take the child out of school. This concern of school proprietors for the education of children is consistent with the end-line report on the Developing Effective Private Education Nigeria (DEEPEN) programme in Lagos that observed that low-cost schools saw themselves as social enterprises (Edoren, 2018).

As an enterprise, a low-cost school needs to be financially viable, with sufficient numbers of households paying fees to cover costs. School proprietors are therefore in a difficult position of being concerned that children receive an education and therefore attempt to accommodate non-payment of fees whilst at the same time needing to manage their cash flow and break even. Despite such challenges, the longevity of schools indicated in Figure 19 below demonstrates that such schools have managed to be both financially sustainable enterprises and fulfil their social objective of delivering affordable care and education.

Despite being viable at their current size, with a proforma number of 191 students enrolled,[64] the low-cost schools surveyed indicated a strong desire to expand. However, generating sufficient funds to reinvest from retained profits is difficult. In Nigeria, for example, the self-financing of new classrooms costing US$12,000[65] inevitably takes three years per pro forma accumulated profits. Loan finance would enable a school to build a classroom more quickly, but access to such finance is seen by low-cost schools to be a real challenge, to which this chapter now turns.

4.2 Access to finance and the unmet demand for credit

As indicated in Table 3, only 15% of the low-cost schools surveyed had been successful in accessing credit from conventional FIs. Lusaka was the highest at 25% and Abidjan the lowest at 9%. When asked what need they had for finance over the next three years, were it available, this research found that low-cost schools have a US$1.8 billion unmet demand for finance as illustrated in Table 7.

Table 7 Unmet demand for finance

City	**Low-cost school demand for finance US$ million**	**Three-year average demand for finance per school per annum US$000**	**% Of schools that are profitable**
Nairobi	556	31	80%
Abuja	361	25	85%
Accra	286	33	77%
Abidjan	200	31	74%
Kampala	164	15	93%
Dar es Salaam	130	12	78%
Lusaka	63	11	85%
Total	**1,760**		
Average		**21**	**82%**

[64] Per Table 2, the seven-city average is 164 children enrolled and, excluding Dar, is 180.
[65] The estimated cost of building a new classroom in Lagos (Rosales-Rogge et al., 2014).

Source: own research and analysis. Calculations based on surveys of schools conducted 2016-2018. Responses indicated a school's appetite for finance and the purpose and amount they would like to borrow over a three-year period, extrapolated to the city non-state school population.

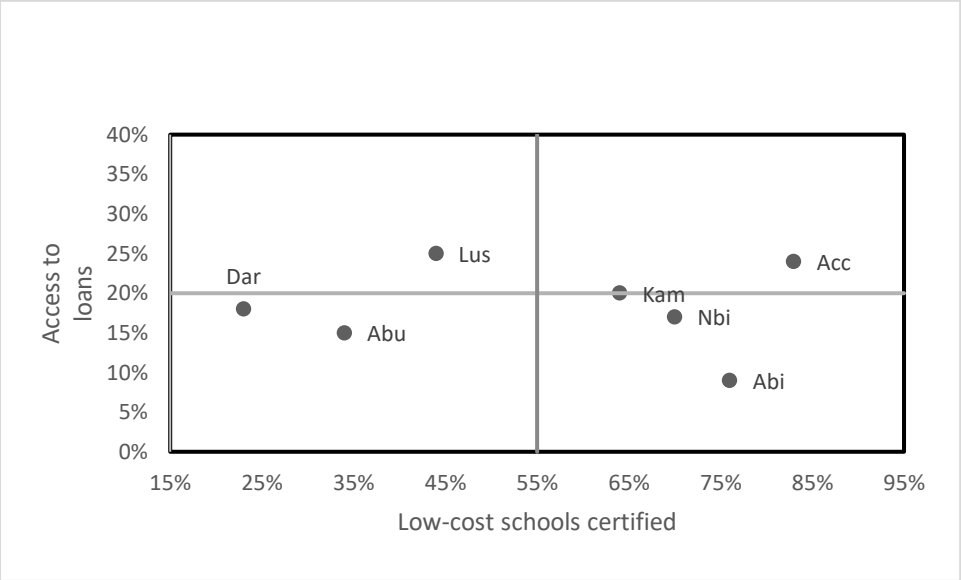
The majority of demand for finance was for expansion. Low-cost schools indicated they would utilise the funding for working capital to assist with the periods when households are in arrears with fee payments; infrastructure, including new classrooms, buildings, renovations and toilets; land; materials and equipment; vehicles to transport children; and teacher loans. These findings are consistent with the Schools as Business Report (Caerus, 2016), which estimated that in sub-Saharan Africa, non-state education providers had an US$18 billion finance requirement across early-years, primary, secondary and tertiary education.

Notwithstanding their profitability illustrated in Table 7, the 15% of schools that have accessed finance is significantly less than the 50% average access experienced by SMEs in Africa (IFC, 2017; Quartey et al., 2017). Furthermore, none of the schools had accessed finance from impact investors including local and international DFIs. This chapter now considers the factors, some of which are peculiar to low-cost schools operating in a regulated sector such as education, that contribute to this situation.

4.3 Access to finance and the political economy of regulation and certification

Of particular relevance to research question 4 and the financing of low-cost schools is the finding that an average of 46% of schools are uncertified and could be closed by the regulator for operating without a license (Table 3). Figure 14 illustrates the inter-city comparison by looking at the proportion of schools that have had access to finance and the proportion of schools that have been certified.

Figure 14 Access to finance and certification



Source: own research and analysis

The formal finance sector is risk-averse and sees SMEs as particularly risky loan recipients (Cantor et al., 1992; Quartey et al.,2017). Consequently, FIs will either not lend or price the cost of lending accordingly high (Beck, 2013). As banks interviewed in the case studies indicated, unlike lending to generic SMEs, the risk associated with financing schools brings with it not only financial risk but also, importantly, regulatory risk.

As commented on by Rosales-Rogge et al. (2014), banks in Lagos attached significant risk to non-state schools that do not have the required license to operate. If a school is closed for operating illegally, banks and MFIs fear that this would result in financial loss to themselves. FIs in the seven cities have credit departments with procedures preventing the provision of finance to enterprises operating in a regulated sector but lacking the necessary certification. Uncertified low-cost schools would fall within this prohibition. Case study interviews in Chapters 5 and 6 confirmed that banks were not prepared to lend to enterprises that were not in possession of the necessary license to operate a school.

The regulatory risk attached to lending to schools also includes changes to the regulations. If the rules surrounding certification of schools are changed, this could result in a bank's school customers

becoming non-compliant and no longer in possession of the necessary license to operate a school. The political economy issues around certification of low-cost schools have a direct impact on the ability of low-cost schools to access finance. Lower certification levels, as in Abuja and Dar, is consistent with lower access to finance in those cities.

It is noteworthy that low-cost schools operating in contexts where the minimum requirements have to be met before a license is given, but wanting to obtain certification, can find themselves in a vicious circle. Needing finance to meet the certification requirements for physical infrastructure, such as land ownership, a school could approach a bank for a loan, but no loan would be forthcoming if the school is not licensed. Without finance, the school cannot invest in the infrastructure in order to get the certification. This appears to be the case in Dar which, as noted above, has one of the most restrictive regulatory regimes. The head of the school association commented that the fact that schools are unregistered can be reasonably interpreted as being related to a lack of access to finance, which blocks schools from making the necessary investments in infrastructure.[66]

However, lack of certification is not the only factor contributing to lack of access to finance. In Abidjan, lack of access to funds from conventional providers of finance is the lowest of the seven cities at 9%, but Abidjan has the second highest levels of certification at 76%. In this context, assuming FIs will only lend to certified schools, 12% of certified schools have accessed finance from FIs (9% of 76%), indicating that other factors are playing a role to contribute to the 88% of certified low-cost schools not accessing finance.

Comparing Abidjan with the three cities in Figure 14 with the highest access to finance (Lusaka, Accra and Kampala) provides some useful insights. Comparing Abidjan with Accra (second highest access to finance at 24%) indicates that both cities have similar levels of certification (Figure 14), similar proportion of schools that are profitable (Figure 17) and similar availability of financial

[66] Interview with head of school association, TAMONGSCO, April 2016.

information (Figure 17). Schools in Accra appear to have higher access to credit than schools in Abidjan due to schools in Accra having more regular fee payments (hence better cash flow) (Figure 18) and a higher proportion of women-run schools (Figure 20). The importance of gender was highlighted by Sachs (2005) in the review of literature Chapter 2, Section 3.3, pointing out that women ownership of SMEs was associated with lower default rates, demonstrating that formerly excluded women, previously seen as unbankable, were creditworthy.

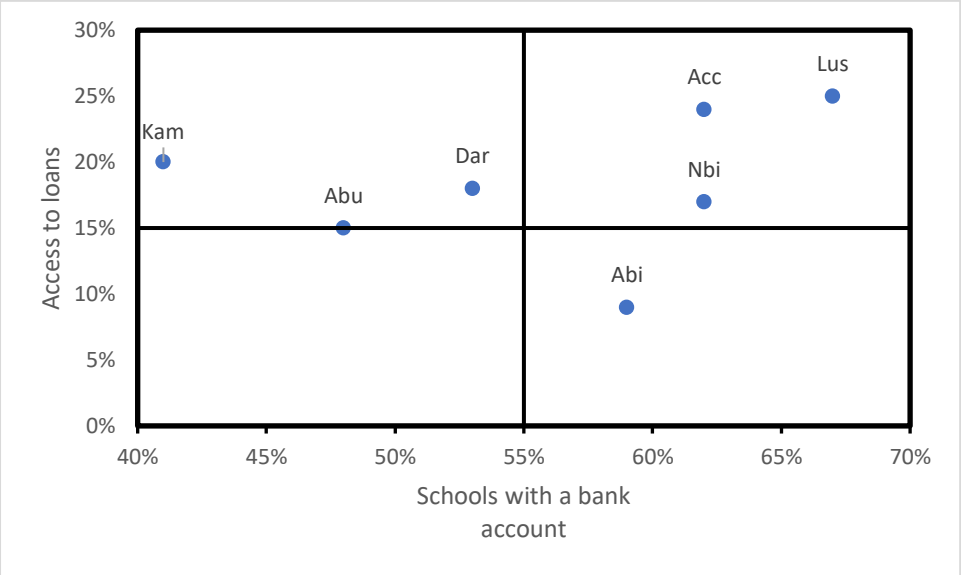
Similarly, comparing Abidjan to Kampala (with third highest access to finance at 20%) indicates that certification is higher in Abidjan than Kampala (Figure 14) and more schools are banked in Abidjan than Kampala (Figure 15). However, despite lower certification and greater financial exclusion in Kampala, access to finance appears to be greater than Abidjan due to schools in Kampala having better financial information (Figure 16), much higher profitability (Figure 17), more regular fee payment (Figure 18) and a higher proportion of female ownership (Figure 20).

Comparing Abidjan and Lusaka (highest access at 25%), lack of access in Abidjan does not appear to be due to lack of certification (Figure 14), financial exclusion (Figure 15) or lack of financial information (Figure 16) but rather due to matters of lower profitability and weaker cash flow (Figure 17) higher fee irregularity and hence weaker cash flow (Figure 18) and lower women ownership (Figure 20). When comparing these two cities, the two factors that stand out in improving access to finance are the strength of school cash flow and female ownership.

4.4 Access to finance and institutional voids: financial inclusion

One of the factors that appears to contribute to low access to conventional finance is the lack of financial inclusion of low-cost schools. Table 3 indicates that although 56% of low-cost schools have a have a formal relationship with a conventional FI, 44% do not. The level of financial inclusion ranges from 41% in Kampala to 67% in Lusaka, as illustrated by Figure 15.

Figure 15 Access to loans and banked schools



Source: own research and analysis

Banks and MFIs are unlikely to lend to enterprises with whom they have no relationship. Abuja, which has one of the lowest levels of access to finance at 15%, also has one of the lowest financial inclusion results, at 48%. In contrast, Quadrant 3 cities display higher financial access, Lusaka (25%), and Accra (24%), and higher financial inclusion rates of 62% and 67% respectively. Financial inclusion does appear to play a role in enabling low-cost schools to access finance.

The lack of financial inclusion of low-cost schools has parallels with that faced by micro-entrepreneurs, considered in the survey of the literature. Such institutional voids evident in the resource scarce contexts of Bangladesh (Yunus, 1998) and which were addressed by MFIs do appear to be present with low-cost schools. There are five notable factors contributing to resource scarcity in low-income communities of African cities.

First, conventional banks in the research cities appear to have a similar attitude to low-cost schools as that exhibited by banks to micro-enterprises in Bangladesh (Mair and Marti, 2009). Perceptions of risk and ability to repay were elements that resulted in the financial exclusion of micro-enterprises (Smillie, 2009). Banks did not believe such borrowers could repay small loans and would default. The institutional void was only filled by the emergence of institutions such as Bangladesh Rural

Advancement Committee (BRAC) and Grameen as financial intermediaries employing local loan officers working at community level. Adopting such practices, MFIs demonstrated that these enterprises could repay small loans and were creditworthy (Yunus, 1998).

Second, with low-cost schools, as with micro-entrepreneurs, institutional voids are partly caused by the location of these enterprises. Whereas locality of the schools in low-income communities is important for the markets the schools serve, it is a handicap where there is little or no provision of financial services through FI branches in these locations. Similarly, the micro-enterprises serviced by the MFIs were located in difficult to reach rural areas underserved by banks.

Third, low-cost schools, like micro-enterprises, tend to operate in the informal economy where most, and often all, transactions are in cash (Rosales-Rogge et al., 2014). Conventional providers of finance operate largely in the formal economy servicing enterprises with officially recognised legal status, such as a registered company or partnership, and where the majority of income and expenditure is channelled through FIs (Beck and Cull, 2014). The contrast between the predominantly cash-based informal economy under-serviced by conventional banks and the formal economy, where the majority of financial transactions are processed through formal banks, contributes to the levels of financial exclusion.

Fourth, the fragmented nature of the market also creates a barrier to the provision of finance to low-cost schools. Reaching thousands of low-cost schools is similar to the challenge faced by MFIs looking to reach thousands of micro-enterprises. MFIs addressed this through group lending, which provided points of aggregation and facilitated lending to group members (Yunus, 1998). Fifth and finally, the low-cost schools surveyed indicated that they were under the impression that the banks were not interested in them as customers, either as individuals or as small businesses. For the unbanked schools, few benefits were expected from opening an account with a formal sector, conventional provider of finance.

Important as financial inclusion is, a comparison of Kampala and Abidjan provides useful insights on compensating factors that appear to increase access to credit. Kampala has the lowest financial inclusion rate but a higher than average access to finance. Its high certification rate (Figure 14), high proportion of profitable schools (Figure 17), more regular fee payment rate with better cash flow (Figure 18), better financial information (Figure 16) and high female ownership rate (Figure 20) appear to compensate for lack of financial inclusion.

In contrast with Kampala, Abidjan has an above average financial inclusion rate of 59% but the lowest access to finance rate of 9% (Figure 15). Lack of financial inclusion may act as a barrier to finance in most cities, but in Abidjan, other factors such as the lower number of profitable schools (Figure 17) and less financial information (Figure 16) appear to play a bigger role in contributing to these barriers. Such factors help build trust and increase access to finance.

4.5 Access to finance and trust

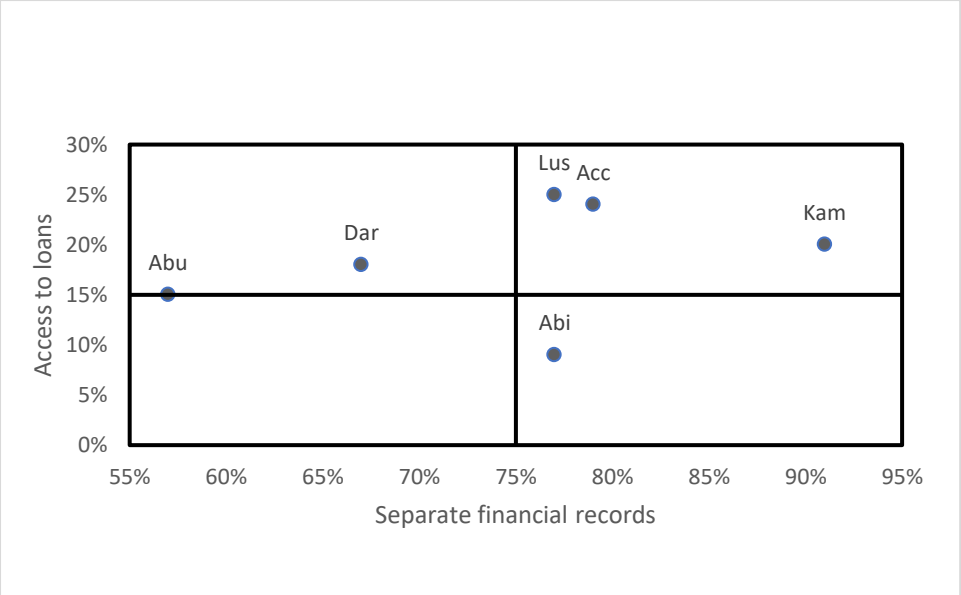
Certain characteristics assist the building of trust between low-cost schools and FIs. Certification is one such aspect, as is having a bank account, as addressed above. In addition, banks consider other factors to establish the trustworthiness of the school to receive a loan, notably the enterprise's ability to pay and its willingness to pay (Beck and Cull, 2014). Understanding these elements helps an FI assess the level of risk, establish whether a loan can be made and, if so, at what cost to the borrower. Regarding the ability to pay, key aspects that help an FI reach a lending decision include financial information, cash flow, profitability and size of loan (IFC, 2017). Aspects that help establish if the school is willing to pay include longevity and gender of ownership, which provide indications of trustworthiness, track record and character (IFC, 2014).

(i) Financial information and school financial records

In assessing whether a potential borrower has the ability to pay, FIs require basic financial information. The keeping of separate financial records of the school is therefore important if FIs are

to lend to schools. However, in the seven cities, 26% of the low-cost schools do not keep separate financial records, as illustrated in Figure 16.

Figure 16 Financial records and access to loans



Source: own research and analysis

Quadrant 3 cities, as compared with Quadrant 1 cities, indicates that keeping separate financial records is associated with better access to finance. A comparison of Kampala (of which 91% of schools keep separate financial records) with Abuja (57%) indicates that despite Kampala having a lower financial inclusion rate of 41% compared with Abuja of 48% (Figure 15), schools in Kampala have better cash flow (indicated by higher number of schools being profitable (Figure 17) and paying fees on time (Figure 18). These characteristics, combined with keeping separate financial records, are associated with greater access to finance.

Comparing Accra to Kampala also indicates that keeping separate financial records plays an important role in improving access to finance and compensates for lower levels of certification. In Accra, certification levels are 83% compared with Kampala's 64%, but access to finance is just 2% better than in Kampala, at 22% versus 20%. The observation that 91% of schools in Kampala have separate financial records compared with 79% in Accra appears to compensate for the lower certification figures.

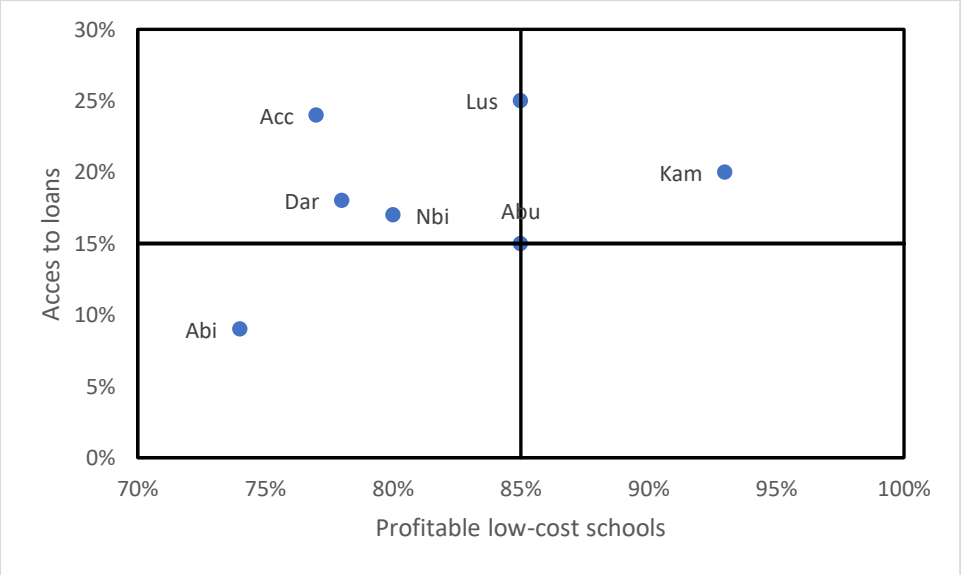
Despite Lusaka having a much lower certification level of 44%, compared with Accra's level of 83%, the city has better access to finance, at 25% compared with 22%. Both cities have similar but better than average rates of keeping of separate financial records, at 79% and 77%, versus an average of 74% (Figure 16).

If financial information of a school is available, and in the form required by the credit department of a bank, this can enable the FI to lend to the enterprise. From the FI's perspective, the lack of historic and projected financial data impedes an assessment of the cash flow of the enterprise (Beck, 2013). As confirmed in the case studies, weak financial management in SME schools raises the risk of lending to them, and without a clear appreciation of cash flow, an FI will be hampered in assessing the risk and making credit available.

(ii) School profitability and cash flow

The ability of schools to service a loan is a function of cash flow impacted by school profitability and collection of fees. Figure 17 and Figure 18 illustrate how access to finance relates to profitability and regularity of fee payments respectively.

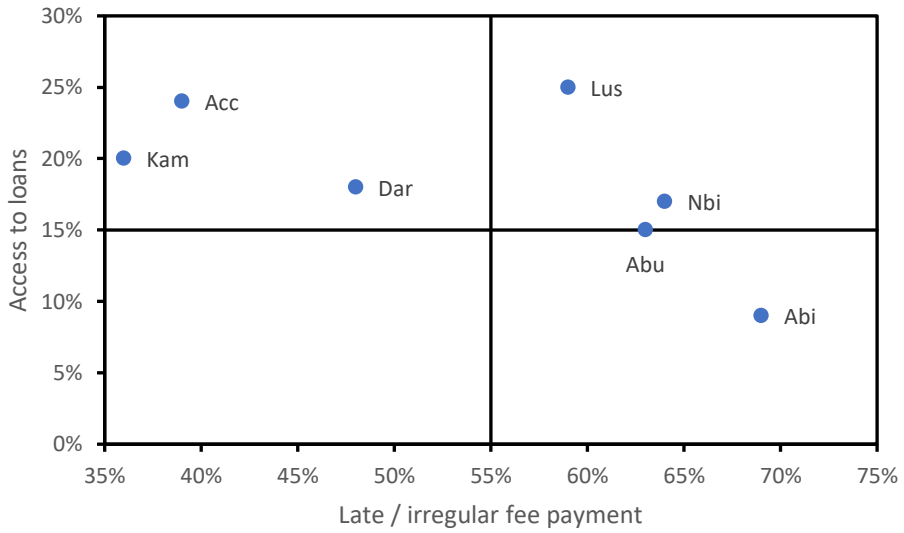
Figure 17 Access to loans and school profitability



Source: own research and analysis

Schools in Abidjan, despite having higher certification (Figure 14) and higher financial inclusion (Figure 15), appear to have low access to finance due to poorer cash flows, as reflected by fewer schools being profitable (Figure 17) and having more irregular fee payments (Figure 18) relative to other cities. Schools in Accra, Kampala and Dar have better fee payments, better profitability and better cash flows, leading to higher access to credit. The implications of these findings are discussed in Chapter 7.

Figure 18 Access to loans and late/irregular fee payment



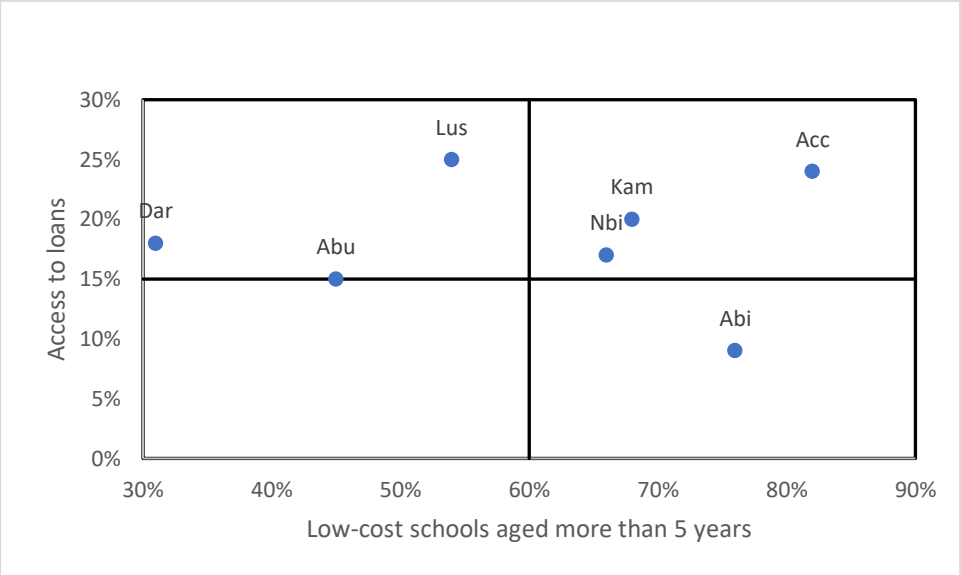
Source: own research and analysis

(iii) School longevity

A lack of financial information on school cash flows acts as a barrier to finance, but so too does the asymmetry of information on other schools' characteristics, such as how long schools have been established. Longevity of schools demonstrates profitability, financial sustainability and something of the character of the proprietor.

Figure 19 indicates the percentage of low-cost schools that have been operating for more than five years and their ability to obtain loans.

Figure 19 Access to loans and longevity of low-cost schools



Source: own research and analysis

The experience of schools in Quadrant 3 cities indicates that longevity is associated with greater access to finance.

Five out of seven new SMEs in sub-Saharan Africa fail in their first year (Muriithi, 2017). Figure 19 would indicate that low-cost schools provide a lower level of investment risk than most SMEs. Yet they have lower access to finance than typical SMEs. The experience of low-cost schools in these cities indicates that conventional providers of finance are either not aware of this characteristic or do not take this aspect into their risk assessments of low-cost schools. The case studies examine whether FIs see the period a school has been operating as a risk mitigant.

However, the overall picture is that despite the risk-mitigating characteristic of the schools' demonstrating sustainability, in all cities the vast majority of schools have been unable to access credit. In Abidjan, although 76% of low-cost schools have been operating for more than five years, only 9% of schools have been able to access loans. In Accra, 82% of schools have been operating for more than five years, but only 24% have been able to access conventional finance. In Nairobi, the percentages are 75% for five years and 33% for 10, yet only 17% have accessed credit.

(iv) Size of school and loan size

As indicated in Table 7, over the next three years, the schools are looking to borrow an average of US$21,000. Responses from schools in all the cities indicated that when schools have obtained loans from conventional sources, the school felt that the amounts they were allowed to borrow were not large enough for their purposes. The size of borrowing appeared to be too large for MFIs but too small for banks. MFIs were also limited by regulations limiting the maximum term they could lend, which in turn limits the usefulness to a school. Low-cost schools, like many SMEs, fall into this missing middle of needing loans that are too large for MFIs but too small for banks (IFC, 2017). Such a void underlines the need for intermediaries to serve this market in a similar way to how MFIs served microentrepreneurs who were seen to be too small for banks (Mair et al., 2012).

The size of schools in Dar is 70 compared with the seven-city average of 164 (Table 3), partly due to the political economy issues hindering the evolution of combined early-years and primary schools seen in the other cities. The three cities with the highest access to loans had, with the exception of Abidjan, the largest operations measured by children enrolled (Table 3). Size of operation in Kampala and Lusaka also appears to be linked to profitability and greater access to finance (Figure 17).

The size of a school also appears in most cities to be related to its regulatory status, with larger schools being more likely to be certified. For example, in Lusaka a regulated low-cost school has 201 enrolled children, compared with 152 in an uncertified school; in Abuja, the figures were 149 and 110 respectively. The possible significance of this will be discussed in Chapter 7.

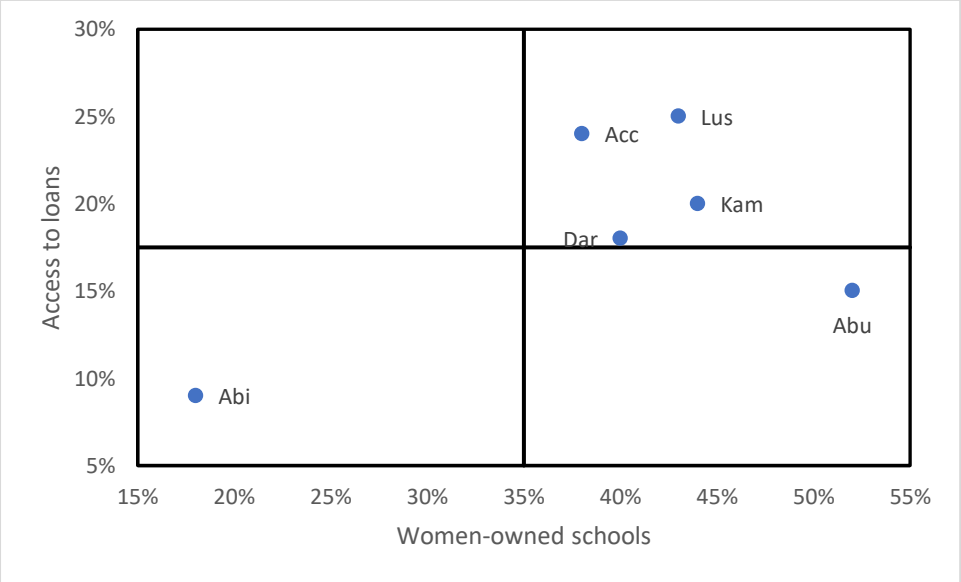
(v) Ownership and gender

In determining a borrower's willingness to pay, banks consider the character of the enterprise owner. Gender plays an important role in this regard, as women-owned enterprises are generally seen as a lower risk than male-run enterprises (IFC, 2014). Again, the experience of MFIs in addressing the unmet demand for credit of micro-entrepreneurs is revealing. Women borrowers became the main customer of MFIs, representing 90% of clients, and repayment rates were 99%

(Yunus, 1998). This experience contradicted the view of banks that saw such borrowers as not being credit worthy.

Such MFI experience in finding women borrowers able and willing to repay the loans made is supported by the results in the 7 cities. It is striking that, with the exception of Abuja, female ownership appears to be associated with improved access to finance, as is illustrated in Figure 20.

Figure 20 Access to loans and female ownership



Source: own research and analysis

Note: Nairobi was the first city researched and data not collected on this area of operations. Subsequent cities included questions on this subject.

The total number of formal women-owned SMEs, with at least one female owner, in over 140 countries is approximately eight to 10 million, which is about 31-38% of all SMEs (IFC, 2017). In sub-Saharan Africa, the proportion of women-owned SMEs is 24%, lower than other regions. Per the findings of this thesis, the average of low-cost schools that are owned by women in the seven cities is a far higher 41%. The fact that women are playing a greater role in SMEs serving the early year and primary education sector than is generally the case with SMEs in sub-Saharan Africa may not be surprising given early-years provision, in particular, is seen as a female-dominated sector (Devercelli and Bowen Day, 2020).

The IFC (2014) found that female-run businesses tend to be a lower-risk investment than male-owned SMEs from a loan repayment perspective. As seen in Chapter 2, MFIs addressed the institutional void that excluded female micro-enterprises (Mair et al., 2012) and demonstrated that female entrepreneurs were creditworthy. It appears, however, that FIs in the seven cities lack the information concerning the extent of female ownership of low-cost schools. As with the information asymmetry around the longevity of low-cost schools considered above, where FIs do not know that women ownership is higher than in SMEs in general, they are unlikely to factor into their lending assessments that the risk is lower. This in turn can result in FIs not offering loans, or if they do, mis-pricing such loans, making it too expensive for schools to take on. Either outcome contributes to the shortfall in supply of finance to low-cost schools.

5 Conclusion

In addressing research questions 1 and 2, on the shortfall in state education provision and the role of low-cost schools, this chapter has considered factors that contribute towards the 52% shortfall in the supply of education by the state found in the seven cities. Post-independence state policy in all cities focused on universal primary education, which resulted in state schools not providing care or education for early-years aged children. Low-cost schools have responded to the need for early-years care and education in their communities.

A lack of financial resources combined with corruption has resulted in leakage and limited the funding available for state education. Constrained by lack of finance, the state has been unable to build sufficient schools and employ teachers in many low-income areas of the cities researched. Low-cost schools have established themselves in response to the need for care and education at the early-years and primary level in those localities. The growing demand for early-years care and primary education has been fuelled by population growth, urbanisation and migration (Tooley, 2009).

In the seven cities, 46% of non-state schools are not certified and therefore not officially recognised by government. The state is conflicted in its role as both regulator of schools and provider of education. Competition from private schools is reduced by the enforcement of onerous input requirements. As seen in Dar, these create barriers to entry of non-state schools, particularly primary schools. Such input-based regulations are difficult to meet and create rent-seeking opportunities for officials who can threaten a school with closure unless bribes are paid (Baum et al., 2018a).

Weak regulator institutions in low-resourced environments, coupled with the rent-seeking activities of officials, hinders the effectiveness of such bodies. In part, institutional weakness is the result of asymmetries of information on the education outcomes of schools, both state and non-state, which hinders households in assessing the quality of education provided by different schools. The close proximity of non-state schools to the communities they serve helps households discover the performance of local low-cost schools in the end of primary exams. Given that exam results of state and non-state schools are not made publicly available, proxies of education quality such as PTR are used. This research finds that low-cost schools have a better PTR than state schools, this being on average 24:1 versus a national average in state schools of 41:1 (Table 2). The state PTR worsens when teacher absenteeism is factored in taking the revised PTR to 70:1 where teachers are absent for two days in five (Hartwig, 2013).

The shortfall in the provision of finance to low-cost schools in the research cities varies by context but exists in all and is estimated to be US$1.8 billion. On average, only 15% of low-cost schools have been able to access conventional finance. This research indicates that regulatory risk, lack of certification, institutional voids, and trust and information asymmetries are contributing factors.

With respect to regulatory risks, low-cost schools are unlike traditional SMEs in that they operate within a regulated sector. FIs interviewed in the case studies (Chapters 5 and 6) indicated that they would not lend to uncertified schools. Moreover, if the regulations change, this could have an

adverse impact on a school and its regulatory status and viability. Such uncertainty increases the risk from an FI perspective and may lead FIs to decide not to lend under these circumstances or make the cost of borrowing too expensive for low-cost schools.

Lack of regulatory approval also constrains access to credit as banks are unwilling to lend to an entity that could be closed down. In some cities, such as Accra and Kampala, the regulators are more flexible and allow low-cost schools to register and meet minimum requirements within several years. In such contexts, the barrier to finance caused by lack of certification would, *a priori,* be less of an issue for conventional providers of finance. In Abidjan, for example, new schools are registered and have five years to meet minimum requirements. If this more accommodating practice was adopted in other cities with stricter regulatory regimes, such as Abuja and Dar, it may increase access to finance. Overall, where 46% of low-cost schools in the seven cities are not certified (Table 3), as required by law in order to operate, lack of certification contributes to the shortfall in the supply of finance to low-cost schools. Chapters 5 and 6 contribute to our understanding of the political economy and other factors that help explain this.

Institutional voids also reduce access to finance. Banks are unlikely to provide finance to the substantial proportion of low-cost schools that have no relationship with them. Similarities exist with the lack of financial inclusion of micro-entrepreneurs and the financial exclusion of low-cost schools involving low levels of trust between low-income informal communities and formal providers of finance reviewed in Chapter 2. As with microfinance, the issues of reaching a fragmented market and asymmetry of information as to the existence and size of that market appear to play a role (Rosales-Rogge et al., 2014; Caerus, 2016).

Even where lack of certification and financial exclusion is not contributing to the shortfall in the provision of finance, other factors are at play. This research indicates that part of the market failure to provide loans to certified and banked schools appears to be due to an asymmetry of information of various types, including lack of financial records, which is exacerbated by the uncertainty of cash

flow surrounding the schools; the reluctance of banks to lend to smaller schools; FIs' risk perceptions due to lack of information and consequent high loan pricing; school longevity; and female SME school ownership.

The case studies, to which this thesis now turns, builds on the seven city findings and is compatible with the conceptual framework adopted in Chapter 3. The case studies in Chapters 5 and 6 follow up the findings in this chapter and, in addition, look to address research question 5 on how the political economy issues around education provision and the lack of access to finance faced by low-cost schools might be addressed.

Chapter 5. Case study of a low-cost school in Lagos, Nigeria

This chapter describes and reports on the case study of Lekki Peninsula Affordable School (Lekki) in Lagos. The school services children of early-years and primary school age and looks to provide quality education to children of low-income households.

Semi-structured interviews with the school's founder and owner are triangulated with interviews with the education regulator, policy makers, policy advisors, banks, MFIs, international aid agencies, impact investors, a low-cost school association and a non-bank financial institution established in 2018 to focus on low-cost schools. The interviews add to the research findings of Chapter 4, with a West African focus, and address research question 5 as to how the barriers to finance faced by low-cost schools might be overcome.

Interviewees are identified as follows: Founder of Lekki (Bunmi Oyinsan, referred to hereafter as Bunmi); International Donor Agency; Bilateral Aid Donor; Policy Advisors: PA (i), (ii), (iii); Impact Investor-II (i), (ii), (iii); Financial Institutions: FI (i), (ii), (iii); Microfinance Institutions: MFI(i), MFI (ii); Education Regulators: Regulator; School Association; Development Impact Bond Arranger: DIB. Actual names of organisations and individuals are anonymised to preserve confidentiality, with the exception of Bunmi Oyinsan, who gave permission to use her name.[67]

1 Lagos education context and case study history

Lagos State is the largest city in sub-Saharan Africa. Its population has been growing at a rate of 3.2% per annum since 2006[68] and was estimated at 24.8 million in 2017 (Lagos State Government, 2018). It is the commercial capital of the country, but an estimated 66% of the population live in low-income areas or slums around the lagoons with limited access to roads, clean water, electricity or waste disposal (UNICEF, 2016).

[67] Details of interviewee, date of interview and location available on request.
[68] Own calculation based on Lagos statistics (Lagos State Government, 2018).

62.6% of Nigeria's 168.8 million people live below the national poverty line (World Bank, 2020). The World Bank's human capital index of 2020 indicates that a child born in Nigeria will grow up to be 36% as productive as she could be if she enjoyed complete education and full health. This figure is lower than the average for the sub-Saharan Africa region (ibid.).

Nigeria spends about 2% of GDP on basic (primary) education, compared with the UN's recommended 3.6%, and ranks very low among the 46 countries covered by UNESCO's Education for All Global Monitoring Report (UNESCO, 2017). This lack of funding has contributed to poor educational infrastructure and inadequately equipped classrooms and schools (UNESCO, 2017). Although state primary schools are supposed to be free, in practice approximately 92% of pupils are charged for various costs such as handouts, books, supplies, school uniforms, extra lessons, parent teacher association fees, and school development levies (UNESCO, 2010).

In an effort to make education more accessible, the National Policy on Education of 2004 defined basic education as the education given to children between zero and 15 years old (Federal Republic of Nigeria, 2004). The policy encompasses early childhood care and education (ages zero to five) and nine years of formal schooling, made up of six years of primary and three years of junior secondary education. In the National Policy on Education of 2012, the age of children for whom government looks to provide early childhood education is specified three- to five-year-olds (Federal Republic of Nigeria, 2012). In practice, however, government schools seldom take on children younger than four years old, which means they are potentially providing one year of pre-school for five-year-olds. Children aged up to two years old are left out of the policy altogether. The estimated number of children enrolled in pre-primary early childhood care centres is less than 21% (UNICEF, 2016).

In 2018, a survey by Lekki of its local area indicated that there were no low-cost early childhood education centres with age-appropriate learning activities for children aged zero to two. Even where children in Nigeria are registered in state pre-school centres, caregivers are mostly unqualified, with 85% not having the basic training to teach pre-school and fewer than half having any formal

education (UNICEF, 2016). Combined with such centres lacking proper infrastructure, equipment, facilities and learning resources, this raises the question of how much essential learning can take place (UNICEF, 2016).

In Nigeria, sub-national data on learning levels are seldom available, but those at national level show there are education quality problems, with 80% of 10-year-olds being unable to read and understand a simple text (UNICEF, 2016). The corresponding value for comparative countries by income is 59% (UNICEF, 2016).

It was estimated that in 2010, 10.5 million Nigeria children were not attending school, one of the highest figures in the world (UNESCO, 2010). According to UNESCO (2010), the lack of state early-years and primary schools (particularly in low-income areas), the perception of poor learning outcomes in those schools that do exist, and the costs to parents associated with attending them, contribute to the high number of Nigerian children out-of-school. In contrast to the national picture of low school attendance numbers, Lagos has a much higher attendance rate, with an estimated 96% of children enrolled in school (Härmä, 2011).

As already referred to in this thesis, the 2010 school census in Lagos revealed that the state shortfall in education provision was 70% (Härmä, 2011). The continual growth of low-cost schools, as found in the seven research cities (Chapter 4, Section 3), holds true in Lagos, with the Lagos State Minister of Education indicating that by 2019, low-cost schools were educating 80% of children, a growth rate of 8% over the nine years since the school census.[69] Given the insufficient provision of education by government, the non-state education sector is making a substantial contribution to the expansion of educational access in Lagos (Baum et al., 2018b).

International donors recognise the extent of low-cost schools in Lagos, commenting that they are “a massive provider” of these schools.[70] It is within this context, where the state is educating only 20%

[69] Own calculation based on 80% estimate given by the Lagos State Minister of Education (Lagos, 2019).
[70] IDA. Quotes of participants are spoken directly by the individual or taken from notes made by the interviewer from interviews with participants.

of early-years and primary school children, that Lekki operates. Consistent with the findings presented in Chapter 4 and the prevalence of low-cost schools observed, Lekki grew out of a response to a government shortfall of school provision in the local area. Initially only offering education at secondary level, the school subsequently expanded into early-years and primary education.

According to the school's founder, in July 1990, under the instructions of the military governor of Lagos State, Maroko, a shantytown which had been in existence since the 1940s, was demolished. Given its close proximity to the central business district, the land was seen as prime real estate that could be developed for office buildings and high-end residential accommodation. The demolition resulted in an outflow of displaced people who were left homeless and mostly without livelihoods. This population spilled into the Lekki Peninsula peri-urban areas of Jakande, Ikota Estates and the villages in and around Aja, which at the time had no electricity, water, social services, medical clinics or secondary schools.

In the absence of state secondary schools in the area, children wanting to continue their education had to travel to the nearest school some distance away. In some cases, these schools were full and could not admit more children so that parents had to look even further afield, requiring additional travel costs for the daily school commute. In the event that children managed to be admitted to a state secondary school, teacher strikes and teacher absenteeism resulted in parental concerns about the quality of education their children were receiving. Parents who felt that this provision of education by the state was unsatisfactory withdrew their children.[71]

In 1993, seeing increasing numbers of young people out-of-school and roaming the neighbourhood, Bunmi Oyinsan, a Nigerian businesswoman with a PhD from Canada who lived in the area, asked young people why they were on the streets. On hearing that they could not find a suitable school or could not afford the travel and other costs required but wanted to complete their secondary

[71] Situation as related in interviews with Bunmi Oyinsan, founder of Lekki.

education, she began teaching these young people from her home. Her aim was to help these children to complete their studies, go onto tertiary education and prevent them from falling into crime. Volunteers, including expatriate women from Canada and America, joined Bunmi in teaching these children, mainly in the evenings. The initiative ran free for the first four years, with lessons provided in literacy, numeracy and preparation for the end of secondary school examinations.[72] In addition, leadership training, mentoring and educational skill acquisition programmes, including sewing and video production, were provided.

Initial funding came from Bunmi herself and from donations from charitable organizations such as the Canadian and American Women's Clubs. As the school's population grew and parents saw the benefits of its offerings to their children, women market traders forcefully requested that Bunmi establish a formal day school to educate their children. When informed that setting up such a school would require employing staff, rather than relying on volunteers, and necessitate the charging of fees to cover costs, the mothers said they were willing to pay and together with Bunmi agreed what the fee levels should be. Consequently, in 1997, Lekki Peninsula College (LPC) started to operate as a low-cost secondary school.

According to Bunmi, LPC was registered as a limited liability company and set up as a for-profit venture with a mission to empower students from families at the bottom of the economic pyramid to participate fully and positively in all spheres of life in Nigeria. The school grew and eventually provided a full education at both junior and senior secondary levels. In furtherance of its social mission, LPC catered for street traders and young girls from rural areas working as nannies and home helps in the Lekki area. The school obtained scholarships and cross-subsidised poor children unable to pay for their education. This was particularly the case with street traders, who sold items to car drivers and passengers in stationary traffic. LPC is one of the oldest co-educational secondary

[72] In Nigeria most children sit both sets of secondary school examinations set by the West African School Certificate Examination (WASCE) and the Joint Admission and Matriculation Examination (JAMBE). Performance in these exams determines acceptance at tertiary institutions in Nigeria and West Africa.

schools in the Lekki area, and from its inception up to September 2016, it had graduated 2,062 students. Over 70% of these went on to pursue tertiary education.

In 2015, Bunmi established Lekki Peninsula Affordable Schools (Lekki) on the same premises as LPC, to provide affordable early-years and primary education. The move into pre-secondary levels of education was in response to the poor calibre of students coming into the secondary school from state primary schools. The amount of remedial education needed to address the poor levels of education exhibited by the new intakes was unsustainable.

However, expanding into primary education required certification and finance to build additional capacity. Bunmi looked at other models of low-cost education in Asia, such as schools run by the NGO BRAC in Bangladesh (see Chapter 2). As conventional finance was difficult to obtain, and expensive even if obtained, she entered the "edupreneur" (education entrepreneur) competition to obtain impact investing finance provided by Pearson Affordable Learning Fund (PALF) to support ideas demonstrating affordable education in Africa.[73] The competition was entered by 100 companies, with 14 being shortlisted and two finalists awarded financial assistance, based on peer selection. Lekki succeeded in this competition and was awarded US$60,000 by PALF, which was matched by the USA-based impact fund Village Capital. Lekki also obtained a bank loan from the local bank at an interest rate of 35%. These grants and loans together funded the building work needed to expand into early-years and primary education.

Bunmi explained that like LPC, Lekki's mission is to provide quality and low-cost education to pupils in order to equip students of all backgrounds to succeed in school and life and thereby empower them to lead socially responsible and economically productive lives. As Bunmi commented, "Our model for primary education is paving the way for eradicating illiteracy and poverty in Nigeria. We embrace the challenge of teaching students from the bottom of the economic pyramid."

[73] PALF was established in 2012 as a fund of US$15 million to invest in quality education for the poor in Africa and Asia (Dixon, 2013).

The primary school received certification in 2019 after four years of operating and pays The Ministry of Education renewal fees annually. In common with low-cost schools in the seven research cities, Lekki receives no financial support from government. The school self-assesses education quality through its own monitoring system along with the performance of pupils in the end of primary school examination. The school has a waiting list and would like to expand further to meet the demand in the locality. The enrolment and fees charged by the school as of January 2018 are set out in Table 8.

Table 8 Lekki and LPC 2018 Fees and enrolment

	PTR	Enrolment		Fees per annum Naira (US$)[74]
Lekki Pre-Primary	50:1	150		N75,000 (US$207)
Lekki Primary	36:1	218		N75,000 (US$207)
LPC Junior Secondary	30:1	90		From N135,000 (US$372)
LPC Senior Secondary	20:1	60		From N135,000 (US$372)
Total		518		n/a

Source: Lekki

2 Shortfall in state education provision and the role of low-cost schools

As noted above, the lack of education provision by the state and concerns over its quality resulted in Lekki coming into existence. This is consistent with findings by Adelabu and Rose (2004) in their Nigerian case study on the low-cost school associations, the Association of Formidable Education Development (AFED) and the Association of Private Schools (APS). The case studies of AFED and APS indicated that the private sector has grown in response to state failure to provide primary schooling which is both accessible and of appropriate quality (Adelabu and Rose, 2004).

Consistent with the findings in Chapter 4, Lekki reveals three insights regarding political economy and the affect policy can have on the shortfall in state education provision. First, the focus of

[74] Exchange rate N363 per US$1 (January 2018) Source: Central Bank of Nigeria.

government policy on primary rather than early-years education is exemplified in Lagos, as indicated in official figures of state teachers employed. As of 2018, Lagos state schools employed 8,177 primary school teachers and 73 early-years teachers, with early-years representing less than 1% of the total (Lagos, 2018). Regardless of the policy for the state to provide early-years care and education, these numbers clearly demonstrate how few resources Lagos state allocates to early-years care and education.

The focus on primary education is not helped by different departments being responsible for primary and early-years education. The Department of Private Education and Special Programmes within the State Ministry of Education is responsible for licensing new schools and license renewal. Early childhood development and early-years provision falls under a separate ministry, the Ministry of Women Affairs and Poverty Alleviation.[75] Consequently, there is not one unified ministry responsible for the allocation of resources and promotion of a consistent policy across early-years and primary provision.

Second, the growth of low-cost schools has continued in the face of static state provision. Lagos State has for many years realised it did not have the resources to meet the demand for early-years and primary education, particularly in low-income areas, so permitted low-cost schools to do so instead.[76] Per the official figures on education provision by the state, Table 9 illustrates the levels of state primary provision over a 15-year period.

Table 9 Primary education provision in Lagos, academic years 2003/4 to 2018/19

	State primary schools		Enrolled children	Increase in state schools per year	% Pupil increase per annum
2003/4	922		438,000		
2018/19	1015		463,000	6	0.4%

Source: Lagos (2019)

[75] Regulator
[76] Regulator

In the light of a Lagos population growth rate of 3.2% per annum (Lagos State Government, 2018) fuelling household demand for education over the above 15-year period, with a limited increase in state provision, low-cost schools have played a major role to "relieve pressure on the state system".[77] Various reasons are given for the shortfall in the supply of state care and education to early-years and primary school aged children, including a "lack of financial resources, mismanagement, lack of accountability and social norms,"[78] according to a US$18M impact investor operating globally in education/future of work, financial inclusion, health, sustainable food and agriculture and energy. And it is "due to a failure to address the entrenched political economy around education that results in gross mismanagement and lack of accountability".[79] The combination of these factors creates a situation where mismanagement in the Ministry of Education results in rent seeking and corruption. The resulting leakage in the system reduces the financial resources available for schools.

Policy advisors interviewed for this thesis are in broad agreement that in Nigeria there are "highly corrupt bureaucracies,"[80] and that corruption is at "every single level in Nigeria and other countries. Stories [were] heard of how officials found ways of syphoning off aid money such as false receipts and contracting-infrastructure projects. Money flows out of the system with [fictitious] repairs. Lagos administrators openly talk about it."[81] In other words, "rent-seeking is high at all levels and in multiple ways, from formal policy to petty officials."[82] Retaining existing policies maintains the status quo that supports rent seeking activities of officials. As one policy adviser said, with reference to aid going to the government for education, "Multilaterals' money is bad news for education but good news for Mercedes Benz."[83]

[77] Policy Advisor (i)
[78] Impact Investor (i)
[79] (PA(i))
[80] PA (iii)
[81] PA (ii)
[82] PA(i)
[83] PA (iii)

An interesting side finding concerns the relationship between land and the political economy of education policy and regulation. A policy advisor explained that part of the reason the government may not want to establish schools in low-income areas is to avoid lending legitimacy to slum settlements and the slum dwellers being able to claim rights to the land upon which they live: "Governments don't want to lend legitimacy to slum settlements by providing education. This is a purposeful omission. Yet they [the low-cost schools] serve the interests of the city."[84] If civil servants and politicians lose the opportunity for personal enrichment from developing slum settlement land, they have a personal incentive to discourage the building of state schools or certifying low-cost schools in these locations. Rent-seeking exacerbates the lack of finance available for state schools and has contributed to effective static state provision of early-years care and primary education in Lagos.

The third political economy insight from the Lekki case study concerns government conflicts of interest. Although the state education regulator acknowledged that low-cost schools are needed, he recognised that the state has a conflict of interest as it serves as both an education provider and a regulator. This results in low-cost schools being perceived as competitors of state schools and this can result in official hostility towards them. There is "inadequate understanding of the role of non-state, low-cost schools on the part of the regulators who see them as competitors and the enemy of state education."[85]

In the absence of a policy, combined with the lack of resources to provide more state education in Lagos, Lekki and similar low-cost schools are filling the gap by providing early-years and primary education (Härmä, 2011). If Lekki and other low-cost schools were not making this contribution in their local communities, many more children would be out-of-school and uneducated. However,

[84] PA (i)
[85] Regulator

despite playing such a role, there is a lack of recognition provided by the state, as measured by low certification, to which this chapter now turns.

3 Political economy and certification of schools

In Lagos, the State Ministry of Education has a department responsible for the regulation of low-cost schools: the Department of Private Education and Special Programs. The Lekki case study confirms a number of key findings found in the seven cities regarding the regulation of schools.

In common with the seven research, certification in Lagos is based on meeting minimum input requirements, many of which relate to physical infrastructure. To receive certification, low-cost schools must own their own land, have purpose-built school buildings, employ qualified teachers registered with the Teacher Registration Council as well as meet minimum criteria on the number (six to 12), type, and size of classrooms (Adelabu and Rose, 2004). Most low-cost schools are unlikely to meet all these certification requirements, especially when available land and opportunities for constructing new school buildings are extremely limited (Baum et al., 2018b).[86]

In pre-independence Nigeria, when the expectation was that the state would provide education, the rules for certification were consistent with a situation in which the state could meet the required inputs. Land, for example, was not an issue where the state-owned sufficient land upon which to build a school of the required size. Qualified teachers were trained by government colleges and paid by the state.

The current certification requirements are largely the same colonial legacy regulations but are generally inappropriate to low-income areas in Lagos where the context in which schools operate make such requirements very difficult to meet. As the school association interviewed stated, “The conditions attached for school approval are not simplified, and similarly most of the low-cost schools

[86] Baum et al (2018b) found that only 10% of private schools in the Ajeromi-Ifelodun local government area of Lagos were certified and 75% of the uncertified schools gave as the main reasons failure to own land, inadequate infrastructure, lack of purpose-built buildings and need for teachers to hold a teacher’s diploma.

cannot easily meet the requirements." Some of these requirements are both onerous and superfluous: for example, as one financial outcomes institution related, "One school was informed that there is a requirement for a principal to have a fridge in his office. What does that have to do with education?!"[87]

It is therefore not surprising that at least 75% of schools in Lagos are uncertified, as recorded in the school census in 2010 (Härmä, 2011). This high level of non-certification was also the perception of a Lagos MFI, which estimated that "the majority, 80%, don't have full approval."[88]

Not only is regulation based on meeting minimum physical inputs, but also on the same rules applying to all schools regardless of locality, fee levels and the economic backgrounds of their pupils. Whereas officials in Kampala consider a school's context when determining what rules need to be met, as seen in Chapter 4, adherence to the rules in Lagos is strict: "They don't differentiate between regular schools that charge exorbitant fees and low-cost schools."[89]

Treating a school such as Lekki, which charges fees of US$207 per annum (Table 8), the same way as a high fee school such as Corona, which charges fees of US$1,100 per annum, over five times the level of fees at Lekki, is inappropriate. Current regulations do not take account of the very different target communities Lekki and Corona service, the different wealth levels of the parents or the different types of children served.

As indicated in the seven cities study, certification rules provide an opportunity for rent-seeking by officials; this appears to be common. Despite owning the land, LPC faced obstacles in obtaining certification and had to wait for 18 years before becoming fully approved. LPC satisfied all requirements, including ownership of land, but the school's application remained in the official's in-tray for years until unofficial sums were paid.

[87] FI (iii)
[88] MFI (i)
[89] Bunmi

Lekki's experience of trying to get certification is in line with the observation of a Lagos FI, who commented that "The process of school registration can be a time consuming, labour intensive, and an expensive one."[90]

It took Lekki three years to obtain a primary school license, despite having a fully functioning secondary school that had been operating from the same site for over 20 years. Bunmi commented that "local government inspectors frequently and normally come with the aim of extracting 'rent', e.g. for supposed non-compliance with minimum sanitation rules." Officials see the schools as "revenue-generating, not part of education provision."[91]

In addition, other departments, such as the Centre of Fumigation, wanted the school to use its preferred providers instead of the one chosen by the school. Even when rent-seeking is addressed, it can result in greater bureaucracy. According to one FI, "To address corruption, various processes have been put in place, but these cause additional delay in processing schools. Inefficacy of institution results. Corruption adds 20-30% tax to the cost of education in Nigeria."[92]

A further reason why regulations focus on inputs rather than education outcomes could be a concern that holding both state and non-state schools accountable for education outcomes might result in state teacher redundancies. The same FI noted that "Proposed changes made regarding educational quality across the sector are seen as a threat – would it mean job losses?"[93] It is far easier for state teachers to keep their jobs if they are not held accountable for the quality of education provided, as measured, for example, by performance in the end of primary school examinations. Domestic teaching unions have a history of resisting changes that increase the accountability of teachers in Lagos.

[90] FI (i)
[91] PA (i)
[92] FI (iii)
[93] FI (iii)

Not only are low-cost schools in Lagos seen as an enemy of the state by some officials and a threat by teacher unions, they also do not appear to be seen by the state as enterprises that have social objectives and provide a semi-public good.[94] The societal benefit of educating children from low-income households does not appear to be taken into account by the regulator. Nor does playing such a role result in public support or finance. Rather, where such schools are seen as competitors and the "enemy" of state schools, a more adversarial position can be taken by the state. This is demonstrated when government threatened to close unapproved schools, as took place in Lagos in 2004. This gave rise to the creation of the school association AFED to protect such schools, which, if closed down, would adversely affect poorer families (Adelabu and Rose, 2004).

In addition, governments do not appear to appreciate the role low-cost schools are playing in financing children who cannot afford their fees. As part of its social mission, Lekki annually provides 12 to 15 full scholarships at primary level out of 370 places and 27 at secondary level out of 152. As in Lagos (Rosales-Rogge et al, 2014) and in the seven research cities, where schools collect on average 70% of fees due, they are effectively cross-subsidising households that cannot pay the full fees and providing three free places out of every 10.

The Lekki case study confirms the seven city findings that the political economy of education policy and regulation plays an important role in explaining the emergence of the phenomenon of low-cost schools in these cities. Despite the role they are playing, the large proportion of these schools in Lagos and the seven cites receive no official recognition or public support. Rather, they are subject to rent-seeking activities and threats of closure for non-compliance with regulations, which are unrealistic given the low-income, resource-constrained contexts in which they operate. A discussion of policy, certification and official recognition of low-cost schools can be found in Chapter 7.

[94] FI (i)

4 Institutional voids: under-resourced regulatory bodies

Lekki and the other case study interviewees acknowledged that there has been a failure in the regulation and certification of low-cost schools in Lagos. The political landscape, with periodic threats of closure, unrealistic licensing requirements and rent-seeking by officials, all contribute to weak, under-resourced regulatory institutions, which results in thin trust between Lekki, other low-cost schools and the regulator (Gold, 2014).

Interviewees agreed that there are serious weaknesses in government structures responsible for regulating low-cost schools. The difficulty in obtaining certification in Lagos, and experienced by Lekki, indicates the institutional weakness present within the regulator. A lack of resources constrains the regulatory bodies, resulting in the Ministry of Education making inspections in theory once per annum, but in reality, much less frequently.[95] The shortcomings of the regulatory system are also recognised by the regulator itself: when interviewed, its representative acknowledged that "Monitoring of education delivery in non-state low-cost schools is inadequate."[96]

Conflict within the Ministry of Education itself also impacts the effectiveness of regulatory bodies. A bilateral aid donor stated there was "regulatory failure due to politics between the private education department and the quality assurance department over the lack of [sufficient] budget. Fees and revenue [from schools] create a turf war between regulation and evaluation contributing to institutional failing in departments and agencies."[97]

These institutional weaknesses contribute to the lack of information on the low-cost school sector. When the Lagos education regulator was asked the reasons why they did not have information on the numbers of unlicensed non-state schools and the children enrolled in them, the answer given was that "There is no data on them."[98] This confirms the observations of Tooley (2009) and Härmä

[95] Examination boards that set the junior secondary and senior secondary exams, for example, inspect schools on average only every three to five years (Regulator).
[96] Regulator
[97] Bilateral aid donor
[98] Regulator

(2011) that official data in developing countries tends not to capture uncertified, non-state education providers.

Another area of institutional weakness exists within the low-cost school sector at the school association level. Only 56% of low-cost schools are members of a school association (Härmä, 2011), and this relative weakness limits their ability to help change the certification requirements to become more realistic, assist their members to meet the requirements or access finance in order to do so. One MFI noted that "While some of these school associations have helped to provide some training and access to lenders, they do not have the financial base to provide guarantees and in some cases lack the influence to get government to create better regulations."[99] In the words of a policy advisor, "Anything that serves the poor has less money to perform its functions well."[100] One financial institution believed that "A stronger industry body could reduce barriers to school regulation and also provide a distribution channel for financial institutions to market their products."[101]

5 Education quality, accountability, locality, affordability, trust and school choice

The thin trust that Lekki has in the regulator of schools is in contrast with the thick trust between Lekki and the households it serves (Gold, 2014). The proprietor of Lekki identified trust between Lekki and the parents of pupils as being a key factor in determining enrolment at the school. When asked what were the most important factors that parents took into account when choosing to send their children to Lekki, in preference to state schools, she listed education quality, the school's reputation, a safe environment and affordability as being of equal importance.[102]

[99] MFI (i)
[100] PA (ii)
[101] FI (i)
[102] As mentioned in Chapter 3, Covid 19 which resulted in school closures in Lagos prevented interviews with parents of Lekki to confirm these observations.

5.1 Education quality

As seen in Chapter 4 with the schools in the seven cities, asymmetry of information exists regarding school education quality as measured by performance in the end of primary school examinations in Lagos. Such information, if publicly available, would allow households to compare individual school performance and facilitate school choice. The government's official reluctance to publish the results of state and non-state schools appears to be partly due to a fear of embarrassment that such information will reveal a poor quality of education in state schools.[103] Similarly, although school quality assurance visits are made on a periodic basis, the regulator does not disseminate the school inspection reports to the public.[104]

In the absence of such information, parents of pupils at Lekki and prospective parents have to obtain education quality information directly. Lekki provides the results obtained by pupils in the end of school examinations to parents and prospective pupil parents. In addition, the school measures the levels of learning at the pupil level regularly: "We measure the level of improvement based on the assessments we give them when we enrol them and mid-terms as well as performance in end of term external examinations."[105] Feedback to parents is provided by weekly teacher assessments, mid-term meeting with parents and end of term reports. Such sharing of information builds trust between the school and parents, based the on the school performing well in examinations and delivering on its promise of quality education.

In addition, parents use other proxies of education quality. As with the seven city schools, PTRs provide a proxy of quality to parents. At Lekki, a PTR of 36:1 (Table 8) compares with state primary schools in the Lekki / Ibeju area of 79:1 (Lagos, 2019). Lekki, with a PTR of 45% of the level of that in state schools in the area, is consistent with the school census result of private schools having a PTR

[103] PA (iii)
[104] Regulator
[105] Bunmi

of 43% of that of state schools in Lagos (Härmä, 2011). As with the low-cost schools in the seven cities, Lekki's PTR is significantly better than that found in state schools.

All Lekki teachers are qualified, which is different to the average low-cost school in the seven cities, where 38% of teachers are not qualified, and to the average in Lagos, where 53% were not qualified (Härmä, 2011). [106] Bunmi remarked that it is the quality of the teacher, not their qualification which is important to households and to her as the proprietor.

The low-cost school association confirmed the above, indicating that although a state teacher may have a teaching qualification, it does not automatically follow that they will be a good teacher. In keeping with this observation, Lekki teachers receive professional development training, as the school emphasises the *quality of teachers* rather than the *qualifications* they hold as being a more accurate indicator of teacher capability. According to Lekki's proprietor, parents assess the quality of the teacher by how much teaching the children receive daily and how much homework pupils are given.

The shortfall in the supply of quality education by the state to children in Lagos is acknowledged by the regulator, who suggests it is due to "poor remuneration for teachers, lowering of recruitment standard at point of admission to the training institutions and inadequate use of technology to deliver learning."[107]

5.2 Accountability

Another key aspect of trust is the relationship between trust and accountability (Hosking, 2014). According to one financial institution, a specialised microfinance bank with a US$1.4 million loan portfolio to low-cost schools, "Accountability is much higher in low-cost schools. Behaviour of parents [participation and holding schools to account] gives an indication of quality."[108]

[106] Own calculation. The census report provides separate figures for unqualified teachers for early-years (74%) and primary (37%) (Härmä, 2011).
107 Regulator
[108] FI (iii)

According to Bunmi, accountability for education quality is critical for Lekki, and parents will confront the school if they are unhappy. Indicators of quality include teachers being present in the classroom and on task, teacher care and pedagogy, and pupil performance in examinations. In contrast, state schools are not seen to be held accountable for meeting educational outcomes or minimum standards. Where little action is taken when there is non-compliance, parents are left feeling powerless (Härmä, 2021).

Other interviewees confirmed that the lack of trust in state schools is reinforced by teacher absenteeism, perceptions of poor education quality, concern of child abuse by teachers, large class sizes, poor conditions, lack of teacher professionalism, informal fees, cost of uniforms, lack of books and few extra-curricular activities. An important aspect of education quality seen in the literature concerns teacher attendance (Hartwig, 2013). A development impact bond fund arranger and outcomes payer supported by UNICEF likewise noted that in the public system there are issues with teachers, absenteeism and ghost teachers".[109] If teachers at Lekki are absent, parents take Bunmi to task, whereas in the state schools, this can be more difficult. Education quality issues are difficult to address without strong school accountability to parents and officials. In this context, Lekki's reputation and the trust parents place in it are built on the education quality delivered by the secondary school LPC, and more recently at the primary level.

Bunmi noted that "even the completely illiterate parents are very staunch advocates for their children and they hold the school accountable." Although accountability to parents is extremely important at Lekki, the school has had to be innovative in this regard, as parent teacher association evenings are not well attended. Parents, particularly less educated ones, can see such meetings as a luxury. Spending time in "the big English" environment can be daunting. To address this, Lekki adopts activities such as mid-term open days, use of photos and sports days to engage with parents.

[109]DIB fund

Greater accountability in low-cost schools such as Lekki is also engendered by the financial imperative facing the school to ensure that fees continue to be paid by parents. Parents can withdraw their child at any time if they do not feel the school is performing or treating their child to their satisfaction, which is the ultimate sanction. Withdrawal of a child means withdrawal of fees, thus impacting the school's income, in contrast with state schools, where withdrawal has little effect on the school's financial wellbeing.

5.3 Locality

The degree of accountability that helps build trust between a low-cost school and parents is facilitated by the proximity of parents to school. Close proximity of school to home provides access to the principal and teachers if issues arise. This gives parents access to information on education quality and facilitates accountability of schools to parents that, in turn, builds trust based on performance.[110]

Locality also appears to play a role in trust being built up with the community. Looking at nearby Liberia, Dixon and Humbles (2019) observed that parental choice was typically informed by environment and context, with a focus often on trust, reputation, caring and commitment in the community itself. Interviewees observed that proximity to home was seen as a safer journey to school option for the child and that parents preferred a non-state school over a more distant government one.

By providing early-years care, Lekki is meeting parents' need for safe and convenient childcare. The distance to home from school is an important factor in school choice, as safety in getting to school is important to parents as well as safety at school. More than half of students live within two kilometres of Lekki.[111] In addition to this important role, as was observed in the seven cities study, low-cost schools operate for additional hours, offering after-school activities and nursery care while the parents are working. (Härmä, 2021). Lekki provides such after-school care, in contrast with Lagos

[110] At Lekki most of the children did well in the first year of primary exams (2016).
[111] Bunmi

state schools which, according to Bunmi, seldom offer this service. Even if they did, they are normally some distance away from home and not able to offer the convenience that a local low-cost school provides.

Another factor in education quality that did not arise in the seven city findings, but may help account for greater teacher attendance at low-cost schools, is whether teachers live locally to the school. A teacher in the community where the school is situated may feel more obliged to attend school than if the school was some distance away, as may often be the case for a state school in a low-income area and a state teacher allocated to that school. Greater overall accountability of teachers to schools may also play a part, given that low-cost schools can terminate a teacher's employment in the case of serial absenteeism far more easily than in state schools.

A final aspect of the relationship between locality and accountability is that when teachers are resident in the community, they have a status in the neighbourhood which can reinforce their motivation to attend school and teach well. A local teacher may also feel more motivated to teach the children given possible embarrassment at being absent.

5.4 Affordability of education

At Lekki, affordability of fees is important to parents, who are mostly low-income workers and traders, to enable them to send their children to the school. The fact that low-cost schools are serving low-income parents is recognised by the regulator, who identified affordability along with after-school care and activities as the most important factor to parents when choosing a school.

The affordability of Lekki fees is assessed by parents within a context where state schools charge for expenses such as registration and examination fees, uniforms, parent teacher association dues, textbooks, school bags and footwear,[112] amounting to between N18,000-60,000 (US$48-165) per

[112] In some state schools, parents are asked to pay for liquid soap, desks, tissue paper and disinfectants (Stanford, 2020).

annum (Stanford, 2020). At the low end, this represents 25% of Lekki's annual fees, added to which parents are likely to pay extra travel costs to send children to the nearest state alternative.

Households' low-income levels place downward pressure on fees as Lekki tries to fulfil its promise to educate their children to a high standard at an affordable cost. As Bunmi notes, "Parents are aspirational for their children. Trust is built if the school delivers on the promise. Fees in 2015 of N60,000 (US$156) were seen as a gimmick - parents didn't believe quality education could be provided for such a low fee." Since opening, Lekki has demonstrated that quality education for low fees is not a ploy to attract pupils but can be delivered. As part of its mission to serve its community, the school provides scholarships to increase affordability for as many households as possible. Moreover, locality and longevity are mutually reinforcing elements in enhancing Lekki's reputation in the community, building trust and attracting and retaining parents who may send siblings to the school. The school is now not only full but has a waiting list.

6 The financing of Lekki and access to conventional finance

In line with the findings of Chapter 4, Lekki is financed by operating profits and injections of funds by its owner. Similarly, it identifies managing cash flow (including high operating costs) and the need for additional finance as the most critical constraints in running and expanding the school. Fee payments are erratic given the socio-economic backgrounds of the parents. In addition, about 20% of children leave per term.[113] Lekki receives no government funding and depends primarily on the fees supplemented by philanthropy to provide scholarships for students who find it difficult to pay.

6.1 Access to finance and the political economy of policy and certification

Lekki has faced barriers in accessing finance, due in the first instance to operating in a regulated sector and secondly due to lack of certification. A bilateral aid donor believed that "The most likely reasons [for lack of access to finance] are perceived to be the actual financial risk of investing in an

[113] The school stated that this tends to be due to changes in parents' personal circumstances, such as loss of a job or a rent increase, resulting in the family moving away.

uncertain business model, especially in a sector that is subject to regulatory risks."[114] Conventional providers of finance face the uncertainty of the rules surrounding low-cost schools changing. This could result in school closures or other restrictions, such as capping school fees, affecting the viability of schools.

Threats of changes to regulations by politicians and officials create uncertainty. One multilateral financial institution stated that "the rapid growth in the number of low-cost private schools to some politicians is seen as competition and then they use the threat to shut down unlicensed private schools as a political campaign promising more state schools which they cannot deliver. This increases the uncertainty about the future of low-cost schools and thus restricts access to finance."[115] Such regulatory risks can result in FIs deciding not to service the sector. In particular, politicians in Lagos have a history of threatening to close down low-cost schools, which increases the financial and reputational risks associated with financing the sector. Because of the perception of such risks, some FIs increase the cost of finance to such an extent that it is not attractive to the low-cost schools.

In common with many of the other schools in the seven cities, obtaining certification in Lagos was extremely difficult for Lekki. It took over 18 years to obtain certification for the secondary school and three years for the primary school. This process was "unnecessarily long (three years), tedious and expensive. Every step of the process is difficult. Even something as basic as selecting our name was a struggle. Government and functionaries see schools as highly profitable businesses and they all want their share."[116] Delays in certification benefit officials, who extract facilitation fees and it can be very difficult to build up trust with the regulators, who are "very seldom" reasonable.[117]

[114] Bilateral aid donor
[115] MFI (i)
[116] Bunmi
[117] Ibid.

As found in in the seven research cities, a lack of certification is a barrier to obtaining finance from conventional FIs. Several interviewees confirmed that a license is required for opening an account and taking out loans, citing the risk of closure. The regulator also acknowledged that finance was a significant constraint facing low-cost schools wanting to improve and grow, further commenting that "The risk is too high because the business can fail at any time without collateral."

An additional finding from this case study is that the regulations of the FIs themselves by the Central Bank of Nigeria (CBN) also constrains the supply of finance to low-cost schools at both the micro and macro levels. At the micro level, for example, the bank regulations applying to MFIs restrict them to "giving loans up to a maximum tenure of 24 months. A reduced loan size is easier for the client to repay but infrastructure loans need a longer term."[118] According to the same MFI, if a low-cost school is looking to finance new classrooms, attract children and repay the loan, it is likely to need more than 24 months to service and repay a loan.[119]

At the macro level, and in common with all the countries in which the seven cities are located, governments issue treasury bills to finance their activities, and the treasury bill rate acts as the risk-free cost of finance. When banks in Nigeria can obtain a risk-free return by placing funds in treasury bills of 18%, and perceive the risk of lending to an SME school as being so high that, in Lekki's experience, they add a margin of 17% to give a borrowing cost of 35%. Thus, the interest rate policy followed by the central bank has a direct impact on the cost of finance to low-cost schools, and the additional risk premium can make even available finance very expensive. This interest rate can put undue pressure on a school's cash flow. For low-cost schools with uncertain cash flows, this cost of finance is seen as too high and unaffordable. A bilateral aid donor sums up the situation: "[The] supply of finance is limited by the general cost and access to finance across the economy, including the crowding out of private finance by government borrowing."[120]

[118] MFI (i)
[119] Ibid. As of May 2020, the CBN had been petitioned to allow MFIs to lend for up to five years.
[120] Bilateral aid donor

The banks questioned also recognised that a main barrier to accessing loans was the lack of information about the market. They acknowledged a "lack of understanding of the possible economic case for education lending."[121] The regulator interviewed stated that "Conventional banks are not aware of the size of the non-state education market or understand their business model to attract development of financial products to suit their needs."

Not only may the cost of conventional finance be too expensive for low-cost schools to bear, but the period of repayment may also be too short to service and repay a loan for school expansion. One solution would be state backing for loans, as Bunmi argued: "If governments saw education and thereby low-cost schools as a priority sector, in a similar way as they do with agriculture in Nigeria, they could allocate concessionary finance to the sector."

6.2 Institutional voids and financial inclusion

Lekki, unlike the 44% unbanked low-cost schools in the seven cities (Chapter 4, Table 3), has accounts with two local banks and therefore is not excluded from the banking system. However, access to finance is still a problem. Even when the school had been certified by the regulator, it faced barriers in obtaining a loan. This was despite the benefit of owning land, and therefore collateral, plus having a 10-year banking relationship that indicated its fee earning track record. Part of this problem stems from the fact that "Financial institutions have been set up for corporates and not the common man. They don't readily come up with products for different segments."[122]

The shortfall in the supply of finance by FIs in Lagos to low-cost schools is not dissimilar to that faced by micro-entrepreneurs before the advent of MFIs, and exists despite the education sector's high demand for finance. Moreover, the documentation required by Lekki's local bank proved a barrier in itself. Even when this documentation was completed, a loan was not forthcoming until pressure was brought to bear on the branch manager by conversations with senior bank officials. Even when the

[121] FI (i)
[122] Bilateral aid donor

loan was made available, the period did not extend beyond three years, the cost was high and the amount was less than requested.

6.3 School characteristics and supply of finance by FIs

Lekki's difficulty in establishing trust with conventional FIs in order to obtain a loan to expand exemplifies the barriers to finance faced by low-cost schools observed in the seven cities. One of the obstacles holding back potential providers of finance to low-cost schools appears to be a supply-side constraint around the information symmetries mentioned in the previous section. In addition, "Bank finance is virtually totally inaccessible because it requires longer track records, more robust financial models, collateral that is unavailable in this line of business, or is prohibitively expensive." [123] Another impact investor, a US$50 million impact investment fund in education globally focused on direct delivery models such as EdTech and education providers such as Lekki, called local banks that "very old-fashioned" and "risk averse", with outdated risk models.[124]

Interviews also revealed that there is a barrier to finance arising from attitudes of formal economy banks to informal economy low-cost schools. One MFI stated that, "There is a lack of understanding of low-cost schools and how they add value to the education system. That is, most banks feel low-income households should go to state schools but are not mindful that firstly state schools don't have enough space, and secondly, that low-cost schools provide better learning outcomes than most state-owned schools."[125]

The managers working in the banks are unlikely to be sending their own children to such low-cost schools. It is their drivers, housekeepers and gardeners who are more likely to do so. If the bank staff do not fully appreciate the role such schools play, how they operate and whom they serve, they are unlikely to finance them. Moreover, this lack of knowledge is compounded by aspects of information asymmetry on financial information, profitability, longevity and the gender of school proprietors.

[123] II (i)
[124] II (ii)
[125] MFI (i)

6.4 Financial information and school financial records

Chapter 4 identified that lack of school financial information created a barrier to finance. This case study supports this finding. An MFI observed that "Most low-cost schools don't have proper financial records, much less have annual audits. If improved, this would help increase access to finance."[126] This lack of financial information is identified by FIs as the second most important constraint limiting the provision of finance to low-cost schools after the quality of management. Where low-cost schools do not keep separate accounts, the FI's loan officer may have to assist in creating this information. One FI explained, "Asymmetry of information provides a barrier to finance due to lack of financial information at the school level caused by poor financial literacy of school owners, making it difficult for FIs to establish the income and expenditure cash flows of schools."[127]

Lekki, despite having separate financial records, still had difficulty in accessing finance. For low-cost schools, having separate financial records maybe a necessary condition in obtaining a loan, but given Lekki's experience, it is not sufficient by itself.

6.5 School profitability, longevity and gender

The findings in the seven cities indicated factors which can act as risk mitigants and improve access to finance, including information on school profitability, longevity and women ownership (IFC, 2014). Lekki possessed all these attributes but still struggled to get access to conventional finance. As noted in the survey of the literature, the collateral requirements of banks reduce the availability of finance (Beck and Cull, 2014).

Lekki did not suffer from this constraint as the school had land which could be offered as security. It appears other risks are factored in by banks when lending to schools, one of which is reputation risk: "Although schools have assets, the banks won't foreclose. Not because it is illegal to foreclose but it

[126] MFI (i)
[127] FI (iii)

would violate the right to education."[128] It would appear that banks wish to avoid negative publicity if a school they are financing is closed due to default on a loan. The reputation risk in Lagos appears to result in banks, in particular, choosing not to lend to low-cost schools even when they are certified, and can demonstrate an ability and willingness to pay. A perception of reputational risk may also help explain the high cost of finance attached to the bank loan eventually taken by Lekki.

Given the difficulties Lekki faced in obtaining conventional finance for growth into low-cost primary education, the school looked at sources of alternative finance. Impact investing provided one such source. This chapter now looks at the ease of accessing such finance and whether this might be suitable and available to other low-cost schools.

7 The financing of Lekki and the supply of impact investing finance

In order to fund the expansion of the school, Lekki investigated both local and international impact investing finance. However, domestic impact investing finance was not easy to identify and not attractive even if available. As Bunmi related, "We competed for and were shortlisted for a Lagos Angels impact investment a few years back. We pulled out because they wanted a huge chunk of shares for an amount that was not even enough for us to expand or open another branch."

When Lekki explored international impact investing finance, there was a lack of information about what was available and from whom. Once potential investors had been identified, Lekki entered and won the "edupreneur" competition. Lekki secured US$120,000 in the form of convertible notes from PALF and Village Capital to open its primary school and a loan instrument with the right to convert into equity. The funding provided by the investors was denominated in US dollars at a cost of finance of 6% compared with local currency cost of 35%. The duration of the loan of three years was also more attractive than the shorter-term local funding. However, this exposed Lekki, which like most low-cost schools is a local currency earning enterprise, to currency risk if the Naira devalued.

[128] II (ii)

Over the period of the loan, the Naira did devalue against the US dollar by 83%[129] (from N197 to N361 to one US dollar), which resulted in Lekki requesting an extension of the loan to enable repayment. This devaluation effectively increased the interest rate to the school from 6% in US dollars to 30% in local currency terms. The suitability of US dollar denominated impact finance is discussed in Chapter 7.

7.1 Impact investing finance and the political economy of low-cost schools

Case study interviews revealed that the availability of impact investing finance is not only difficult to locate but is affected by both domestic and international political economy. At the domestic level, the local development bank, Bank of Industry (BOI) ,[130] is funded by the federal government and not allowed to finance non-state schools even when they are certified. Even though BOI is mandated to contribute towards economic development in Nigeria and create jobs through providing longer-term local currency financing, it is prevented from providing such finance to the domestic education sector. Interviewees at BOI recognised that low-cost schools contribute towards economic development through providing a more educated workforce and greater productivity, but unless the bank's constitution is changed, it cannot invest in the sector. This change will be needed at the domestic level if the aspiration of the school association is to be met: "development banks can help in financing low-cost schools by giving them soft and long-term loans."[131]

At the international level, interviews with impact investors revealed that they come under pressure not to finance non-state schools. This is especially the case with DFIs and the governments that fund them. Such pressure typically comes from organisations such as Education International, a body of national teacher trade unions:

[129] Own calculation using average exchange rate for 2015 and 2018. Source: Central Bank of Nigeria.
[130] BOI is the oldest and largest DFI currently operating in Nigeria. It is owned by the Ministry of Finance, the Central Bank of Nigeria and private shareholders.
[131] School Association

> Education International is a well-oiled machine that co-ordinates with domestic union groups on a common agenda. Education Outcome Fund (EOF)[132] was on the receiving end of an Education International campaign claiming EOF was privatising education. Ten heads of teacher unions such as Brazil wrote saying EOF should desist from this [financing of non-state schools] as it was affecting poor children in Africa. This was a copy and paste advocacy machine to lobby EOF and its investors such as DFID.[133]

International NGOs, such as Action Aid and Oxfam, have also lobbied governments and DFIs not to finance the non-state education sector. According to one PA, "Many NGOs, led by UNICEF, remain ideologically opposed to private provision despite the evidence of state failure."[134]

Despite such opposition, the Lagos regulator was of the opinion that there was a role for such investors in education: "Impact investors can provide facilities to support schools and invest in technology, property acquisition and teacher training." Moreover, it appears that impact investors can be more flexible than conventional FIs in funding uncertified schools. For one such investor, "Ideally a company has all of the required licenses to operate. We also believe that innovation and alternative approaches should exist and there may be room for those outside of the formally regulated market given how much unmet need there is from students."[135] If a school were uncertified, impact investors said they would still finance it and work with it to obtain certification. This willingness may provide an opening for impact investors to finance the large number of uncertified schools identified in Lagos and the seven cities if the institutional voids considered in the next section can be addressed.

7.2 Impact investing finance and institutional voids

To the best of this researcher's knowledge, apart from Lekki, there are few other examples in Lagos and the other seven cities of individual low-cost schools being able to access international impact

[132] 'EOF's approach in paying for outcomes illustrates the importance of indicators for evidencing independently verified school data. Using a base-line they will track learning over 3-years measuring termly or twice per annum to track progress.' (Bilateral aid donor)
[133] DIB (i)
[134] PA (i)
[135] II (i)

investing finance.[136] A two-way lack of information exists. As a bilateral aid donor observed, the main obstacles and constraints that limit low-cost schools running and improving their operations are "lack of knowledge *by investors* of opportunities to invest, mirrored by a lack of access to knowledge *of investors* by school owners" (emphasis added).

Another of the main challenges facing impact investors who might want to invest in the sector is the lack of intermediary institutions that can create a bridge between investors looking to deploy millions of dollars and the low-cost schools looking to borrow more modest amounts. According to one FI, "Most of the low fee non-state school sectors in Africa are dominated by single school proprietors. Given the small business size and capital requirements, individual transactions are uneconomic for investors."[137]

The lack of intermediaries underlines the institutional voids that exist in the financing of low-cost schools. The need for aggregators to act in a similar way to the role played by MFIs with micro-entrepreneurs is evident. In the absence of such institutions, Lekki had to go directly to investors and, although successful, is a model of finance unlikely to be repeated at scale. On the demand side, the proprietor of Lekki demonstrated a willingness to travel and compete in an international competition to win funds that may not be possible for many low-cost schools. On the supply side, the impact investors in Lekki, PALF and Village Capital, justified the initiative and their investment of the three years of time it took to invest in Lekki on the grounds that it was a pilot to finance education entrepreneurs, promote awareness and understand the education markets in Africa better. Neither investor felt it was a sustainable model of investing given the small size of the investment.[138]

[136] Primary school chains, as opposed to individual schools, have been able to attract impact investing finance. BIA in Kenya is one (see Chapter 6) as is Omega Schools in Ghana.
[137] FI (i)
[138] This may explain why neither impact investor was prepared to provide additional finance to Lekki to build a network of women-run early childhood development providers.

This matter of scale was underlined by another impact investor explaining why direct investments into low-cost schools are unattractive: "The main risks associated with investing in non-state schools in Africa include the challenges in serving a very cash-constrained customer market; challenges in scalability; operational intensity; limited economies of scale; limited opportunities for exit."[139]

A further reason why international impact investing may not be able to fill the shortfall in finance faced by low-cost schools is where investors are looking for financial returns in hard currency. The debt funding provided to Lekki was not necessarily the most appropriate form of finance for a low-cost school, as it exposed the school to currency risk. Due to the devaluation of the Naira, the original quantum of Naira required to repay the US dollar-denominated loan rose from N2.4 million in mid-2015 to N4.3 million by mid-2018. Had the investment been denominated in local currency or provided in the form of equity or quasi-equity, then the impact investor would have borne the currency risk.

Regarding the type of finance provided, the school's proprietor commented, "Grants will make the provision of quality education for all easier than the kind of funding that we got from PALF and Village Capital. There are significant challenges around serving a customer base that is at the whim of a volatile economy, where any financial shock eliminates their ability to pay for school fees."[140]

While grants might be preferred from a borrower's perspective and while they may form part of a blended finance investment by impact investors, this was not on offer from PALF or Village Capital. However, Lekki's observation that a dollar-denominated loan made the school's ability to repay far harder is noteworthy.

The finding in Chapter 4, Table 6 that the average low-cost school wants to borrow an average amount of US$21,000 per annum in local currency over three years reinforces the observation above that direct investing in individual schools is unlikely to be attractive to international impact investors.

[139] II (i)

[140] Bunmi

That said, impact investing in low-cost school chains where larger amounts of finance is deployed has taken place, as described in Chapter 6. Moreover, in a similar way to the role played by MFIs with micro-entrepreneurs, there does appear to be a role for financial intermediaries to attract larger amounts of finance from international impact investors to lend smaller amounts to low-cost schools.

This case study and the Nairobi case study presented in Chapter 6 reveal that such intermediaries are beginning to emerge in Africa. In Lagos in 2018, Edfin was founded as a financial intermediary providing finance to low-cost schools. Edfin was the first specialized microfinance bank focused on education finance and was backed by international impact investors. Their mission is to improve access to high-quality education and to improve the quality of education, especially for low-income households. If achieved, this will enhance Nigeria's human capital. Edfin looks to operate a value-added services unit by providing support to schools in the area of improving financial literary, and by obtaining rebates and discounts from vendors to help improve teacher quality and access to technology. Its portfolio size as of April 2020 was N500 million (US$1.4m). Edfin is looking for financial returns on loans of an average 36% per annum. Whilst this is little different to the cost of finance secured by Lekki, the management of Edfin maintain that for low-cost schools, it is the availability of finance that is a constraint and not its cost. Similarly, micro-entrepreneurs were prepared to pay 3% per month to MFIs such as Grameen (Smillie, 2009), equivalent to an annual cost of finance of 40%.

> "The sector is growing regardless but MFIs could expand finance if government structures were more accommodating e.g. use GAPS[141] grading, the size of schools was larger to increase capacity, financial records were better to enable correct profiling plus AFED [a low-cost school association] were to play a bigger role to mediate and assist schools. [142] [There is an] opportunity for financial inclusion and growth."[143]

[141] GAPS was the new grading of schools introduced by the Lagos government under the DEEPEN programme. Self-assessment by schools was to be verified by the regulator, and all schools with a GAPS grade would not be closed down within the next three years.
[142] Association for Formidable Educational Development (AFED)
[143] MFI (ii)

7.3 Impact investing finance and trust

Trust between impact investors and Lekki was built through a competitive process, peer selection and due diligence. The latter required significant investment in time by both investors and investee and also necessitated the provision of financial information, references and impact measures.[144] Benefits of the due diligence process to Lekki included planning rigour and going through a thorough financial review. As a result, PALF and Village Capital confirmed that they thereby established sufficient trust in Lekki's ability to repay the loan and the school's willingness to repay.

The three-year loan obtained by Lekki had to be extended to four years due to the devaluation in the Naira. Not only does this raise the question of the suitability of international impact investors to providing finance in hard currency, it also suggests that impact finance for low-cost schools needs to be for longer periods of time. One impact investor noted that "Demographic trends are long-term and [investing in education] takes longer to materialise. A five-year return is difficult."[145] Another impact investor, a US$11 million impact fund investing in education operators, EdTech and education funds, stated that "It takes time—a ten-year horizon. Emerging markets lack infrastructure."[146]

Longer periods of finance might also be appropriate with regards to the social impact investors are looking to achieve. As noted by Impact Investor (ii), given the nature of education, it takes considerable time for learning outcomes to be achieved and more patient type of capital may be needed for low-cost education than provided to Lekki.

[144] Non-financial returns on the investment were important to the investors such as the number of girls receiving education.
[145] II (ii)
[146] II (iii)

8 Access to other sources of finance

In the light of the barriers to finance faced by low-cost schools, interviewees raised other sources of finance that might be able to play a role. These included philanthropy, blended finance, domestic government finance and international aid.

8.1 Philanthropy and blended finance

As with Lekki in its early days, philanthropy can play an important role in the early stages of low-cost school provision. This was also seen in the experience of LEAP schools in Pakistan, covered in the survey of the literature, where philanthropic support financed the building of low-cost schools that were subsequently funded by parental fees (Jerrard, 2014). Similar to Pakistan, schools supported by philanthropy exist throughout Nigeria as individuals and charities respond to the educational needs of children in rural areas where there is little state provision. Such philanthropy typically provides finance to individual schools for physical infrastructure, materials and operating costs. It is also provided through child sponsorship INGOs like Plan International, Care, Action Aid and Compassion. If, however, such support stops, the schools will be in danger of closing.

Although Lekki has attracted modest amounts of philanthropic support, to fund scholarships for children who otherwise could not afford the fees, the philanthropic financing forms a small proportion of its income. In Lagos, the general impression is that there is little local philanthropic funding available for low-cost schools.

Such finance could play a role in Lagos, where "grant finance is necessary to pilot and test new solutions leveraging markets."[147] And if philanthropic funding could be combined with impact investor funding, "A blended model / foundation model could work. Privately run and regulated under license with capped public funding – i.e. serves the poorest not subsidizes the rich."[148]

[147] FI (ii)
[148] PA (i)

8.2 Domestic government finance

Low-cost schools in the seven cities receive no financial support from their domestic governments (Chapter 4, Table 5). The Lekki study confirmed that this is the case in Lagos. However, this case study revealed the indirect support the government did provide through an initiative of the Central Bank of Nigeria (CBN) in 2013 (CBN, 2022). In August 2013, the CBN established the N220 billion (US$1.4 billion) Micro, Small and Medium Sized Enterprise Fund (MSMEDF) aimed at MSMEs with a particular emphasis on women-run businesses. The broad objective of the fund was to channel low-interest funds to MSMEs, to enhance access by them to financial services, increase productivity and output of the enterprises, increase employment, create wealth and engender inclusive growth (CBN, 2022). 10% of the fund was devoted to developmental objectives such as grants, capacity building and administrative costs, while the 90% commercial component was released and wholesaled to participating FIs. The cost of finance to the FIs was 2%, for on-lending to eligible enterprises at a maximum rate of 9% for up to 7 years.[149]

The scheme was oversubscribed by the education sector, and in particular by women-run, low-cost schools. Through local FIs, eligible school enterprises were able to reduce their cost of finance and access longer-term loans to expand. MSMEDF reduced the cost of finance to MSMEs and extended the term of repayment, reducing the risk of default from both a borrower and lender perspective. The scheme ended in 2019.

Where there is political will and a social and economic rationale for providing concessionary finance, central banks are in a position to act as the CBN did. The CBN saw the fund as addressing the finance gap faced by MSMEs and job creation amongst key benefits of the scheme. Under the scheme, FIs have to repay the central bank with interest, putting an onus on them to lend responsibly. From the

[149] MSMEs involved in the following activities were eligible under the fund: agricultural value chain activities; cottage industries; artisans; services; renewable energy/energy efficient product and technologies; and trade and general commerce.

central bank's perspective, it has used its resources to increase affordable finance to a priority sector. The opportunity to replicate such a scheme in other countries is discussed in Chapter 7.

8.3 International aid

Western governments are under pressure from teacher unions and INGOs to not support private education including low-cost education. Such vested interests want all aid to go the state sector: "Aid has been mainly focused on public sector and governance and institutional strengthening- a cascade of money to official channels. This purchased technical assistance and employed people to improve the quality of universal primary education. It failed!"[150]

In Lagos, an exception to this has been the entry of the low-cost school chain Bridge International Academy (BIA) into the schooling market. This was facilitated by a grant of US$5 million in 2014 from the Department for International Development (DFID) to BIA to encourage BIA's entry into Nigeria (Edoren, 2018).

BIA subsequently established a chain of 36 schools in Lagos. In 2019, BIA entered a PPP with Edo State to improve education management, efficiency and education quality across government schools. Such an initiative, at the invitation of a domestic state administration in Nigeria, illustrates that government and the low-cost school operators can work together. As reported by the related entity Bridge in Nairobi (Chapter 6), one of the early efficiency gains of the PPP in Edo state was the BIA audit of state teachers on the payroll that revealed a large number of ghost teachers. BIA also looked to improve teacher quality through training and introduced regular education quality measurement and reporting.

Chapter 7 discusses the role international aid could play to increase finance to low-cost schools, taking into account the political economy issues.

[150] PA (iii)

8.4 Addressing barriers to finance faced by low-cost schools

To address the barriers to finance faced by low-cost schools, interviewees commented that consideration should be given to the political economy of policy and regulation, institutional voids and matters of trust regarding information on education quality.

8.5 Political economy—policy in education provision

To address the barriers to accessing finance faced by low-cost schools, governments could constructively act to include uncertified low-cost schools in official numbers. In doing this they would publicly acknowledge the role low-cost schools are playing in the provision of education. This may be challenging, as it would involve a recognition that state provision is inadequate.[151] It would necessitate an acknowledgement that "governments are currently failing in providing quality education for a very large number of children. There is also a large number of students who have no access to any form of education. Low-cost schools can help bridge the gap."[152]

In addition, at the policy level, it would be beneficial for the sector if the state adopted "flexible regulatory rules and easing the process of licensing. Government policy to support low-cost schools e.g. recognising the roles of low-cost schools."[153] Bunmi argued that, instead of seeing such schools as competitors, "they should then see us as partners in the education of all children."

Regarding the policy of government bodies and development priority areas, "local development Banks like BOI should include low-cost education as an area which needs to be funded. Currently they say they can only fund some vocational education."[154] In a similar way as the state does with agriculture through the CBN, education finance could be ranked as a priority sector, making low-cost schools eligible to receive low-interest loans. In Bunmi's opinion, "If agriculture receives concessionary finance shouldn't education? Mirror the agricultural finance that government has provided in the past. What is the point of feeding people whose minds are empty?" To encourage

[151] PA (iii)
[152] Bunmi
[153] MFI (i)
[154] School association

greater domestic and international finance for low-cost schools, government could "list education as a priority sector for funders".[155]

8.6 Political economy—certification of schools

Reform of the criteria for school certification is needed to take account of the low-income contexts in which low-cost schools operate. A clear distinction could be made between high fee-charging private schools and low-cost schools rather than the same rules applying to both.[156] In the Lagos context, one MFI believes that the licensing process could be streamlined, for instance by implementing the GAPS grading system, which Developing Effective Private Education Nigeria (DEEPEN) has advocated for years.[157] The regulator believes that "government [could provide] an enabling business environment for the operators to access financial support from available sources at affordable interest rate." Such changes could include the removal of the requirement to own a minimum amount of land and allowing schools to use converted premises rather than purpose-built classrooms.

The regulator opined that information dissemination on school performance in the end of primary school examinations would provide a clearer picture of education quality at the individual school level and improve accountability "if the state grants recognition to all schools irrespective of status, size or enrolment and free registration of their candidates for common entrance examination and final examinations." Reforms could also change the focus of regulation from education inputs to outcomes: "Shift from *inputs* to *outcomes*. What is needed for low-cost schools to be seen by the Ministry of Education as partners in provision of quality education and building of trust would be sterling performance of low-cost school products in common entrance [into secondary schools] and

[155] MFI (i)

[156] Non-state schools are not homogenous, as illustrated by the fees charged by Lekki of N75000 per annum (US$207) compared with a high-fee school, Corona Victoria, which educates 527 children on Lagos Island for N350,000 (US$960) to N400,000 (US$1,100). Source: https://www.edusko.com/school/corona-school-victoria-island. Accessed 4 Nov 2020.

[157] MFI (i)

end line assessments" (emphasis added).[158] Supporting and rewarding education quality improvement could be furthered by "the above average schools…grandfather[ing] low-cost schools that are substandard so they can improve."[159]

However, incentives are important to encourage co-operation of all schools. One incentive is for government to "focus on results, matched funding, [and] provision of goods [books)."[160] Fiscal incentives could also be provided by government, including "[a] five-year tax holiday for every newly registered low-cost school that get involved in a grading of school systems,"[161] tax relief for private schools, and the introduction of vouchers that parents can use in low-cost schools, "creating a partnership with low-cost schools, e.g. promoting the charter school system in Nigeria or use of vouchers to pay for school fees in low-cost schools."[162]

8.7 Institutional voids in under-resourced regulatory bodies

In addressing institutional weakness at the regulatory level with systems of recognition and accreditation, one interviewee suggested that "the regulator to appoint and have the department staffed with employees with experience in education both public and private. Increased digitization of processes and increased transparency and efficiency in the approval of schools."[163]

8.8 Institutional voids and financial inclusion

Access to finance could be addressed by existing institutions acting as aggregators "to reach schools with a range of relevant services," according to one FI which is a not-for-profit wholesaling funds to local FIs to on-lend to low-cost schools and building capacity in other FIs to service the education sector.[164] As demonstrated by MFIs accessing the MSMEDF funds, schools can also be bundled in an aggregation function.[165] New institutions are needed to fill the institutional void and service the

[158] Regulator
[159] Bunmi
[160] PA (i)
[161] Regulator
[162] MFI (i)
[163] MFI (i)
[164] FI (ii)
[165] II (ii)

sector and could be supported by school associations: “There is a role for institutions such as AFED to mentor the schools and assist them with paper work to get certified.”[166]

8.9 Trust and education quality

Lekki illustrates that the quality of education provided by a school is of vital importance to households. A lack of such information makes it difficult for parents to compare school performance and form an opinion on whom to entrust with the education and wellbeing of their children.

Information asymmetry on education quality also impacts the decision-making of policymakers regarding resource allocation and hinders FIs in assessing the viability of a school requesting a loan. If the results of end of primary school examinations for both state and non-state schools were published, this would help address the information asymmetry existing on education quality, and promote accountability of all schools to deliver learning outcomes. As PA(i) opined, teachers should be held to account, unions controlled or banned, corruption born down on and success and improvement rewarded.

The lack of information on the quality of education in state and non-state schools could also be addressed by publishing school inspection reports and, in Lagos, drawing on “test results, adjusted for socio-economic context – some measure of value-add.”[167]

Education value-add looks to measure how much pupils in any school had learnt over a period of time, given whatever learning levels were at a given base line date. This would require independently establishing the baseline and possible interim measures over the period of children’s education. The advantage of such an approach is that it would take account of the different learning levels of children from very different socio-economic backgrounds and reveal the learning that has taken place rather than simply consider the end of primary examination in isolation.

[166] MFI (ii)
[167] PA (i)

9 Conclusion

The Lekki case study illustrates the way low-cost schools can be a local response to the need for children to receive quality education and care in the absence of state provision. Proximity of the school to home is important to households from a cost and safety of journey to school perspective. Importantly, there is strong demand for both early-years care and after school care, which Lekki and most low-cost schools provide but state schools do not. Proximity also plays an important role in the levels of accountability between schools and parents, access to education quality information and the building of trust. Lekki also illuminates the difficulties that low-cost schools face in obtaining certification and the rent-seeking activities of officials who benefit from an input-based system of regulation.

The motivation of the founder of Lekki to provide affordable, quality care and education underlines an important characteristic of such schools: as small enterprises, they need to meet outgoings, principally teacher salaries, along with a clear social goal. The observation that such schools see themselves as social enterprises serving their community is seen with Lekki and observed in Lagos by the end-line assessment of DEEPEN (Edoren, 2018).

Lekki illustrates the lack of government funding for low-cost schools and their almost exclusive reliance on fees. Notwithstanding the difficulties of uncertain cash flow, the longevity of Lekki indicates a business model that can work in low-income communities and that is sustainable.

The case study demonstrates that access to finance is difficult with and without certification, even where a school has a bank account. Obtaining conventional finance is challenging and the school was unable to get funding of the amount it wanted, confirming again the findings in Chapter 4.

Whist impact finance helped the school expand, the difficult process of identifying and securing it shows that institutional voids exist with respect not only to conventional finance, but also to impact finance. This case study also raises issues of the suitability of hard currency debt finance from impact investors and the seeming inability of the school to access larger amounts for further expansion.

Two further findings in Lagos concerning the provision of finance to low-cost schools from non-conventional sources are noteworthy. In the first instance, the emergence of a financial intermediary, Edfin, backed by impact investors to address the institutional void faced by low-cost schools, indicates that there is a role to be played by new institutions acting as financial intermediaries. Edfin is playing a similar to the role played by MFIs with micro-enterprises in the 1980s and 1990s.

A second finding is that government, through central banks in the Nigerian context, can increase access to finance for low-cost schools, thereby addressing the institutional void. The Central Bank's MSMEDF initiative working with FIs resulted in many women-run, low-cost schools accessing concessional finance. This may provide a useful model in other countries.

Chapter 6. Case study of a low-cost school chain in Nairobi, Kenya

This chapter reports on the case study of Bridge International Academies Kenya (Bridge), which operates a chain of low-cost schools in Nairobi and other locations in Kenya. Similar to the Lekki case study in Chapter 5, Bridge looks to provide quality education at an affordable cost to children of low-income households (BIA, 2016).

Semi-structured interviews with the school's founder and management are triangulated with interviews with parents of children who attend a Bridge school, the education regulator, policymakers, policy advisors, a school association, banks, MFIs, international aid agencies, impact investors and a non-bank financial institution focused on low-cost schools. This case study adds to the research findings of Chapters 4 and 5 and explores how barriers to finance faced by low-cost schools might be addressed (research question 5).

Interviewees are identified as follows: Founder and management of Bridge (Bridge); International Donor Agency; Bilateral Aid Donor; Policy Advisor—PA (i), (ii), (iii); Impact Investor—II (i), (ii), (iii); Financial Institution—FI (i), (ii), (iii), (iv); Micro-finance institution—MFI(i), (ii); Education Regulator—Regulator; School Association; Development Finance Institution—DFI; Bridge parents - Parents. Actual names of organisations and individuals are anonymised to preserve confidentiality.[168]

1 Nairobi education context and case study history

Nairobi has a population of 4.4 million which has been growing at a rate of 3.9% per annum over the past 20 years up until 2018 (Chapter 4, Table 2).[169] It is the commercial and political capital of the country. An estimated 60% of the population live in low-income areas, or slums, on the outskirts of the city with limited access to roads, clean water, electricity and waste disposal (UN Habitat, 2016).

At the country level, the human capital index of 2020 indicates that a child born in Kenya today will be 55% as productive when she grows up as she could be if she enjoyed complete education and full

[168] Details of interviewee, date of interview and location available on request.
[169] Population growth. Source: http://www.citypopulation.de accessed April 2020.

health (World Bank, 2020). This is despite the priority Kenya has made of education as a national goal and highlights the discrepancy between government policy aspiration and ability to meet it (Chapter1, Section 1). In 2003, the government implemented Free Primary Education (FPE) to enable every Kenyan child to have access to primary education by removing tuition fees in government schools (ASI, 2014). Whilst FPE significantly improved educational opportunities, it also led to severe overcrowding in public primary schools (Tooley et al., 2008), with an average PTR of 57:1 (Ministry of Education, 2014).

Despite the fee free policy of FPE, state schools continue to charge for associated costs such as uniforms, parent teacher association fees and examination fees. These costs and the lack of state primary schools in many locations contributes to the number of Kenyan children who are out-of-school. As of 2020, UNESCO estimated there are 1.1 million of these primary school-age children (i.e., those between six and 11 years old) in Kenya and that marginalized groups in slum areas, arid and semi-arid regions face limited access, lower quality teaching and under-resourced learning environments (UNESCO, 2021). Reducing the number of out-of-school children is a challenge recognised by the government (UNESCO, 2021).

At national level, the Ministry of Education is involved in budgetary allocation, setting policy, and the supervision, regulation and provision of primary, secondary and university education. Following the adoption of a new constitution in 2010, early-years education was devolved to the county level, where service delivery is managed and funded.[170]

In 2019, Kenya adopted a new curriculum structure of 2-6-6, i.e., two years of pre-primary education (for ages 4-5), six years of primary education (for ages 6-11), and six years of secondary education split equally between junior secondary and senior secondary (for ages 12-17 years) (Ministry of Education, 2019). Per official national statistics, in 2019, the private sector was educating 30% of pre-school children and 16% of primary children, giving a combined 48% of enrolled early-years and

[170] Kenya has 46 county administrations (Ministry of Education, 2019).

primary-aged children (Ministry of Education, 2019). At the Nairobi County level, these numbers increase to 68% and 44% respectively (Ministry of Education, 2019). Importantly, official figures indicate that the situation in the urban context can be significantly different to the national picture, which comprises mainly rural counties. Low-cost schools do exist in rural areas, but they have a greater presence in urban areas.

In Nairobi, as seen in Lagos, official statistics record certified schools and exclude uncertified schools.[171] In Nairobi, official statistics indicate that 48% of early-years and primary school children are in private schools (Ministry of Education, 2019) compared with the research conducted as part of this thesis, which finds 78% (Chapter 4, Table 2). In Lagos, official statistics understated the role of private schools by a factor of 1.9x (Chapter 3, Section1) whereas in Nairobi, comparing the finding in Chapter 4 of 78% to the official figure of 48%, it appears to be by a factor of 1.6x. In common with Lagos, by not including uncertified schools, Nairobi official data understates the role of low-cost schools. This has implications for policy and the funding of such schools, as discussed in Chapter 7.

Nairobi illustrates what is observed in many countries: that private schools educate a substantial and growing share of the student population (Baum et al., 2014). It is within this context, where the state is educating only 22% of early-years and primary school children, that Bridge operates.

Bridge[172] was founded by Jay Kimmelman, a former founder of an educational software company in the USA, his wife Shannon May, an anthropologist and former teacher in a local village school in China, and Phil Frei, a former consultant commercialising technologies and social impact in Malawi (Kasturi-Rangan and Lee, 2010). Kasturi-Rangan and Lee (2010) observed that the founders believed every child has the right to a high-quality education and adopted a technology-driven model to increase education quality, raise teaching capacity and develop independent, confident and literate children. The founders combined their backgrounds with a view to building a school chain to provide

[171] In Lagos, 30% of children were officially in non-state schools, whereas the census revealed it was 70% (Härmä, 2011).
[172] A subsidiary company of New Globe Schools Inc. domiciled in Delaware, USA.

world-class education to underserved communities that is sustainable, affordable and accessible (IFC, 2015). Their vision was to build a low-fee school chain and become the global leader in providing primary and pre-primary education to families who live on US$2 a day per person or less (BIA, 2016). As explained in Section 4.1 of this chapter, BIA, the holding company of Bridge, attracted over US$100 million of impact finance (Riep, 2019).

The first school opened by Bridge in 2009 was located in the Mukuru slum in Nairobi. It offered two years of early-years and two years of primary school education. From that beginning, Bridge expanded and built new schools on leased sites using low-cost materials and standardised designs, to drive cost-effective volume procurement and quality control.[173] By the time of this research, 2019, the chain operated 220 schools in Kenya, with a total of 66,000 early-years and primary-aged pupils enrolled, charging approximately Ksh10,265 (US$101) per pupil per annum.[174] Elsewhere in Africa, the group expanded into Uganda, Nigeria[175] and Liberia.[176]

Bridge adopted an "academy-in-a-box" model, standardising the physical environment, instructional activities such as curricula, pedagogy and lessons, and non-instructional activities such as admissions, accountancy and administration (Kasturi-Rangan and Lee, 2010). The purpose-built schools built by Bridge are mainly constructed of timber and corrugated iron, painted in the

[173] At one stage and at the height of its expansion in Kenya, Bridge was the largest producer of door frames in the country, as mentioned by II (i).
[174] Source: Central Bank of Kenya average exchange rate of Ksh101 to US$ for 2019. https://www.centralbank.go.ke/rates/forex-exchange-rates. Accessed 13 January 2022.
[175] Chapter 5, Section 8.3 made reference to the establishing in 2015 of operations in Lagos. In 2018, BIA entered a PPP with Edo State in southern Nigeria as its technical delivery partner. The Edo Basic Education Sector Transformation (EdoBEST) initiative looks to improve learning for 300,000 children in 1,500 state schools, in part by drawing on BIA classroom technology and teacher training. https://impakter.com/edobest-flagship-initiative-achieving-sustainable-growth/. Accessed 12 April 2022.
[176] In 2016, BIA, along with 6 other organisations, joined a partnership with the government of Liberia in the Liberian Education Advancement Programme (LEAP]). Under this arrangement, the Liberian government owns the school infrastructure and pays teachers' salaries, while service providers such as BIA are paid through a government subsidy based on student enrolment. This PPP is intended to turn around failing state nursery and primary schools over three years. BIA was allocated 50 of the 168 schools participating in the programme. At the start of the academic year 2021/22, Bridge was given a further 179 government schools to manage, taking its total to 350 out of 575 LEAP schools. https://mnewsafrica.com/government-gives-bridge-liberia-179-more-public-schools/ Accessed 12 April 2022.

organisation's corporate green colour, and follow a standard template adapted to local physical conditions.

Classroom and back-office activities use automated internet-enabled devices, including tablets for teachers that contain downloaded scripted lessons. The Bridge model centralises planning and administration to reduce costs and collect data across the different schools. In the classroom, learning facilitators (Bridge's term for teachers, and hereafter referred to as teachers) follow the tablets containing the scripted lessons that look to bring a uniform quality and reduce the need for in-depth knowledge and training. The tablets capture data on teachers and pupil attendance, completion of lessons and pupil performance in regular tests. Such data are captured and analysed at head office, and reports are made back to schools and parents (Kasturi-Rangan and Lee, 2010).

School managers manage the day-to-day operations, including communicating with parents, collecting fees, tracking and assessing students, and evaluating the performance of teachers and of the school. Bridge school fees in Kenya are collected using mobile money services such as MPESA, the mobile phone payments service provided by Kenya's main mobile phone operator Safaricom, to increase efficiency and reduce the risk of fraud. An area manager has oversight of ten to 15 schools and a regional manager oversees 100 schools (IFC, 2015). The enrolment and fees charged by Bridge as of January 2019 are detailed in Table 10 below.

Table 10 Bridge fees and enrolment, 2019

Number of Bridge schools in Kenya	Years provided	Fees (avg.) per annum	Pupils	Teachers
220	Pre-school and Primary	Ksh10,265 (US$101)	66,000	3,500

Source: Bridge

By 2016, Bridge was educating 160,000 children in 420 schools. In that year, Bridge froze its expansion of the chain in Kenya due to concerns raised by government over the chain's use of unqualified teachers and the physical conditions in the schools. The chain was scaled back to the

levels seen in 2019 with the 220 schools. At this scale of operation, Bridge can accommodate 80,000 pupils and is operating at 82% capacity. The enrolment numbers have continued to be affected by difficulties in obtaining certification and the subsequent closure of schools. As of January 2022, Bridge had 112 schools.[177]

2 Shortfall in state education provision and the role of low-cost schools

2.1 Political economy and policy on education provision

The seven city findings (Chapter 4, Table 2) indicate that the shortfall in state provision of primary education in Nairobi is 78%. This striking finding is in the face of a policy position of free primary education.

As the parents of children enrolled at Bridge observed, "The government is failing in [providing] access to quality education in urban regions of Nairobi, as in Makurulo."[178]

The Bridge case study confirms two insights regarding education policy, consistent with the seven city findings (Chapter 4) and the Lagos case study (Chapter 5). Firstly, the Ministry of Education's policy priority has been to focus on primary education and not early-years provision. As seen in other cities, the government has largely left early-years provision to the non-state sector.

In Nairobi, this is exemplified in the official figures of the numbers of state teachers employed. As of 2019, Nairobi state schools employed 4,097 primary school teachers and 429 early-years teachers, with early-years representing less than 10% of the total (Minister of Education, 2019).[179] Although this is higher than the 1% seen in Lagos, these numbers clearly demonstrate how the Nairobi state resources and prioritises primary provision above early-years provision. The official figures on enrolment reinforce this observation, with 13,166 (6%) early-years children in state schools versus 195,855 (94%) in non-state schools (Ministry of Education, 2019). As seen in the Lekki case study,

[177] See https://bridge.ac.ke/find-your-school/. Accessed 18 January 2022.
[178] Parents
[179] This is more than the 1% seen in Lagos, per Chapter 5, but the policy and resource priority given to primary education by the state compared with early-years is similar.

where early-years care of children of low-income households is important to parents whilst they work, in Nairobi, low-cost schools such as Bridge are addressing this need in the absence of state provision.

Similar to the situation in Lagos, the shortfall in state provision in Nairobi is exacerbated by split responsibility for primary and early-years education between different government departments. In Nairobi, the national government is responsible for primary education and the county government for early-years care and education (ASI, 2014). Consequently, policy and allocation of resources is not applied consistently across the whole spectrum of child development from early-years to the end of primary school.

The second insight is that the growth in the number of children enrolled in private schools has far exceeded the growth of children enrolled in state schools. Per the official figures on education (which do not include uncertified schools), Table 11 illustrates the relative growth at the city level in Nairobi for 2017-2019 and at the national level for the 14 years to 2019.[180]

Table 11 State primary education enrolment growth rates, Nairobi 2017-19 and Kenya 2005-19

Years	Level	Growth in primary enrolment of state schools	Growth in primary enrolment of private schools
2017-19	Nairobi	-3.4%	+9.7%
2005-19	National	+1.1%	+13.6%

Source: Ministry of Education (2014), Ministry of Education (2019)

As considered in the survey of the literature (Chapter 2), a key factor contributing to the shortfall in state supply has been the financial constraints on government limiting the physical provision of government schools. This is particularly evident in the urban slums of Nairobi resulting in parents being required to contribute towards the cost of state education. Consequently, Kenyans "never

[180] Comparable data on Nairobi for the period 2005-19 is not provided in the National Statistics Report.

have had free at point of delivery education due to the tax base not being large enough."[181] With an insufficient tax base, "in a strained economy, the wage bill is too high."[182]

Moreover, the constraint on state finances limits the number of teacher training colleges and how many teachers can be trained and employed. This in turn restricts the available teachers and results in overcrowded schools—a problem the government has failed to address.[183] As illustrated in Chapter 4, Section 2, state schools have high PTRs, which households compare to low-cost schools as a proxy of education quality.

Another factor that appears to reduce the financial resources available to government for schools is leakage in the system. Case study respondents, both inside and outside of government, reported that corruption within the Ministry of Education was very common, if not "rampant." Civil servants and politicians have a vested interest in maintaining current policy and regulations that enable the extraction of rents. This contributes to the barriers low-cost schools encounter in obtaining certification, to which this chapter now turns.

2.2 Political economy and certification of schools

In Kenya, low-cost schools fall under the category of "unaided schools", which receive no funding from government and which need to apply to the Ministry of Education for certification. Such schools receive a provisional registration for 18 months, and when all requirements have been met, submission can be made to the county education board. Once approval is received from the national Ministry of Education, the County director can issue a certificate.

Low-cost schools must meet the minimum regulatory requirements and follow the curriculum approved by the Kenya Institute of Curriculum Development. In common with the other research cities, the Kenyan regulations focus on physical inputs such as land ownership, minimum classroom size (maximum of 45 pupils) and minimum size of playgrounds.

[181] PA (i)
[182] Regulator
[183] FI (iv)

In the seven-city research, the estimated proportion of uncertified low-cost schools in Nairobi is 30% (Chapter 4, Table 3). This is better than the seven-city average of 46% but still represents a significant number of schools without formal approval that could face closure.

In Nairobi, as in the other research cities, the physical input requirements are often unrealistic for low-cost schools to meet. Although regulations mandate permanent structures, in low-income areas the schools are seldom constructed in a manner that complies with this requirement.[184] So too with the materials and equipment stipulated in the regulations, which "require a minimum of 100 library books. In a slum school is this possible? Due care [of children] is important, but we need to be realistic."[185]

Such input-based regulations are a colonial legacy perpetuated by post-independence governments (Shomade, 2021). For example, the regulations do not differentiate between different types of schools, the communities they serve or the ability to acquire land. For state schools land ownership, this is not normally an issue given the powers the state has to allocate government land or make compulsory purchase orders. High fee-paying schools can typically afford to acquire the land needed. In contrast, low-cost schools, operating in slum areas, face the difficulty of finding sufficient land in the first instance, and even if it were available, establishing title is difficult. Were such obstacles overcome, low-cost schools face the additional challenge of accessing finance to acquire the land.

As with physical inputs, so too with human inputs. The regulations make no distinction between the different types of schools and the requirement to employ certified teachers. State schools and high-fee schools can afford qualified teachers who have been trained by state colleges. In contrast, to keep fees low and affordable to the low-income communities they serve, 19% of low-cost schools in Nairobi employ school leavers who are then trained by the head teacher in the school (Chapter 4,

[184] FI (iii)
[185] II (ii)

Table 2). The low-fee business model adopted by low-cost schools can lead to them not employing qualified teachers, whose salaries typically cost three times that of a school leaver.[186] As confirmed by Bridge, employing qualified teaches could require increasing the fees or class sizes to meet the incremental costs.

Consequently, "non-state schools do not have qualified teachers as they can't afford to pay them."[187] This economic necessity of employing cheaper unqualified teachers results in non-compliance with regulations. Non-compliant schools face the threat of closure which provides an opportunity for officials to extract rents and the ability of a school to pay. "It depends on how heavy your pocket is – it is not a level playing field."[188] Official inspections, for example, look for contributions towards the cost of transport. "If they do visit low-cost schools, they [the officials] ask for transport costs. Not Ksh500 [US$4) or Ksh1000 [US$8] but they ask for Ksh10,000 [US$80]. Are they flying?!"[189]

And the focus of officials also appears to be on obtaining income: "The local government is interested in the taxes from the schools but not improving the ambiance and services to the schools."[190]

The difficulty that low-cost schools face in meeting the input requirements set by the state in Kenya was recognized several years ago by the World Bank, DFID and other international donor agencies. They worked with the Ministry of Education between 2007 and 2014 to introduce more realistic regulations for low-cost schools. After seven years of consultation, the Alternative Provision of Basic Education and Training (Kenya) (APBET) guidelines were issued by the Ministry of Education in 2014.

[186] As seen in the survey of the literature (Chapter 2) and study.
[187] FI (i)
[188] School association
[189] FI (iv)
[190] FI (iv). The regulator does not necessarily agree with such observations, seeing their activities as giving "equal attention…to government and private schools where teaching and learning is taking place. If unregistered, we support them in the registration process." Inspection visits may be different outside Nairobi, where "the quality assurance officer visits every school, attends classes and evaluates teachers on delivery methods." (FI (iv))

In principle, they made the regulations for providers of basic education easier to achieve. For example, they reduced the requirement for qualified teachers from 100% to 33%, and instead of requiring ownership of land, they stipulated that a lease agreement would be acceptable (APBET, 2014).

Despite the changes that APBET introduced, the regulator commented that many low-cost schools have not been able to take advantage of the new requirements, saying, “My heart bleeds. [I had] hope in what [we were] doing, but politics has got in the way. It is a stalled project. It would have assisted them [the low-cost schools] in basic education. Senior officials want to close them. APBET is gathering dust–unless there is a change of regime thinking.”

Moreover, according to the school association, the implementation of APBET guidelines has also been problematic, with officials using it for rent seeking. Under the guidelines, low-cost schools could apply for certification for Ksh10,000 (US$100). However, officials apparently requested multiples of the Ksh10,000 (US$100) fee before agreeing to process an application. There has been resistance not only at the government level but also at the school level. In the case of the latter, it appears that low-cost schools were not keen to formalize and increase their accountability to the state.

Even if APBET had been successfully implemented, low-cost schools such as Bridge would still have difficulty meeting the requirement for a minimum percentage of qualified teachers. This case study illustrates that certification of low-cost schools is difficult to achieve when based on inputs and where no recognition is given to schools that deliver good education outcomes in low-income settings.

2.3 Institutional voids: under-resourced regulatory bodies

Interviews revealed that a number of factors contribute to the institutional weakness of the regulatory body in Nairobi including an inadequate budget, lack of trained staff, lack of inspectors and the inability to enforce inspection recommendations. According to the regulator, “Capacity is

limited—with 80 visits a year per member of staff and 20 staff gives about 1600 visits per annum. With 30,507 schools, this will take 20 years, compared to the policy intention of a visit once every six months!"

The capacity of the regulators to assess the education quality and education outcomes is limited. A proposal to change the regulatory focus to be more concerned with outcomes than inputs, notably through the establishment of a council looking at education standards, was not adopted as recommended in 2013.[191] The regulator "should support the low-cost schools in checking the quality of education that is being delivered."[192] Again, the focus of regulation on physical inputs rather than on learning outcomes was a recurring theme in interviews: "Officers come to Bridge for registration not [to see] how teachers teach."[193]

By focusing only on inputs, any contribution that low-cost schools may be playing in the delivery of quality education is not considered by the regulator. This oversight is compounded by the lack of data on the number of low-cost schools in Nairobi: "In Kenya, we can't give an accurate number of low-cost schools. So, the government is not aware of the numbers of schools in operation."[194] The incomplete picture of education provision possessed by government, especially the omission of uncertified low-cost schools from official figures, impacts the policy towards low-cost schools and any state funding.

2.4 Education quality, accountability, locality, affordability, trust and school choice

The parents of over 70,000 children entrust their children's care and education to Bridge and do so for a number of reasons, including "attendance of teachers. Infrastructure and look of the classrooms. Syllabus covered. Safety of children. Class size. English medium. Staff are up to date and using technology. Word of mouth. Different to other low-cost schools. Confidence in the way the

[191] School Association
[192] FI (iv)
[193] Bridge parents
[194] FI (iv)

school is run. Leadership. Training of teachers adds value."[195] The contributing factors that assist the building of trust and school choice include perceived education quality, accountability, locality, reputation and affordability.

(i) Education quality and trust

Households in Nairobi are no different to those in Lagos is lacking information on the quality of education across state and low-cost schools. It is also "difficult to obtain other than the end of year *country averages* published by the Ministry of Education" (emphasis added).[196] In common with the other cities studied in Chapters 4 and 5, results in the end of primary examination in Nairobi determines progression to secondary school. For pupils with good results, the transition tends to be to the better national schools.

The lack of publicly available information on school results is partly due to a deliberate government decision made in 2013 to stop publishing exam results. According to the regulator, "Up until 2013 there was greater transparency. Newspapers did carry some information on school exam results. Primary schools would publish the top 100 pupil results for the whole country. Private schools would publish their own pupils' results for those that had scored above 400 marks."[197]

This approach by government was justified by the regulator as "an information ban on exam analysis to prevent schools misusing the information", with the concern that "competitiveness is not necessarily good for education", and to avoid a situation where "parents were unhappy with badly performing schools."[198]

Given the reluctance of the state to publish this measure of education quality, households that want access to such information have to obtain it directly from the schools. Bridge captures the performance of its pupils in the end of primary examinations and compares them with the national

[195] Bridge
[196] Bridge
[197] Examination results are out of a total possible score of 500. Access to the better state secondary schools tends to be given to children with the highest scores.
[198] Regulator

and county figures that the Ministry does make public. Bridge promotes such comparisons on its website and in the press. Of the 2,000 Bridge pupils sitting the Kenya Certificate of Primary Education (KCPE) in 2020, 34% of Bridge pupils achieved a score of 300 or more, compared with the nationwide average of 24% (BIA, 2020). This was the sixth year that Bridge pupils outperformed the national average. Such performance comparisons may assist parents in assessing the quality of education provided by Bridge.

In the absence of inter-school examination results, households use other proxies of education quality including PTRs and the school's physical environment. At national and county level, the Ministry of Education does produce annual statistics enabling parents to see the overall picture of these quality proxies. At the early-years level in 2019, for example, private schools in Nairobi had a PTR of 21:1 versus the state PTR of 54:1 and state primary schools had a PTR of 56:1, but no PTR was provided for the private sector (Ministry of Education, 2019). Official statistics also indicate that the average size of a state primary school in Nairobi is three times that of the private school, at 931 versus 234 (Ministry of Education, 2019).

Such information, if accessed by parents, provides the broad picture that private schools in Nairobi are smaller and have better PTRs than state schools. However, in practice households have little alternative but to visit different schools to establish their size and the actual PTRs and to see the physical environment for themselves.

Per this research, and similar to the private-state comparatives seen in Chapter 4, Figure 10, the average low-cost school in Nairobi has a PTR of 15:1 compared with the national PTR in state schools of 31:1 and the PTR in Nairobi state schools of 55:1 (Ministry of Education, 2019). Bridge, per Table 11 above has a PTR of 27:1, being half the size of the Nairobi state PTR (Ministry of Education, 2019).[199]

[199] The international standard is 40 (Whelan, 2009)

Class size is identified by Bridge parents as being an important factor when choosing a school: "Affordable, proper supervision, security of children, syllabus covered, way school is run, *class size*, speak good English" (emphasis added). The parents interviewed also commented that it is important to them that the teachers are able to provide effective supervision, which requires teachers to be in attendance. Bridge holds teachers accountable through tracking their attendance, and if a teacher is repeatedly absent or neglectful of duties, they will be transferred out of Bridge (Riep, 2019).

Teacher attendance may be necessary to deliver education quality but is not sufficient; teacher quality is also important.[200] One of the interviewees contacted using the snowball sampling approach was a Harvard academic performing an assessment of Bridge education quality involving a randomised control trial. This respondent observed that Bridge teachers appeared to perform better than state teachers in one exercise asking teachers to mark a fourth-grade script: "Bridge teachers are not that much better than non-Bridge teachers, but class administration is better through use of tablets. On fourth-grade homework, Bridge teachers missed 40% of errors, [whereas] state teachers missed 80%."[201]

(ii) Accountability and trust

Bridge looks to build trust with parents and the community through external accountability. Bridge shares pupil performance with parents regularly. It also identifies people in the community with whom it can work and are seen as trustworthy. Management committees comprise parents at the local level to whom management is accountable.

(iii) Locality and trust

Low-cost schools, as seen in the Lagos case study, are community-based and only likely to survive if they meet the care and educational needs of their local community. As with Lekki, it is important to

[200] II (ii)
[201] PA (i)

parents that the school is easily accessible to even the youngest children. Parents are often unwilling to allow young children to travel the distances necessary to reach the nearest state school.

Locality is the most important criteria used by parents in choosing the school after quality of education and cost (Edwards et al., 2019). As Bridge indicated, the majority of parents are living within two kilometres of the school attended and proximity of the school to parents is very important.

Bridge parents indicated that local support of the school was also important from a physical security perspective. When certain members of the community forced entry and caused damage, the parents paid for the necessary security to protect the school premises.

(iv) Affordability of education and trust

As found in the seven cities research and the Lagos case study, state schools in Nairobi are not free and not always less expensive than low-cost private schooling options. One of the reasons that low-cost schools developed in Kenya was the high costs associated with state schools including fees for uniforms, examinations and even desks and chairs in some instances (Heyneman and Stern, 2014).

As with the Lekki case study, Bridge as a low-cost school charges fees that are dramatically less than the high annual fees charged by expensive Nairobi primary schools. Bridge fees of US$101 compare with high fee schools such as Riverside Ksh270,000 (US$2,670) and Alliance Ksh180,000 (US$1,780) per annum, equating to multiples of Bridge fees of 27x and 18x respectively. Bridge fees are at the lower end of the low-cost fee spectrum, being 46% of the average Nairobi low-cost school fees of US$220 (see Chapter 4, Table 2). This translates to households spending 7.2% of per capita income on the education of a child, which is in line with the seven-city average of 7.3%. Moreover, Bridge offers discounts for siblings attending a Bridge school.

Even though Bridge aspires to charge low fees, for some households these fees are unaffordable. Affordability is discussed in Chapter 7.

(v) Reputation

As seen in other research cities and in the Lagos case study, low-cost schools in Nairobi are typically individual enterprises that build trust and reputation locally over a considerable period of time. In contrast, Bridge did not adopt a gradualist approach but rapidly opened fully functioning schools allowing little time to build a reputation in the local communities. Instead, the chain's reputation developed at the national level as Bridge attracted publicity due to its ambition to grow and as it became the largest primary school chain in the country.

Consequently, Bridge's reputation at the local level was enhanced or damaged based on its national reputation. The public criticism it has received from teacher trade unions and international NGOs has been widely covered in the local and international press, as has its confrontations with school regulators (Economist, 2018). The ensuing negative publicity has, Bridge believes, resulted in parents choosing not to send their children to its schools.

(vi) Household decision-making

An insight arising from the Bridge case study that had not arisen in the seven cities or Lagos is the important role of women in the school selection process. As women interact more with teachers, pay fees and have more contact with the children than men in the household, the school observed that it is the women who play a major role in the decision as to which school children should attend: "Women drive the conversation in education. Women are the drivers; men are the wheels. If you don't have a driver the wheels don't move. The driver decides which school."

3 Low-cost schools in Nairobi and access to conventional finance

The research findings in Chapter 4, Table 3 indicate that 17% of low-cost schools in Nairobi have been able to access finance, compared with the seven-city average of 15%. This is despite 70% of the schools being certified, compared to the average 54%, and 62% being financially included with a banking relationship, compared with the average of 56%.

This section draws on the case study interviews with regulators and others to understand the barriers to conventional finance faced by low-cost schools in Nairobi. Unlike the low-cost schools in the seven cities, Bridge has not explored conventional finance to fund its activities. Instead, it has accessed impact investing finance to build its chain of schools. Section 4 considers how Bridge itself is financed and impact investing finance.

3.1 Access to finance and the political economy of policy and certification

As seen in Lagos, Nairobi financial institutions saw the lack of certification of schools as a barrier to finance, in that it "may pose a credit risk in case the school is closed by authorities."[202] Asked if FIs would lend to an uncertified school, the unequivocal response from FI(i) was, "Absolutely no, the risk of closure is high considering the law does not allow such schools to exist," and that "it is important for a school to obtain a license from the relevant bodies before commencing operations. Otherwise, they risk closure."

Where schools are not certified, some FIs make it a condition of finance that the enterprise commence the process of obtaining a license. This creates a vicious circle where the school cannot obtain finance to create the physical infrastructure to meet the regulatory requirements because it does not have certification and it cannot get certification because it cannot get the necessary finance. However, FIs recognise the challenges faced by schools in meeting the certification requirements. This perceived level of non-certification compares with the 30% found in the Nairobi research (Chapter 4, Table 3). This perception of non-certification is held by FIs to the extent that they have the perception that most are not licensed with the Ministry of Education.

In common with what was seen in the other cities, given the difficulty in obtaining certification, uncertified schools resort to various solutions. One solution is bribery to buy certification. "In Nairobi space is an issue. Playground facility very hard to get approval for. Space is a major problem

[202] FI (ii)

e.g. playground. Sanitation, trained teachers- not met even when they try. [Schools] end up bribing and get the certificate."[203]

Another way to work around the regulations so that the children in an uncertified school can take the end of primary examinations is that "registered schools get an exam code centre to do exams. [Unregistered schools] can sit in other centres where two school proprietors agree."[204] Such action increases the cost of providing education for the uncertified schools, as informal payment will be paid to the cooperating certified school. As noted above regarding education quality, even if the performance of schools in the end of primary examinations was published, such arrangements would distort the performance of schools entering not only their pupils but also pupils from other schools. Asymmetry of information regarding school quality is not addressed by the current regulations that prevent uncertified low-cost schools from entering pupils in the examinations in their own school's name.

Access to finance is not only impacted by the lack of certification and the related risk of closure by regulators but is also affected by other risks, including default risk and locality.[205] To mitigate the default risk associated with lending to certified schools, FIs typically look for collateral. However, "most non-state, low-cost schools may not have the required collateral to secure the debt."[206]

Interestingly, the location of schools in informal locations and therefore in close proximity to the home appears to create a barrier to finance. Whereas in Lagos location was seen to be an important factor for parents, the location of schools in low-income areas appears to increase the risk for FIs.

In Nairobi, the above risks contribute to low access to finance and the shortfall in supply of finance to low-cost schools. Few institutions appear to be funding uncertified schools, and even for certified schools, the availability of finance from conventional banks is limited.

[203] FI (iii)
[204] FI (iii)
[205] Other risks that FIs consider are governance risk, financial information risk, quality risk and reputational risk.
[206] FI (i)

A further political economy factor related to low-cost schools and the lack of certification is the vested interest various bodies have in supporting the status quo of input-based regulations. Various interviewees commented that government officials benefit from difficult-to-achieve certification requirements that create rent-seeking opportunities. Teachers' unions also favour regulatory requirements that create barriers to entry for would-be schools that may compete with them.

The political economy issue raised by an impact investor concerns the voting power of teachers. "So many children [are] in these schools. If we had politicians who were willing to take a risk, we could address this fragmented sector. But the *largest voting bloc* is the teachers" (emphasis added).[207] State teachers in Kenya, as in most African countries, are usually the largest group of civil servants (World Bank, 2018a). This creates a clear incentive for politicians to obtain and retain their support and votes. It appears that the risk of losing such support hinders governments from holding government schools and their teachers to account for teacher attendance, professional conduct and the quality of education. If, for example, governments required state teachers to attend school five days a week and threaten to sack teachers not complying, they are likely to be opposed by unions, which may result in strike action. If, as a consequence, children have their education disrupted, this may result in adverse publicity for the government, which could turn parental votes against the party in charge.

The political will to change the regulation of schools from one based on physical inputs to one based on educational outcomes would require political will. As seen in the Lagos case study (Chapter 5, Section 3), reform to regulations to focus more on education outcomes was resisted, as it was seen as a threat to state teacher jobs. Such political will to increase the accountability for education outcomes in state schools appears to be lacking at both Nairobi County and federal government levels in Kenya. Possible incentives that could be introduced to change this is discussed in Chapter 7.

[207] II (iii)

3.2 Institutional voids and financial inclusion

The findings in Nairobi are consistent with the Lekki case study that access to finance is impacted by institutional voids in regulatory bodies that contribute to the lack of certification of low-cost schools. In Nairobi, the regulator lacks capacity where the "registration process takes a year, if you are lucky."[208] In addition, a lack of human and financial resources results in a situation in which "non-state schools do not receive frequent quality checks by government officials."[209] Where schools that could be certified remain uncertified due to the institutional weakness of the regulator, this contributes to the lack of access to finance so that schools "are denied credit they need to develop."[210]

Importantly, institutional voids also appear to be evident, with the financial exclusion of 38% of small enterprise schools in Nairobi (Chapter 4, Table 3) operating in low-income communities wanting finance. As with MFIs and the previously financially excluded micro-entrepreneurs, there is a lack of financial intermediaries serving low-cost schools in Nairobi. This is partly due to fragmentation in the sector.

3.3 School characteristics and supply of finance by FIs

The shortfall in the provision of finance to low-cost schools seen in Nairobi reflects a lack of trust between banks and low-cost schools. This case study underlines the importance role information asymmetry plays in this trust deficit and identifies the importance that the governance of schools can play in building trust with FIs.

(i) Financial information and school financial records

As noted in the seven city findings, having separate financial records, is key to accessing finance and facilitating credit decisions of conventional FIs. In Nairobi, "The lack of financial information is the most important limitation on provision of finance to low-cost schools."[211]

[208] FI (iii)
[209] FI (iv)
[210] FI (i))
[211] FI (ii)

The access to finance is not helped by schools having "poor financial records. For example, we asked for information on fee collection. [But] she burns all the receipts after term is over… Even those [schools] that keep records are bad. [If they] can't manage their own finances, how will they manage the loan? 50% of low-cost schools have poor records."[212] This information asymmetry is compounded by "directors [who] do not have bank statements [or] audited books of account to prove ability to service debts."[213]

Although some FIs perceive there to be a market opportunity, "From my experience, there is an opportunity for such products but [the] challenge has been the lack of adequate information to appraise the businesses."[214] Where schools have inadequate financial records, this increases the perception of risk to the extent that banks avoid this sector and access to finance is reduced.

(ii) School profitability, longevity and governance

Information asymmetry also appears to exist regarding the profitability of low-cost schools and their longevity. As seen in Chapter 4, Table 7, 80% of low-cost schools in Nairobi are profitable but have higher irregularity of fee collection of 64%, compared with the seven-city average of 54% (Chapter 4, Table 5). They also have a smaller scale of operation, with an average enrolment of 132 compared with the seven-city average of 164 (Chapter 4, Table 3). These last two characteristics give rise to working capital difficulties: "Primarily cash flow challenges which manifest if the schools do not meet the budgeted student population and maintain the student numbers."[215] In addition, "Fee collection in low-income communities is a challenge. 50-65% are paid on time and the remainder comes over time. Schools try and negotiate with parents."[216]

This hinders access to conventional finance as schools have "irregular cash flows that lenders do not understand how to match with loan repayments," and "very few financiers understand their cash

[212] FI (i)
[213] FI (i)
[214] FI (ii)
[215] FI (ii)
[216] FI (iv)

flows."[217] Even where loans have been made to schools, non-performance appears to be partly due to the term of finance being too short: "Break even takes two years, but FIs are not prepared to give a moratorium. Few organisations target the sector."[218]

Furthermore, conventional FIs appear to be unaware of the longevity of low-cost schools. Chapter 4, Figure 9 indicates that in Nairobi, 66% of low-cost schools have been operating for more than five years. If such a track record were known by FIs at an industry level, it could act as a risk mitigant in providing credit, given that the "experience of the promoters, management and the years of operation is critical to mitigate business risks."[219] "The ones that are below one year can be funded if they have the following: adequate pupils/students, a strong leadership team, and directors who have other sources of income."[220]

A finding arising in the Nairobi case study that did not appear in the seven cities and the Lekki case study is the importance that FIs in Nairobi place on governance. After financial information, FI (ii) observed that the most important factors limiting provision of finance are "lack of governance and quality of management." FIs also attach importance to "bank appraisal lending criteria in terms of debt serviceability, security offered as well governance structure, sustainability of their business model amongst other criteria."[221] As found in Chapter 4, separation of the school finances from the school owner's personal finances was identified as important. In Nairobi, this aspect is also seen as an indication of better governance. FI (ii) "would like to see a clear legal constitution structures where the owner/operator is not the principal contract/key man risk. [My] preference would be for a board of directors plus management and parent's associations."

[217] FI (i)
[218] FI (ii)
[219] FI (ii)
[220] FI (i)
[221] FI (ii)

4 The financing of Bridge and the supply of impact investing finance

4.1 Current financing of Bridge

As of 2018, Bridge had received over US$100 million in capital from impact investors (Riep, 2019). These included DFIs such as the IFC (part of the World Bank), CDC (part of DFID) and the Development Finance Corporation (DFC), individuals such as Bill Gates; foundations such as Zuckerberg Education Ventures; corporates such as Learn Capital (founded by Pearson), and impact funds such as Imaginable Futures, New Enterprise Associates, Khosla Ventures and LGT Impact Ventures (Bridge).

These impact investors injected funds into the holding company, BIA, in the form of equity rather than the dollar-denominated debt seen in Lekki. These funds were deployed both at the head office operating level in the USA, which is responsible for developing the technology-based teaching materials and data processing capacity, and at the country level to finance the building of schools and operating costs, as seen with Bridge in Kenya. As funds were allocated to country operations, international investors in BIA were accepting the risk of any local currency devaluation of the underlying operations.

To facilitate the collection of fees and reduce fraud, Bridge receives fee payments through mobile money and not in cash. On average it collects 85% of fees and accommodates parents' financial difficulties by allowing them to adopt a payment plan. Whereas Lekki had full enrolment and a waiting list, Bridge operates at 82% capacity, as noted above. As indicated by the management of Bridge, competition from other low-cost schools, adverse publicity and lack of affordability contributes to this situation. Ironically, the low fees charged by Bridge may deter some parents from choosing the school when "higher price [is] seen as better quality."[222]

[222] Bridge

In common with the Lekki case study, Bridge receives no funding from government and attracts philanthropic sponsorship for some children who cannot afford the fees.[223]

4.2 Impact investing finance, political economy and certification of low-cost schools

The domestic political economy challenges Bridge has faced in obtaining certification for its schools and meeting the regulatory requirements are similar to those faced by other low-cost schools in Kenya. However, the experience of Bridge provides further insights into the domestic and international political economy surrounding the regulation of low-cost schools.

First, it demonstrates that in a regulated sector such as education, power rests with domestic government. This holds true whether the school is a typical woman-owned SME or a chain such as Bridge with powerful international backers with deep financial resources. As the regulator opined, "The Bridge education quality model is a good idea if it abides by the regulations. Their curriculum is not well defined. Their teachers are not [state] trained and have one week of training. There are issues with the government everywhere. There would be merit if Bridge engaged trained teachers and followed the curriculum." This became clear in 2016, when the Busia County Education Board ordered Bridge schools to close due to non-compliance of the Basic Education and Learning Institution Registration Requirements as per the Basic Education Act 2013.[224] Busia education authorities provided Bridge with an opportunity to apply for registration and demonstrate their compliance with the requirements. Bridge challenged the ruling, but the High Court of Kenya upheld the decision to close ten Bridge schools which were operating unlawfully (Riep, 2019).

Second, impact investors interviewed said that with respect to the domestic political economy, the growth of Bridge within six years to become a chain of 420 schools educating 126,000 pupils by 2015[225] posed a threat to the vested interests of teachers and their unions at the domestic and

[223] Bridge also attracts philanthropic funds so students can attend secondary schools in Kenya and colleges in the USA.
[224] See https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=406486. Accessed 10 Apr 2020.
[225] Despite such growth, Bridge was educating less than 5% of the enrolled primary school population by 2015 (Ministry of Education, 2019).

international levels. At the domestic level, Bridge felt that its approach of employing large numbers of unqualified teachers and training them in-house resulted in opposition from teacher unions and international NGOs: "Unions don't like them as [our schools] demonstrate that you can improve education without spending more and paying teachers better."

Teachers' unions and international NGOs publicly criticised Bridge and put pressure on the Kenyan government not to support them. The Kenya National Union of Teachers, supported by Education International (EI), the world's largest federation of unions and associations, [226] argued that Bridge schools should be closed down as they are unauthorised and illegal, the curriculum taught and the medium used are not approved by the Ministry of Education, and the teachers are unqualified (Economist, 2018).

There appear to be three underlying reasons for such opposition. One is that if the performance of Bridge highlighted that state schools delivered poorer education outcomes, it could bring attention to poor performing state schools, and, in turn, state teachers. If pressure is brought to state schools to deliver comparable education quality, this could increase levels of state teacher accountability. Teachers' unions in Kenya have traditionally resisted measuring teacher performance and greater accountability and the removal of teachers for non-attendance or professional misconduct in Kenyan state schools is rare (Baum, 2018a). A second reason is that if state teachers were held to account for the quality of education delivered, this might result in redundancies in state schools and training colleges. The third reason for teacher union opposition to Bridge is that if Bridge were able to show that a chain could educate children to the same or a higher standard of education as state schools but for a lower cost per pupil, this could create pressure on government to allocate more of its education budget to low-cost schools and partner with groups such as Bridge as a way of educating

[226] EI represents 33 million teachers and education employees in 401 national education unions in 171 countries (EI, 2016).

more children for a lower cost. As was seen in Lagos (Härmä, 2011), a teacher in a low-cost school is typically paid a third as much as a teacher in a state school.[227]

Third, this case study illustrates the importance of international political economy surrounding the policy and regulation of low-cost schools. In the Lekki case study, participants identified both the global teachers' union body, Education International (EI), and international NGOs as hostile critics of private schools in general. From the early days of Bridge, the chain has attracted opposition and criticism from these quarters (Economist, 2018). If a chain such as Bridge was seen to be successful in one country, this could herald the adoption of new ways of educating children at the expense of state teacher jobs and the teacher unions in other parts of Africa.[228]

In its desire to stop the financing and expansion of Bridge, EI and its members targeted its DFI investors to withdraw financing and not support the low-cost sector in general (NEU, 2018). EI also targeted the national government and multilateral bodies that invested in the DFIs.[229] EI and the international NGOs argued that governments should only support the state education system and the jobs of state teachers (EI, 2016). One of the most visible recipients of such attention was the IFC, which received letters from EI and its affiliates to the President of the World Bank urging it to stop its sponsorship of BIA and proposing that IFC freeze any direct or indirect investments in private for-profit K-12 schools.[230] Similarly, a complaint was lodged in April 2018 by the Kenyan civil society group East African Centre for Human Rights with the USA based Compliance Advisor Ombudsman

[227] This ratio appears to hold true in other countries such as India (Kingdon, 2007).
[228] 'PA (i)
[229] Including DFID in the UK (CDC), the World Bank (IFC) and the USA government (DFC).
[230] K-12 being the term used in the USA to describe education of children from kindergarten (one year), through primary school grades 1 to 5 (five years) plus grades 6 to 12 of secondary school (six years).

(CAO).[231] In October 2019, over 150 civil society organisations, including the UK's Oxfam, signed a letter to the World Bank condemning the use of aid to invest in private education.[232]

The main criticisms levelled at Bridge by EI and the international NGOs in these various letters and media campaigns focus on the following areas:

(i) Non-compliance with regulations

Bridge is criticised for not meeting national educational and legal requirements, including health and safety standards. As seen in the seven cities research (Chapter 4, Table 3), compliance with minimum certification requirements is a sector-wide issue, with 46% of low-cost schools falling into the uncertified category. As part of the chain's non-compliance, it is accused of employing unqualified teachers.

As seen across the seven cities, the low-cost school business model is based on the use of lower-paid, unqualified teachers, enabling low fees (Chapter 4, Table 2). Bridge has advertised its end of primary examination results for each year since 2014, showing that despite not having qualified teachers, its pupils have performed better in the state schools employing qualified teachers (BIA, 2020).

(ii) Foreign intervention

Bridge is criticised by EI and the international NGOs for representing a form of unilateral foreign intervention, with the company entering sovereign jurisdictions on its own accord and with its own agenda to advance its commercial interests (Riep, 2019). All entities backed by foreign investors can be accused of a top-down planning approach associated with power (Easterly, 2006), and adopting an approach not dissimilar to "colonialism. [There is a] need therefore for local leadership [and not]

[231] The CAO is the body tasked with resolving disputes between IFC and local communities that may be negatively impacted by projects it supports. CAO subsequently investigated the allegations See Devex article 28 Nov 2019 https://www.devex.com/news/watchdog-to-investigate-ifc-support-for-bridge-private-schools-in-kenya-95908. Accessed 30 April 2021.

[232] Oxfam, "An open letter to the World Bank and its donors", October 2019. Available at: https://oxfam.app.box.com/s/w7uwt7odsd8qqdz58llyesgg8v2mjk00. Accessed 10 April 2020.

Silicon Valley, Elon Musk arrogance. [Low-cost education is a] massive market that changes lives of kids."[233]

Investors in Bridge were of the opinion that in the early years the chain may have been arrogant which alienated domestic regulators and teachers' unions. Setting up the largest private chain of schools in the country in a short period, with investors such as Bill Gates, Mark Zuckerberg, CDC[234] and the IFC, attracted media attention and opposition from teachers' unions and INGOs (Economist, 2018). Moreover, the publication of the chain's examination results in Kenyan national newspapers and comparing them to national averages drew attention to the shortcomings of state schools and could not be expected to build good relationships with the Ministry of Education, regulators and teachers' unions. As II (ii) put it, "There are no prizes for saying government is failing."

Early investors in Bridge accept that in adopting an approach with regulators and officials that was perceived as arrogant as it looked to expand, the chain did not build understanding or a good working partnership with government. Since those days, Bridge has engaged with regulators in Kenya to rectify the situation, and it has entered PPPs with domestic governments in Liberia (Romero et al., 2020) and Nigeria.

(iii) Unaffordability for the poorest of the poor

A further criticism of Bridge is that although its fees in Nairobi are seen as low, at US$101 per annum and less than 50% of the Nairobi low-cost school average (Chapter 4, Table 2), they are inevitably beyond the affordability of the poorest households (Riep, 2019). Both low-cost and state schools face the issue of affordability given an associated cost to education that excludes the poorest of the

[233] II (ii)

[234] INGO Global Justice wrote to CDC saying it should divest from private healthcare and education projects and not be party to PPPs that enable the private sector to make profits. See https://www.globaljustice.org.uk/sites/default/files/files/resources/web_gjn_-_doing_more_harm_than_good_cdc_-_feb_2020_2.pdf Accessed 17 November 2021.

poor. Bridge has attempted to address this to a limited extent by finding bursaries for such pupils, as mentioned above.

(iv) Negative impact on the teacher quality and accountability for education quality

EI argues that Bridge undermines its efforts to confront de-professionalization and improve teacher qualifications and standards in the developing world by paying its teachers less than state teachers, making them work longer hours and retaining or firing them based on their performance (EI, 2016). This criticism highlights the issue of school and teacher accountability for education quality in the education system. Similarly, it raises the issue of what should be done with teachers who perform poorly or are guilty of unprofessional conduct. Bridge would argue that its freedom to remove poor performing staff is important to maintaining quality. This and whether the quality of teaching should be measured in education outcomes or teacher qualifications is discussed in Chapter 7.

Linked to teacher quality, EI and the international NGOs criticise Bridge saying it replaces accountability to children, parents and communities with accountability to investors and shareholders. Bridge would argue that they have accountability to both shareholders and communities, and that their accountability to impact investing shareholders is for financial performance and social performance.

Accountability of schools for these issues is important for impact investors and households. As seen in Lekki, the trust a low-cost school establishes with their community is informed by performance in end of primary school examinations. The strong accountability between households and low-cost schools, as seen in both case studies, appears to contribute to these schools performing better than the state schools. One factor is the distance of a state school from home so that parents have farther to travel to make a complaint than they would at a nearby low-cost schools.

(v) Technology and education quality

Bridge is criticised for relying on IT-based pedagogy that fails to produce better learning outcomes (Riep, 2019). Underqualified and underpaid teachers use computers, mobile devices or e-book

readers to read out scripted lesson plans to pupils. The appropriateness of such pedagogy can be evaluated through the education outcomes achieved.235 As (Härmä, 2021) comments, allowing truly fair, balanced and open assessment of learning outcomes would help to understand whether a scripted and standardised approach can truly mean "world-class education" despite teachers being minimally qualified.

(vi) Education for profit and impact investing finance

According to the DFI interviewed, most of the criticisms of Bridge made by EI and the international NGOs, are driven by an ideological approach that believes that the government should be the only educational provider. EI and the international NGOs opposing Bridge are of the opinion that entities providing education should not make a profit and that Bridge is geared towards profitability rather than accessible, quality education for all (NEU, 2018; Riep, 2019).

Investors interviewed for this case study commented that such criticisms affect the supply of impact investing finance into the sector. First, it has reduced the amount of finance available from DFIs. In 2020, when the World Bank was looking to increase its capital base by US$13 billion (of which US$5.5 billion was for the IFC), the US teaching unions pressured Congress to only support the capital increase conditional on the World Bank, and therefore the IFC, agreeing to cease investing in for-profit private schools in low-income countries.[236] The power of the US teachers' unions, supported by EI and international NGOs such as Oxfam, to influence the US Congress resulted in the withdrawal of World Bank and IFC financial support for low-cost schools.[237] This decision was a result

[235] Lipcan et al. (2016) assessed the academic performance of Bridge schools in Lagos as compared with other low-cost schools and state schools and found that Bridge schools performed better in English and comparably in Mathematics.

[236] See https://www.cgdev.org/publication/why-congress-should-authorize-ifc-capital-increase. Accessed 14 April 2022.

[237] https://www.ei-ie.org/en/detail/16511/world-bank-ombudsman-to-launch-investigation-into-ifc-funding-of-bridge-international-academies. Accessed 10 Aril 2020

of years of union and civil society campaigning against private for-profit education orchestrated by EI.[238] In March 2022, IFC divested from Bridge.[239]

Second, the presence of DFI investors can be seen as a risk mitigant by other investors.[240] This can be particularly the case where DFIs are perceived to carry out thorough due diligence and to be able to use their relationships with their own government backers to bring diplomatic pressure to bear in the event of a crisis at the investee level. When DFIs retreat from a sector such as low-cost education, this can reduce the amount of other impact investing finance available.

Third, although such private impact investors deploy their own rather than government funds, they are sensitive to adverse publicity and the reputational risks associated with any negative publicity created by EI and the international NGOs. Where the number of co-investors is reduced through the influence of powerful bodies, it constrains the supply of privately funded impact investors. In considering the pros and cons of investing in low-cost schools, "a con of impact investing is the political risk and [that there are] few co-investors.[241]

Despite such opposition from EI and other entities, some impact investors feel strongly that low-cost education should be a sector they support: "If you believe that poor people can make wise choices for themselves, low-cost schools are assets of the community and support them. Families are sending children. If we wait for government to provide it will take years. [We need to be] pragmatic - living with reality."[242]

[238] EI led the campaign in the global response to privatisation and commercialisation of education, arguing that allocating scarce funding to anything but public education is totally unacceptable (Riep, 2019).
[239] See https://www.ei-ie.org/en/item/26362:world-bank-to-exit-investment-in-for-profit-school-chain-bridge-international-academies. Accessed 13 April 2022.
[240] The author witnessed such a role being played in the case of CDC and a leasing company in Ghana, where the managing director was threatened with deportation and the company was in crisis. UK government channels were utilized to de-escalate the crisis, which in turn facilitated a restructuring of the investment and protection of all investors, both DFIs and private entities.
[241] II (ii)
[242] II (ii)

4.3 Impact investing finance and institutional voids

The institutional void that contributes to shortfall in the supply of conventional finance to low-cost schools raises the question of what role impact investing can play. For FI (i), "impact investing can fill the vacuum that has been left by conventional financial institutions to finance low-cost schools." This may be a possibility conceptually, but for small, individual low-cost schools, a similar void exists with respect to accessing impact investing finance. "It [impact investing] is not a common source of financing in Kenya as most financiers, majorly, are looking for financial gains."[243] Even domestic banks, "are not customizing a package. They take little account of school cash flows and treat as normal fast moving consumer goods businesses."[244]

One of the factors that appears to contribute to this void with respect to impact investing finance is lack of scale. Bridge attracted millions of dollars of impact investor finance, as it was able to be a point of aggregation, receiving large amounts of capital and deploying it to a chain of local schools. The impact investors interviewed typically invest a minimum of US$5 or US$10 million. Consequently, individual schools wanting US$31,000 in Nairobi (see Chapter 4, Table 7) face an institutional void similar to that faced by micro-entrepreneurs (Mair and Marti, 2009). "Impact investing into low-cost schools is difficult due to size, exit and return for schools charging below US$3,000. Individual low-cost schools are impossible despite positive social impact investment, and it is difficult to invest due to size, lack of chains, lack of points of aggregation."[245]

As seen in Lagos, this research discovers a new institution operating in Nairobi which was established by impact investors to address this institutional void and fund low-cost schools. EdPartners entered the financial sector in 2018 and draws on the model of Varthana, a low-cost school financial intermediary lending to low-cost schools in India.[246] EdPartners is a "non-bank financial institution focused on SME finance where having sector expertise is important. [Schools]

[243] FI (i)
[244] Bridge
[245] DFI
[246] Varthana attracted impact finance from DFIs and foundations.

have unique needs and the assessment of credit worthiness is different. The Varthana experience is important and now Indian banks are looking to get in the space."[247]

The impact investors in EdPartners observe with Nairobi schools, the "impact can be fantastic. [Low-cost schools are] harder businesses as margins are thin. Talent critical. A scale-able chain is possible but not easy."[248] Notwithstanding the advent of such a financial institution, the demand for finance in Nairobi is far larger than it will be able to meet in the short term (US$556 million per Chapter 4, Table 6). There still exists an institutional void with impact finance.

Another factor that may limit the supply of impact finance to the low-cost school sector is that of realising an exit from an investment. Investing in equity may succeed in aligning investors with the investee as far as exposure to currency risk is concerned, but it is "difficult to invest equity as there is no obvious exit."[249] The original business plan with which Bridge was able to attract impact investors proposed a listing of a low-cost school chain operating in several countries. This has not been realised to date; nor have dividends been paid.

The role impact investing might be able to play in addressing the institutional void in the light of such constraints is discussed in Chapter 7.

4.4 Impact investing finance and trust

In common with conventional FIs, impact investors have to establish that an investee can be entrusted with its funding. As was seen with the Lekki, impact investors perform due diligence to establish this. But as observed by FI (i), "Impact investing finance is not available due to lack of adequate information and poor technology." And from the DFI's perspective, "Trust is important to establish and addressed through due diligence."

[247] II (ii) is a US-based investor in education that has invested in Bridge and other education providers in South Africa, Ghana and Sierra Leone. It has also invested in an Indian financial intermediary financing education.
[248] II (ii)
[249] II (i)

The time and cost involved in such an activity precludes small scale investments and again reinforces the need for intermediaries or aggregators to make the link between small school enterprises and impact investors looking to deploy larger amounts of finance.

Good governance of the school can also build trust with impact investors and remove barriers to finance: "The most important barrier to finance is the inadequate governance of the school."[250] Improved school governance might also increase access to other types of finance prepared to fund this sector.

5 Access to other sources of finance

5.1 Philanthropy and blended finance

Although philanthropy does play a role at Bridge, it is modest. Critics of Bridge recognise that such philanthropic funding is not a sustainable source of finance for education (Riep, 2019). Interviewees suggested that another similar source of finance for low-cost schools could come from faith-based organizations. Such bodies could be of interest to schools as churches often have land and buildings that could be used during the week to house a school, particularly if the building and grounds are not fully utilised during the normal week.

5.2 Domestic government

Participants in this case study identified several areas in which the state could support low-cost schools, including direct subsidies. They could also support operational costs, for instance by providing electricity, to which most schools do not have access.[251] To increase the supply of finance, "the government can create an enabling environment by ensuring favourable policies, subsidies and tax incentives are given to potential investors."[252]

[250] II (i)
[251] FI (i)
[252] Ibid.

5.3 International aid

As the DFI observed, the concentration of developed country aid and policy on state education in low-income countries has seldom benefitted low-cost schools: "Education is not a priority for most DFIs. At country level it is. Private sector yes but DFIs are not really engaged at the education level. Within a global forum this is not addressed until it comes to top of the agenda of government." As seen in both case studies, this bias is perpetuated by the under-appreciation of the role low-cost schools are playing and the lack of information on the quality of education in both state and low-cost schools. There is "asymmetry of information on education quality. If [there is an] increase [in] information on education quality and if low-cost schools are delivering this, it might increase the supply of non-state education."[253]

6 Addressing barriers to finance faced by low-cost schools

6.1 Political economy—policy in education provision and certification of schools

FI (i)) posited that it would be a positive step if the state "fully recognise[d] non-state, low-cost schools… Governments must recognize the roles they play in provision of basic education by supporting them to reach out to many kids out there." Public recognition by government of low-cost schools in Nairobi would help reduce the barriers to finance faced by low-cost schools. Moreover, if the state saw such schools as social enterprises contributing to the common wealth of society, this might increase the schools' eligibility for government funds.

The asymmetry of information concerning the extent of low-cost school provision and its quality exists in Nairobi, as it does in the other research cities. The availability of such information at the school level could benefit households wanting such information and provide a basis for education quality improvement nationally. This could be "similar to the World Bank's Doing Business Report, create a dataset of learning-adjusted years of schooling measure that would facilitate understanding of education quality in different countries. There is a big [information] gap."[254]

[253] FI (iv)
[254] PA (i)

Regarding the regulations themselves," the government should be flexible; some guidelines set out to start a school are not favourable to low-cost school owners. For example, the size of the land, number of pupils, etc. … [Government should] allow them to operate without full compliance with the regulations, provided safety is not compromised."[255]

Domestic governments could also consider supporting both physical infrastructure, for example by providing free internet and commissioning state engineers to ensure that school buildings meet required standards of construction. So too with human infrastructure, where "government can come up with training programmes to educate both directors and teachers from these schools to enhance efficiency."[256]

Public private partnerships (PPP) could increase school accountability and education outcomes, as in Liberia, where in the state schools run by non-state operators such as BIA, Rising Academies and BRAC delivered improved education outcomes (Romero et al., 2020). "Bridge test scores were better over two years. [They were] criticised for having small effect and not being cost effective but pilots seldom are cost effective."[257] This could also address the international pressure from opponents of private schools with domestic government support, resulting in "less resistance to PPP than Bridge as a chain."[258]

In addition, some interviewees suggested a role could be played by Development Impact Bonds (DIBs) to increase finance to low-cost schools where a domestic government or philanthropic body is the outcomes payer. To address the political economy surrounding private schools, DIBs may be a "safer route [which is] harder for international NGOs and unions to criticise."[259]

[255] FI (i)
[256] FI (i)
[257] PA (i)
[258] Ibid.
[259] DFI

It is worth noting that the PPP in Liberia also drew criticism from EI and international NGOs such as Action Aid, opposed to such experiments by government to improve education quality through partnering with non-state education bodies to manage state schools (Hook, 2017).

6.2 Institutional voids and financial inclusion

The creation of a new intermediary such as a 'Central Bank of Education' might increase the supply of finance to the low-cost school sector. Furthermore, greater provision of conventional finance and the reduction of the risk to FIs could be encouraged if "the government participate[d] in risk-sharing guarantee schemes by shouldering part of the risks related to financing low-cost schools."[260] The need for and potential role of such a new institution is discussed in Chapter 7.

7 Conclusion

This case study confirms, in common with the other research cities (Chapter 4) and Lagos (Chapter 5), that low-cost schools operating in low-income environments in Nairobi face obstacles to obtaining certification. The minimum requirements of government regulations are difficult to satisfy. Bridge's experience reinforces the importance of taking account of the political economy around certification.

The opposition encountered by Bridge indicates the role of vested interests at the domestic level. Opponents of low-cost school chains, including teacher trade unions, are able to pressure government to hinder the expansion of such chains. Part of their motivation appears to be to remove the threat provided by a low-cost chain such as Bridge, whose success poses a threat to state teachers losing jobs and would lead to an increase in state teacher and state school accountability. An illustration of such opposition to school accountability cited in the research was the 2013 decision not to publish examination results for fear of embarrassing the government if the results were unfavourable. The need for the political will to disseminate the performance of state and other schools publicly and the potential benefits of this is discussed in Chapter 7.

[260] FI (i)

At the policy level, even when regulations are changed to be more realistic for low-cost schools, the policy changes can take many years to be introduced as seen with the introduction of the APBET guidelines, which took seven years. Moreover, even when such changes are made, the case study finds that the changes can be resisted and exploited by rent-seeking officials.

Bridge also illustrates the international political economy surrounding low-cost schools. The backing of a large and highly visible private school chain can be seen as a threat to vested interests and, in the case of Bridge, resulted in opposition from international teacher unions and international NGOs. The vested interests of such bodies look to preserve the status quo domestically and protect jobs of state teachers. International NGOs look to protect their income from aid programmes that finance state education.

The case study confirms that weak institutions lead to regulatory shortcomings, a lack of transparent quality measurement, and a situation of non-compliance of low-cost schools with minimum standards.

Finally, the Bridge case study also highlights the importance of building trust with local communities to attract sufficient pupils to make a school viable. The Lekki case study illustrated that low-cost schools can build trust with their communities—but only over a considerable period of time. Bridge adopted a very different approach in trying to build a large chain of schools in a relatively short time. The time needed to build trust with a community may help account for the under-capacity of Bridge schools compared with Lekki, which operates at full capacity and is over-subscribed.

Chapter 7. Discussion

In this chapter, key findings from the seven cities research (Chapter 4) and case studies (Chapter 5 and 6) are discussed in the light of the themes of the political economy of education, institutional voids, and trust (Chapter 2), incorporated within the conceptual framework (Chapter 3). Issues addressed include the shortfall in state education, and the role low-cost schools are playing; the financing of low-cost schools and their access (or lack of it) to conventional finance; and the shortfall in finance – along with access to non-conventional finance and other sources.

1 Shortfall in state education provision and the role of low-cost schools

There is on average a 52% shortfall in state education provision in the seven research cities, ranging from 14% in Dar es Salaam (Dar) to 86% in Kampala (Chapter 4, Table 2). The average growth rate of low-cost schools is 11%, varying from 6% in Kampala to 20% in Dar (Chapter 4, Figure 7). Low-cost schools are already the majority providers in four of the seven cities and, at historic rates of growth, will be leading in education provision in all seven cities within six years.[261] The phenomenon of low-cost schools in low-income urban contexts is well known in South Asia, as discussed by Tooley (2009), Dixon (2013), Andrabi et al. (2015) and UNESCO (2021b). This thesis reports that the low-cost school phenomenon is also prevalent in African cities. The extent of low-cost school education provision in these cities contrasts markedly with the picture presented by World Bank (2018) official figures for sub-Saharan Africa indicating a school enrolment rate of only 13.8% in non-state schools (Chapter 1, Figure 1). This thesis has already noted that official statistics exclude uncertified schools, and thus understate the role of low-cost schools at national and sub-national levels (UNESCO, 2021b). In the seven cities, 46% of low-cost schools are uncertified - and omitted from official data (Chapter 4, Table 3). This lack of information about the extent of low-cost school provision results in domestic education policy and international aid being shaped by incomplete data (Baum et al.,

[261] Own calculation.

2018a). The case studies reveal that domestic governments, INGOs, donor agencies, UN bodies and the World Bank, tend to focus their financial support on the state sector - ignoring low-cost schools.

Post-independence African governments have pursued education policies prioritising primary, but not early-years, education. In contrast, the most common type of low-cost school found in this research is a combined early-years and primary school (Chapter 4, Table 4). Excluding the outlier city, Dar es Salaam (Dar), where only 8% of low-cost schools are the combined type, the six-city average is 75%. Both case study schools presented in Chapters 5 and 6 provide early-years and primary education, and interviews indicated the importance that households place on early-years and after-school care, particularly for working mothers.

Parents in the Nairobi case study perceived the quality of state education to be poor. In the absence of publicly available information of education quality at individual school level (state and non-state), households use proxies of quality such as pupil-teacher ratios (PTRs). Low-cost schools have a better PTR than state schools (Chapter 4, Figure 10) with an average PTR of 24:1 versus a national average in state schools of 42:1. The state PTR worsens when state teacher absenteeism is taken into account, taking the revised PTR to 70:1, where teachers are absent for two days in five (Hartwig, 2013).

The trust low-cost schools have built with their communities is evidenced by their longevity - with 33% operating for more than 10 years and 50% more than five (Chapter 4, Figure 19). The case study of Lekki, which has been operating since 1993 in Lagos, illustrates how low-cost schools respond to an unmet need for education in their communities and establish trust through delivery of affordable, good quality education (Chapter 5, Section 1).

The case studies indicated that locality is important in school choice. Close physical proximity of school to residential location aids access to information on education quality and increases the accountability of schools and teachers to parents. Interviews also revealed that locality increases household perception of child safety (avoiding busy roads) and affordability when the school is

within walking distance of home (no transport costs). Where there are few or no state schools in the locality, low-cost schools are the preferred choice (Edwards et al., 2015; Whaitanji and Mutisya, 2021). Preponderance of local, young female teachers in low-cost schools may also give assurance to parents of safety from sexual violence associated with male teachers in the state schools (Parkes et al., 2016).

The Lekki case study and the DEEPEN end-line assessment reveal that low-cost schools see themselves as social enterprises, and not solely profit-making enterprises (Edoren, 2018). Keeping children in school rather than requiring non-paying households to withdraw pupils is demonstrated in the irregular cash flow of schools (Chapter 4, Figure 18). Where, as reported, schools collect on average 70% of fees, low-cost schools effectively subsidise three out of every ten places (Chapter 4, Section 4.1).

(i) Political economy of education

The above findings help identify political economy factors, institutional voids and issues of trust that contribute to the shortfall in state provision of education and the role low-cost schools are increasingly playing in education provision.

(ii) Western model of education policy

The Western model of primary education - where the state is the dominant provider and funder - is a relatively recent development (last 150 years) in high-income industrialised countries (Gradstein et al., 2005). It was this model that was inherited from the colonial powers and adopted in many African countries at independence in the 1960s (Pritchett, 2013). Aid donors have supported this inherited colonial model, which was similar to the one they practice domestically—the metropole of colonial power and aid donors being the same (Mutua, 2000). This thesis's finding that the majority of education provision, in the seven research cities, is by low-cost schools indicates that the colonial legacy, Western model of education has not delivered the outcomes expected by governments and aid donors. Instead, low-income communities have chosen low-cost schools to deliver the semi-

public good of education. The shortfall in state education is partly due to the inability of the state to finance its commitment to universal primary education in the face of growing populations, urbanisation and migration (Tooley, 2009). With limited funding and 1990s structural adjustment programmes that constrained government spending, the adoption of the Western model of education in the seven research cities was unrealistic and unsuited to local circumstances. In 2003, for example, the Kenyan government introduced free universal primary education, but with insufficient resources of teachers and schools, resulting in over-crowding and very high PTRs - so that households put children back into low-cost schools where they felt they would have a better education (Tooley et al., 2008).

Rather than a top-down, centrally planned approach to education provision (Easterly, 2006), low-cost schools demonstrate a bottom-up response to the demand for quality education in low-income communities. Such bottom of the pyramid (BOP) markets breaks with traditional ways of thinking and acting (Prahalad, 2005). Low-income communities have developed their own means of addressing a priority social need that they themselves have identified. The pursuit by post-independence African governments of universal *primary* education has been such that the state has seldom had the financial resources to fund early childhood development (ECD) (Devercelli and Bowen Day, 2020). Both case study cities revealed statistics that supported the view that, regardless of education ministry policies to the contrary, governments have left ECD to the non-state sector. In Lagos, the proportion of state teachers employed in ECD was 1% (Chapter 5, Section 2), and in Nairobi 10% (Chapter 6, Section 2.1). The finding that 65% of low-cost schools offer combined ECD and primary education supports responses from the case study interviews that ECD is a priority for households in low-income communities. Findings in Dar illustrate how the state's focus on primary provision has resulted in low-cost schools educating 93% of enrolled early-years children. In Dar, the policy priority for primary education, combined with strict enforcement of difficult to meet *primary* school certification requirements, and the regulator's strict approach to enforcement, have contributed to 83% of low-cost schools being ECD-only schools (Chapter 4, Table 3). This is in

contrast with 21% of low-cost schools being ECD-only providers in the other cities, where regulators are more accommodating.

(iii) Power asymmetry

The colonial education policies perpetuated and pursued by post-independence African governments were designed to support an elite who would buy into the colonial administration and political objectives for their own benefit (Dercon, 2022). Case study interviews indicated that low-income communities have little political power compared with domestic government officials, elites, politicians and teachers' union members, who influence policy. The vested interests of such groups look to preserve the status quo domestically and protect their own interests. State corruption at all levels means that those with power use their positions to maintain policies that are convenient to them, enabling them to extract rent and retain power (Härmä, 2021).

Case study interviews highlighted the political power state teachers have due to their often being the largest group of public employees. The threat to strike gives teachers power to influence policy and their votes enhance such power, where political parties want to win their support in elections. The Kenyan case study (Chapter 6) well illustrates the political economy surrounding low-cost schools. At the domestic level, it emerged that an internationally backed low-cost school chain operating at scale was seen as a threat to state teacher jobs and could result in increased accountability of state teachers and schools. Domestic unions opposed Bridge and demanded that education should be both state-financed and state-provided, resulting in adverse publicity for the chain. The Lagos case study revealed that where low-cost schools are part of a school association to provide a united voice and represent their collective interests, they still have far less political power than state teacher unions and officials. Only a third of low-cost schools, as of 2010, were members of a school association (Härmä, 2011b).

(iv) International aspects

Although in Kenya, the perceived potential impact of Bridge on teachers' jobs, greater accountability and reallocation of financial resources threatened teaching unions and their members at the domestic level, it also had international ramifications. Opposition arose from international teachers' unions, with Education International (EI) wishing to preserve state teacher jobs. INGOs also opposed Bridge, possibly motivated by a desire to protect their income from the aid programmes that they manage supporting state education. Such bodies opposing low-cost schools have a vested interest in maintaining the Western models of education which serve their interests, but not necessarily the interests of low-income households in Africa. Aid donors also support the colonial model of dominant state education provision and ignore the asymmetry of power between government and low-cost communities (Härmä, 2021). This reinforces and perpetuates the local elites to facilitate rent-seeking (Dercon, 2022), and this research observed that there is little incentive for those with power to change the current colonial legacy model of education and policy.

(v) The political economy of regulation

The finding that 46% of low-cost schools are uncertified is associated with weak regulators (see below) and highlights the conflict of interest arising from the state being both a provider of education and the regulator determining certification and who can enter the education sector. As with policy, newly independent African governments adopted the regulatory regimes of Western education, with its focus on inputs rather than outcomes creating barriers to entry for low-cost schools (Baum et al., 2018a). Case studies confirmed that the minimum certification requirements are difficult to satisfy, creating rent-seeking opportunities for officials, who can threaten a school with closure unless bribes are paid. As seen with Lekki, even when a school meets the requirements, it can take 18 years to obtain certification and rent-seeking is a persistent issue. This reduces levels of trust between low-cost schools and regulators, who are seen not as impartial bodies concerned for education quality but rent-extracting agencies.

Because 46% of low-cost schools are not certified, data on them is not captured in official statistics (Baum et al., 2018a). Consequently, the role they play is under-appreciated by governments and international bodies such as UNESCO and the World Bank (Härmä, 2021). This thesis found that official numbers understate the percentage of children enrolled in low-cost schools by a factor of 1.6x to 1.9x.[262] Applying this to the UNESCO (2021) figure of 19.4% non-state education provision in sub-Saharan Africa (an increase on, but not dissimilar to, the World Bank (2018) 18.3% given in Chapter 1, Figure 1) gave a revised estimate of non-state provision of between 31% to 38% at the national level. This may be an overestimate given that non-state provision appears to be higher in cities than in rural areas as seen in South Asia (Andrabi et al., 2015).

Variations between cities show how regulators apply certification requirements differently. With more accommodating regulations, Abidjan certifies 84% of schools and Accra 80% (Chapter 4, Table 2), so officials in those cities have a more comprehensive understanding of numbers of schools, numbers of children in school, teachers employed and education outcomes (as measured by exam performance). In contrast, Abuja and Dar apply requirements strictly, resulting in far more uncertified schools in both cities and restrictions on the number of low-cost primary schools in Dar. Vested interests may oppose the disclosure of accurate figures, which could raise questions concerning the allocation of the education budget to a small percentage of children in state schools. INGOs and unions can be expected to oppose reduction of funds and programmes supporting state schools, as may those benefitting from the rent-seeking that input-based regulations facilitate (Chapter 4, Figure 8).

(vi) Political economy of state funding

The low-cost schools studied in this thesis receive no funds from the state. This is consistent with the colonial legacy model that informs policy and regulation, where state schools are seen as the dominant provider and sole recipient of government finance. Power asymmetry similarly affects

[262] See Lagos Chapter 3, Section1 and Nairobi Chapter 6, Section 1.

allocation of funds, as the low-cost school sector has little influence on allocation of state resources. Responses from the seven city schools and the case studies were consistent with observations by Easterly (2006), Moyo (2010) and Dercon (2022) that corruption by domestic elites and vested interests shapes the availability of funds. State corruption at all levels reduces the funds available for education (Härmä, 2021). The constraints on state finances result in state school parents in the seven cities paying costs of approximately a third of the level of low-cost school fees (US$40) for uniforms, parent teacher association fees and examination fees. This is consistent with Edwards et al. (2019) finding in Lusaka that the cost of state schools was 38% of the low-cost school fees. Children of households unable to afford such costs are likely to be out-of-school as a result, contributing to the UNICEF (2021) sub-Saharan African figure of 20%.

2 Institutional voids

The observation by Mair and Marti (2009) that institutions fail to perform effectively in resource-constrained contexts is illustrated in the seven cities, where weak school regulators lack the resources and ability to monitor or sanction low-cost schools. Respondents in all cities reported rent-seeking by government officials. In Lagos, Lekki witnessed rent seeking activities of officials benefitting from input-based regulations. An indication of the lack of capacity is that, given the regulator's current resources and rate of inspection, it would take 200 years for all schools in Lagos to be visited.[263] In Nairobi, the case study revealed that even when regulations were changed to be more accommodating of low-cost schools (APBET, 2014), such changes can be resisted and exploited by rent-seeking officials. The data shows that weak institutions lead to regulatory shortcomings, lack of transparent quality measurement, and a situation of non-compliance by low-cost schools with minimum standards. This supports the theorical insight that institutional weakness facilitates rent-seeking and corruption (Mair and Marti, 2009).

[263] Own calculation.

The case study findings indicate that institutional voids contribute to low levels of trust and poor relationships between low-cost schools and regulators. In the Lekki case study it took 18 years to obtain a license despite satisfying all requirements, with certification being withheld until informal payments were made. The relationship between schools and regulator was not one of support and trust but extraction of rents, suspicion and hostility. Similarly with the case study in Kenya, the relationship between Bridge and several county regulators was hostile resulting in legal cases where the regulator looked to close the schools. The resulting adverse publicity appears to have impacted the reputation of the Kenyan chain and its ability to attract pupils. In a regulated sector such as education, institutional voids at regulatory level can result in low trust between regulator and schools and impact school reputation and levels of trust between parents and schools.

Both case studies found that trust between parents and schools is strengthened through provision of information on school performance in end of primary school examinations. This is in contrast with the lack of information provided on state school performance due to the institutional voids at ministry of education level. At school level, Lekki and Bridge make efforts to strengthen relationships and trust with parents by regular feedback of pupil learning. Such trust building activities are more difficult in resource constrained state schools where class sizes are larger, teachers are absent and mid-term assessments not necessarily carried out.

The accountability of low-cost schools to parents seen in the two case studies builds trust and stronger relationships between schools and households. Such accountability was seen between school principal and parents and between teachers and principal and teachers and parents. Levels of accountability was facilitated by efforts of the schools to engage with parents and proximity of school to the community. In contrast, the institutional voids in the Lagos and Nairobi ministries of education means that distant state schools are teaching children traveling from other communities so parental ability to hold school principals and teachers accountable is more difficult. Trust theory indicates that the ability to censure and punish provides a greater incentive for the provider of a service to be trustworthy (Sztompka, 1999). Low-cost schools have this incentive as parents can

withdraw children or withhold fees. Parents of pupils in state schools have no such powers and a lesser ability to hold schools and teachers to account. With no such sanctions, the state schools and teachers do not have the same incentive as low-cost schools to avoid censure and punishment.

3 Trust and education quality

The trust deficit observed between households and state schools to provide education quality is in marked contrast with the trust surplus with low-cost schools (Pritchett, 2013). In all cities households had thick trust in low-cost schools based on perceptions of education quality, teacher and school accountability, and reputation.

3.1 Asymmetry of information on education quality

The asymmetry of information as to the extent of low-cost provision extends to the quality of education in schools. Responses to case study interviews were consistent with research reporting the importance of education quality as indicated by education outcomes (Edwards, et al., 2015). No regulator in the research cities publishes end of primary examination results. Kenya published examination results for state and certified schools until 2013, when the decision was taken not to do so for fear of embarrassing the government should the results be unfavourable (Chapter 6, Section 2.4 (i)).

It is noteworthy that households appear to attach little value to whether or not schools are certified as a measure of education quality. In Accra, the requirement for teachers to be qualified appears to be of little import to households, as only 17% of the teachers meet this standard (Chapter 4, Figure 12). Similarly, in Abuja, 34% of schools are certified, but 45% of pupils attend low-cost schools (Chapter 4, Figure 8). In such cities, the regulator's role of indicating a school's suitability to deliver education quality through certification is not relied upon by households when choosing a school. In the absence of published data, households are hindered in comparing examination results and must obtain information directly from each school. Case studies confirmed that the end of primary examination results is one indicator that informs parental choice of school, builds competence trust

between school and communities and provides households with an indication of education quality. However, households rely on other proxies of education quality too, such as a low PTR. In all the cities studied, the PTR for low-cost schools is superior to the state PTR (Chapter 4, Figure 10). In both Nigeria and Kenya case studies, proxies of quality indicated that case study schools had lower PTRs than state schools.

3.2 Locality, accountability, teachers and early-years

Locality is important to households from a perspective of cost and safety of journey to school and, importantly, facilitates accountability between schools, teachers and households (Chapter 5). Both case studies underlined the importance of locality in facilitating accountability and building trust between low-cost schools and parents. These findings support the trust theory that accountability is an important element in building and maintaining trust (Dixon, 2013; Gold, 2014; Day Ashley et al., 2014).

Hartwig (2013) and the World Bank (2018) argue that teacher absenteeism in schools impacts learning outcomes, but little is done when state teachers fail to turn up for work. In low-cost schools, as seen in both case studies, accountability of teachers to turn up for work appears higher. The principal of Lekki and the managers of Bridge hold teachers to account for attendance. Accountability of low-cost school teachers to parents is increased by the finding that such teachers tend to be local and have status in the community reducing absenteeism (Härmä, 2021). This is not necessarily the case in state schools where the nearest school is not physically located in the local community and where teachers commute to the school. Higher attendance of teachers, combined with better PTRs in low-cost schools, indicates to parents that their children will receive a better education and builds competence trust (Sako, 1998).

Importantly, if early-years education bestows learning benefits that are cumulative and contribute to better educational outcomes (Devercelli and Bowen Day, 2020), low-cost schools providing combined early-years and primary education should deliver better education outcomes than state schools where children are less likely to have received early years education. Using local teachers

may also contribute to better education outcomes in low-cost schools as the smaller social distance between teacher and child improves learning (Adelabu and Rose, 2004). Low-cost teachers know their students by name, which is not necessarily the case in state schools (Härmä, 2021).

3.3 Reputation, silicolonialism and COVID-19

Lekki illustrates how low-cost schools build trust and reputation with their communities over a considerable period of time. One impact investor in Lekki commented, "High levels of trust are built up with the school owner, who is in the community. The proprietor was asked by the community to add primary classes. Adapting the offering to the community increased capacity to 200 children."[264] Responding to the community need and delivering quality education at affordable fees is consistent with the proprietor's view of the school as a social enterprise. This appears to enhance the school's reputation and the finding that Lekki operates at full capacity and is over-subscribed. The waiting list for places at Lekki operating since 1993 contrasts with the other case study of Bridge which operates at 82% of capacity and has been operating for a much shorter period - since 2009.

Bridge adopted a very different approach by building a chain of schools in a relatively short time (Kasturi-Rangan and Lee, 2010). This top-down, impact investing, technology-based approach may have underestimated the time needed to build trust with local communities. In contrast to Lekki, lack of trust may help account for the under-capacity of Bridge schools, which are 82% full. The number of schools has fallen from 420 in 2016 to 220 in 2019, when the fieldwork was performed, and subsequently to 100 in 2020 (BIA, 2020). The comparison of the Lekki case studies supports the theory that trust tends to be built up slowly with length of operation contributing to reputation (Lyon et al., 2015) and is built on the past history of relationships that demonstrate trust or distrust.

The contraction in the number of Bridge schools raises questions as to the sustainability of the Bridge model and the approach of them and their impact investors in Kenya which could be termed "silicolonialism". Silicolonialism is where entities whose founders have a Silicon Valley background

[264] II (iii)

indiscriminately apply business models and thinking formed in the Northern hemisphere USA on the assumption that these will work in Africa**.** It could be argued that there is little difference between this approach to education provision with its aspects of power and money, and the colonial legacy, Western model of education promoted by the donor agencies, INGOs and teachers' unions.

The efforts of low-cost schools during the COVID-19 pandemic appear to have positively impacted their reputation. All schools were closed during COVID-19 in Nairobi. In the case study interviews, Edpartners reported that although 3% of the schools it financed had closed down, the surviving 97% had seen enrolment increase by 25% post-pandemic. They attributed this to the effort low-cost schools and their teachers had made to educate children remotely with materials and calls, in the absence of remote learning and in-person tuition. This was in contrast to state schools, which apparently made little effort to educate their pupils post-closure. Households seeing this commitment to the education of their communities enrolled their children in low-cost schools.

4 Access to conventional finance

Low-cost schools rely on parental fees for 94% of their funding (Chapter 4, Table 5). The average school is a small enterprise employing 15 staff, educating 164 children and charging fees of US$125 per annum (Chapter 4, Table 2).[265] The low-income communities served have difficulty paying fees on time, or in full, with 54% of schools facing irregular fee payment (Chapter 4, Table 5). Consistent with the finding of Edoren (2018), schools view themselves as social enterprises, preferring children to continue their education when parents face problems paying fees and asking them to pay what they can, rather than withdrawing the child. Parents who pay in full effectively cross-subsidise other parents, with schools providing three places out of every ten free of charge, as reflected in cases where only 70% of fees are being collected.[266]

[265] This equates to approximately 7.3% of household income (Chapter 4, Table 1).
[266] Lekki faces late payment of fees but manages to collect all amounts due.

Only 15% of low-cost schools have been able to access conventional finance. This indicated a trust deficit with conventional providers of finance and resulted in a US$1.8 billion shortfall (Chapter 4, Table 7). Low-cost schools wanted to borrow an average of US$21,000 over the next three years, to fund land acquisition, building of classrooms and working capital (Chapter 4, Table 7). Responses from banks indicated that the perceived high risk of lending to low-cost schools contributed to the shortfall in the supply of finance. First, a lack of certification, as required by law, created a barrier to conventional finance (Chapter 4, Figure 14), with FI interviewees confirming they would not lend to uncertified schools (Chapters 5 and 6). This regulatory risk also applied to certified schools, as even lending to them exposed banks to changes in the rules surrounding schools. Reputational risk is a concern to banks, who do not want to attract adverse publicity in a situation where a school defaults on a loan, the bank takes action, the school closes and thus children are deprived of an education. Lekki confirmed that a bank's perception of risk was so strong that the cost of finance was too high for most low-cost schools, the term too short (less than three years) and the amount available less than needed, contributing to the shortage of supply. Institutional voids contribute to the shortfall in finance, with 44% of low-cost schools being financially excluded, as indicated by their lack of bank accounts (Chapter 4, Table 3).

Supply-side factors, such as information asymmetry, constrain the ability of banks to establish trust with low-cost schools when 26% of them do not keep separate financial records (Chapter 4, Table 3 and Figure 16). Comparisons between cities revealed that stronger school cash flow and profitability, better financial records and women ownership all increase access to finance (Chapter 4, Figure 16, Figure 17 and Figure 20). However, the extent of women ownership (41%), and longevity of schools (33% more than 10 years and 50% more than 5 years) do not appear to be known or taken into account by banks.

Demand-side factors contribute to the shortfall in the supply of finance and include the informal nature of many low-cost schools and their size. The seven cities research revealed an inability or unwillingness of low-cost schools to provide sufficient data to banks and is consistent with research

on the cash-based informality of SMEs (Yang et al., 2019). Survey responses showed that this reluctance is caused by fear of authorities and a preference to remain informal and uncertified, and to pay bribes to remain open, as noted by Baum et al (2018a). The IFC (2014) observes that size of operation constrains access to finance, in that schools want to borrow more than MFIs can lend but less than most banks prefer, resulting in SMEs being in the "missing middle". With low-cost schools, the difficulty is exacerbated by operating in a regulated sector affected by political economy issues.

4.1 The political economy of education

Case study interviews confirmed that the difficulty in obtaining certification, experienced by 46% of low-cost schools, creates a barrier to them obtaining conventional finance. This may partially account for 17% of low-cost schools having access to finance in Nairobi, compared with the national figure for SMEs of 36% (Raikundalia, 2018). The finding by Baum et al. (2018a) that stricter regulation in countries such as Tanzania and Nigeria (two of the strictest) are consistent with the findings of this research, where Dar and Abuja have the two lowest levels of certification and low levels of access to finance. FIs interviewed in both case studies indicated that they would not lend to uncertified schools. The rent-seeking of government officials reported in the seven cities, requiring bribes in exchange for not closing uncertified schools, means it is difficult to imagine how this barrier to finance could be overcome. Vested interests wish to preserve the status quo to supplement their income. Where finance is needed to satisfy regulatory requirements, such as building enough toilet blocks, schools are in a vicious circle - unable to access finance to meet the requirements because they are not certified. Even when, as with Lekki, schools satisfy all the requirements, a wait for approval of many years may result, as officials delay certification until bribes are paid.

Access to conventional finance is affected by the political economy of education funding, the absence of which limits the size of low-cost schools. If low-cost schools received state funding, this would help their cash flows through increased income, and possibly make them more attractive to banks. If, as suggested below, the state partners with low-cost schools, recognises them and funds them to absorb out-of-school children, the size of low-cost schools would increase, their cash flow

would improve and banks may be more willing to lend to finance expansion. If the observations by Beck (2013) and Quartey et al. (2017) hold true, larger school enterprises would have greater access to conventional finance.

4.2 Institutional voids

The financial exclusion of low-cost schools, with 44% not being banked, creates a barrier to financial access (Chapter 4, Figure 9). There are similarities between the exclusion of low-cost schools and the exclusion of micro-entrepreneurs, as identified by Yunus (1998). Mair et al. (2012) observed that conventional providers of finance were not prepared to lend to micro-enterprises and saw them as not being creditworthy. Both case studies indicated a similar approach by banks towards schools, with the banks are not prepared to service many of them. As Yunus (1998) argues, in the light of the growth of microfinance, the remote location of micro-entrepreneurs contributes to their financial exclusion. Low-cost schools experience a similar exclusion due to their presence in low-income, sometimes inaccessible locations where there are few bank branches, as witnessed by Hulme and Mosely (1996). Exclusion is exacerbated by the fragmentation of the low-cost school sector, with thousands of small low-cost schools wanting to borrow, which is similar to the large number of micro-entrepreneurs seeking finance to grow their businesses.

On the demand side, case study school interviews revealed that financial exclusion, and therefore the institutional void, is compounded by schools' perception that banks do not want them as customers. If they did investigate opening an account the requirements to formalise record keeping and obtain certification were unattractive. The provision of collateral required by banks, as observed by Gupta and Gregoriou (2018), also excludes schools that can seldom provide it. In the face of banks' unwillingness to service micro-enterprises, MFIs, evolving as intermediaries, have addressed the institutional void and demonstrated that micro-enterprises were creditworthy (Mair and Marti, 2009). MFIs addressed the issue of credit risk by adopting group lending models and typically lent small amounts of up to US$200 (Ledgerwood, 1999). By 2001, the average microfinance loan globally was US$886 (Microfinance Barometer, 2021), compared with the seven-city average loan sought by

schools of US$21,000 (Chapter 4, Table 7). MFIs, familiar with lending much smaller amounts to groups of borrowers, would have to change their business models to service individual low-cost schools wanting to source larger loans.

Both case studies revealed a trust deficit between low-cost schools and conventional financial institutions and, in the case of unbanked schools, an absence of relationship altogether. Thin trust with banked schools unable to get loans and non-existent trust with unbanked schools contrasts markedly with the strong trust such schools have with their communities as indicated by their longevity. The lack of certification of low-cost schools in the case study cities of Lagos (75%) and Nairobi (30%) underlines the informal nature of many such enterprises and appears to contribute to the difficulty establishing a relationship of trust with formal financial institutions. If formal banks are willing to adopt more of a microfinance approach to lending where the relationship with the customer, including understanding the nature of cash-flows, rather than collateral forms a basis of trust access to credit may increase. Were banks to attach importance to longevity of schools and the social capital low-cost schools have built with their communities perceptions of risk may fall and provision of more affordable loans result.

A finding of the Lagos case study highlighting institutional voids at the school association level suggested that greater trust and stronger relationships between low-cost schools and school associations could improve the strength of the latter and its ability to influence government policy and bank lending which might improve access to finance.

In light of the institutional void noted above, and the shortfall in finance from conventional sources, it appears there is a need for new institutions to play an intermediary role with low-cost schools. This could mirror the intermediary role MFIs played with the micro-entrepreneurs in the 1980s and 1990s. It is therefore noteworthy that this research found in both case studies the emergence of new financial intermediaries looking to fill the institutional void faced by low-cost schools. In Nigeria, Edfin is funding working capital and expansion finance needs of low-cost schools. Edpartners in

Kenya is acting in a similar way. Such new intermediaries can absorb larger amounts of funding from impact investors and deploy much smaller amounts to the schools at local level. An important characteristic of Edfin and Edpartners is that, similar to MFIs, they make local currency loans, consistent with the local currency-earning nature of the borrowing schools. As with early MFIs, both intermediaries have attracted non-conventional finance from impact investors and DFIs, which in some instances is in the form of hard currency debt. In such instances, an intermediary such as Edfin will have a hard currency obligation but receive its income and loan repayments in local currency. Any devaluation of the local currency will be borne by the intermediary, which raises the question of whether risk is being shared equitably between the hard currency finance provider and the intermediary. This thesis suggests that such currency risk should be shared - especially by impact investors and DFIs that have an impact objective.

4.3 Trust

The basis of trust by which banks are prepared to lend to small enterprises is based on collateral and financial information, with lack of information creating a challenge for banks to assess risk and provide loans (Gupta and Gregoriou, 2018). The findings on the relationship between financial record keeping and access to finance (Chapter 4, Figure 16) are consistent with findings by Beck and Cull (2014) that the risk aversion of banks increases with information asymmetry. Where schools do not keep separate financial records, as observed in 26% of low-cost schools, banks are unlikely to provide finance. Berger and Udell (1998) argue that asymmetry of information plays an important part in banks being unwilling to lend to SMEs due to a lack of awareness as to the market opportunity, and a lack of financial information regarding the enterprise's operations, cash flow and historic performance. This is the case with low-cost schools, in particular regarding historic performance. The banks interviewed said they would take years of operation into account as a risk mitigator. However, with 33% of schools being more than 10 years old and 50% more than five years old, banks are either unaware of such history, or fail to take it into account.

Asymmetry of information also appears to exist concerning the level of women ownership (41%) in low-cost schools. This is higher than the average of 24% for all SMEs in sub-Saharan Africa, and yet access to finance is lower, despite the better credit risk of female-run enterprises (IFC, 2017). As with the information asymmetry around the longevity of low-cost schools, where banks do not know that women ownership is higher than in general SMEs, they are unlikely to factor into their lending assessments that the risk is lower. This in turn can result in banks not offering loans, or if they do, mis-pricing such loans, making it too expensive for schools to take them on. Either outcome contributes to the shortfall in supply of finance to low-cost schools.

5 Access to non-conventional finance and other sources

This thesis considers non-conventional finance to include impact investing, philanthropy, development impact bonds (DIBs), Public Private Partnerships (PPPs) and blended finance. Other sources of finance that could be provided to low-cost schools include traditional sources of finance for state schools, i.e., domestic government funding and international aid (Chapter 3, Figure 6). In the seven cities, there is a paucity of non-conventional finance available to low-cost schools. Philanthropy plays a small role, with low-cost schools receiving 1.4% of their income from such sources. None of the 1,390 schools surveyed had received finance from impact investors, domestic governments or international aid bodies (Chapter 4, Table 5).

Lekki and Bridge have received impact investing finance, but interviews with providers of finance confirmed that institutional voids exist with such non-conventional finance. Contributing factors with impact investing include minimum investment size. For example, DFIs will invest a minimum of US$5 million in any deal, which is much larger than the US$21,000 of finance required by individual low-cost schools. Given such a minimum investment, impact finance needs to be invested via aggregators, such as financial intermediaries such as Edfin or Edpartners, or school chains. However, international aspects of political economy constrain the supply of non-conventional finance, as seen in the Bridge case study. Action by INGOs and international teachers' unions has resulted in the IFC

and other DFIs no longer being able to finance non-state education providers such as Bridge (Chapter 6, Section 4.2).

New financial intermediaries focused on the low-cost school sector had attracted impact finance to address the institutional void faced by low-cost schools, notably Edfin and Edpartners. The Nigerian Central Bank initiative targeting women-run businesses, MSMEDF, was instrumental in financing low-cost schools through local banks and MFIs. This funding was in local currency, concessional, for a seven-year term and in the form of returnable capital with a 2% yield.

Domestic development banks could provide non-conventional, long-term finance to low-cost schools, but their state determined mandates may prevent them from doing this. There have been no DIBs with low-cost schools in Africa but, as found in the case studies, the number of PPPs is increasing (Romero et al., 2020).

5.1 Political economy of education

National development banks could be an important provider of long-term development finance, given that commercial banks in low-income countries offer insufficient credit to SMEs (Griffiths-Jones and Ocampo, 2018). However, as with the Bank of Industry in Nigeria, the mandates of such banks often preclude them from funding primary and secondary education. This is often a legacy institution phenomenon, with the development bank pursuing policies adopted from the former colonial power. CDC in the UK, as the first DFI created after the Second World War, adopted a policy preventing it from financing education providers until the 1990s. Local development banks in Africa were initially invested in by DFIs such as CDC and adopted similar state-determined investment mandates (Griffiths-Jones and Ocampo, 2018).

5.2 International aspects

The Nairobi case study highlights how INGO opposition can hinder impact finance entering the low-cost school sector. EI, the teachers' union, and INGOs such as Action Aid and Oxfam opposed any financing from developed country governments, DFIs or impact investors in the non-state education sector. This is notwithstanding the lack of an alternative source of funding and the fact that children

from low-income communities would suffer if withdrawn. The political power of such bodies is considerable, but the danger is that they seek to impose a Western model of education onto low-income countries who cannot afford to provide it (Easterly, 2006). INGOs benefit from donor education programmes focused on the state sector, while the community-led, bottom-up low-cost schools receive no support.

5.3 Institutional voids

Both case studies identified the emergence on new financial intermediaries founded to service the low-cost school sector and address the institutional void resulting in such schools being excluded from the financial system and lacking access to credit. In both cases trust and relationship building between impact investors and intermediary and management played an important role in setting up the new financial intermediaries to address the identified void. In the case of Lagos, the local CEO had run a leading microfinance bank and invested in Edfin. In Nairobi, the local management team became part owners of Edpartners helping to align the interests of investors and management. In the lending activities of both intermediaries, the establishment of trust with borrowing schools was based on the relationship built with the principal / owner and a detailed understanding of school cash flows. Furthermore, levels of trust were strengthened through non-financial support provided by the intermediary to the school to improve financial management and school leadership.

Specialist non-bank financial institutions, with a focus on education finance, can emulate MFIs that intermediated between impact investors, with access to funds in the millions of dollars, and the micro-entrepreneurs, who borrow amounts in the hundreds of dollars. “Non-bank financial institutions may be helpful if they have a local government-linked fund to be a good lending vehicle, providing local currency finance and reducing the cost of funding.”[267] The social enterprise nature of low-cost schools is a response to a community’s education needs and tends to be at the micro level.

[267] Lekki II(iv)

Given the scale appetite of impact investors with a large minimum size of investment, low-cost schools can be expected to access such finance only through intermediaries.

Despite the emergence of such financial intermediaries, both case studies identified that an institutional void still exists with impact investing and low-cost schools. This in part can be caused by impact investors being unwilling to take on currency risk when investing in low-income countries. In the Lekki case study, this thesis considered the contributing factor of the currency in which impact investors are looking to make a return. If impact investors wish to invest in US dollar instruments but the underlying business is local currency-earning (as with low-cost schools), the cost of hedging can make the cost of finance extremely unattractive. In a Nigerian context, one interviewee commented, "Currency [issues are a cause of] slow deployment. The cost of hedging in Nigeria is high. [The] availability of US dollars is hard, limiting the ability to deliver a hedge."[268]

The institutional void will remain if impact investors insist on achieving a US dollar return in a local currency-dominated sector such as education. Conversely, investing in equity aligns investor and investee. Impact investors in EdPartners injected equity and took on the currency risk. Investors in the Bridge holding company, BIA, also took on the currency risk of underlying country operations. If impact investors look for in-country social impact but the finance provided requires a US dollar return, as is often the case with debt, such investors are exposing the investee to undue currency risk. When impact investing finance adopts this approach, it is open to the criticism of following the neo-colonial approach of aid donors (Riddell, 2008).

Provision of impact investing into low-cost education is nascent, partly because of a "lack of demonstrated opportunities for exit and liquidity from investment," and investors are "unlikely [to invest more in this sector} given the challenges in the scalability of business models and exit opportunities."[269]

[268] DFI.
[269] Lekki II(i)

(i) Trust

The comparison of the two case studies contrasts Lekki's waiting list of pupils with Bridge's schools operating under capacity. It can be argued that to be sustainable and establish trust with local communities, low-cost schools need to be run by social entrepreneurs and originate in the local community. A top-down, impact investing-financed chain of low-cost schools may find it difficult to build trust with communities and achieve capacity. The step-by-step evolution of most low-cost schools observed in the seven cities, and seen with Lekki, may be a better way of establishing trust and sustainability. Bridge, with its over-capacity and further reductions in schools from 220 to 100 since fieldwork took place, may indicate that unless low-cost education comes from the Rift Valley, rather than Silicon Valley, it is unlikely to be sustainable.

5.4 Other sources of finance

Philanthropy is criticized for its lack of sustainability, with agendas of philanthropists changing from year to year, so that recipients have little assurance of future funding. And yet child sponsorship by northern hemisphere donors, through organisations such as Plan and Care, provide billions of dollars annually. Fragmented education support is also provided by numerous UK charities to individual schools, with little co-ordination of effort or impact measurement. The Central Bank of Nigeria funding of MSMEDF, resulted in many women-run low-cost schools accessing concessional finance and shows how access to finance for low-cost schools can be increased, thereby addressing an institutional void. Wholesaling concessionary finance through local FIs to priority SMEs by a central bank has the advantage of utilising liquidity at a marginal cost of capital, as advocated by Shafik (2021), and leveraging off the banking sector to make small loans, monitor them and manage risk. As women-run businesses, not schools, were the target borrowers, no measurement of educational impact was attached to loans made. If such an initiative were to be adopted by other central banks - and attracted philanthropic or impact finance - such impact measures may be required by those investors.

The PPP in Mauritius which provided conditional cash transfers to increase early year attendance noted in Chapter 2 has not been seen in other African countries, but it provides an example of the state partnering with the private sector and funding non-state schools to deliver early-years education. The case studies highlighted the PPP in Edo State, Nigeria, whereby Bridge trains state teachers to use their tablet-based technology to educate state pupils. This PPP resulted in an audit of all state schools to determine the number of enrolled children, teachers and costs. Immediate savings were made as a result of ghost teachers being removed from the payroll and ghost schools no longer being funded. The government now receives data on attendance of teachers, the proportion of lessons completed and performance of pupils in tests. Such PPPs, Bridge would argue, increase efficiency and accountability.

6 Conclusion

Political economy factors affect the recognition given to low-cost schools by governments. Elites, state teachers' unions and government officials have a vested interest in preserving the colonial legacy Western model of education pursued by post- independence African governments. International donors and agencies have supported this Western model of education and associated policies, regulation and funding. The asymmetry of information on performance in end of primary examinations, seen in all the research countries, withholds education quality school data from households and reduces levels of teacher and school accountability for delivering learning outcomes. Weak regulatory institutions, combined with corruption and rent seeking, constrain government finances in the face of growing populations and urbanisation fuelling demand for more school places. Low-cost schools have responded to the shortfall in state provision at ECD and primary level.

There is a shortfall in the supply of finance to low-cost schools with a US$1.8 billion unmet demand (Chapter 4, Table 4). Lack of certification and institutional voids including financial exclusion contribute to this. This thesis discovers non-conventional sources of finance such as impact investing starting to play a role in funding low-cost schools directly and via new financial intermediaries –

similar to MFIs in the 1980s. Other sources of finance such as the Nigerian Central Bank's women enterprise focused fund, MSESDF, illustrate how the institutional void can be addressed in novel ways. The next chapter considers these and other sources of finance that could play a role, alongside policy and practice changes, to explore the greater role low-cost schools could play in education provision if the availability of finance was increased.

Chapter 8. Conclusion

Key questions motivated this research. First, did the discovery by Härmä (2011) that there was a 70% shortfall in the provision of education by the state in Lagos that was being met by low-cost, non-state early-years and primary schools (low-cost schools) exist in other African cities, and if so, what were the contributing factors to this phenomenon? Second, if low-cost education provision did exist, did these schools face a similar shortfall in the supply of finance experienced by Lagos schools and, if so, what factors contributed to this shortfall? Third, if these schools faced barriers to finance, how might they be addressed? The research drew in an original way on themes of the political economy of education, institutional voids, and trust, incorporated within the conceptual framework illustrated in Chapter 3, Figure 6. The seven-city research and two case studies illustrated the interplay of these themes in understanding the shortfall in state education provision in cities in sub-Saharan Africa, the role low-cost schools are playing, and the barriers they face in accessing finance.

The political economy of education affects the shortfall in state education through its impact on policy, regulation and government funding (Day Ashley et al., 2014). Domestic political economy involves the power of vested interests, such as teachers' unions and country elites, which impacts policy, regulation and the allocation of resources (Dercon, 2022). Corruption and rent-seeking by officials are aspects of political economy in sub-Saharan Africa that reduces funding available for state education (Moyo, 2010). The role low-cost schools play in this context is affected by the fact that they operate in a regulated sector and the resulting barriers to entry (Baum et al, 2018a). The approach adopted by regulators to such schools can be hostile or accommodating (Heyneman and Stern, 2014). In Lagos, where only 25% of low-cost schools are certified, the difficulties in obtaining a license impacts access to conventional finance (Rosales-Rogge et al., 2014).

Institutional voids are situations where institutional arrangements that support markets are absent, weak or fail to accomplish the role expected of them (Mair and Marti, 2009). Such voids are seen in ineffective government institutions, ineffective regulatory agencies, and regressive laws and

regulations (Chakrabarty and Bass, 2014). In a sub-Saharan African context, the weakness of post-colonial institutions was compounded in many countries by the limited capacity of government and a lack of adherence to official regulations, leading to graft and corruption (Heyneman and Stern, 2014). Institutional voids also exist in the financial sector as seen in the financial exclusion of small enterprises, such as low-cost schools, thus creating a barrier to finance similar to that faced by micro-entrepreneurs before the advent of microfinance institutions (MFIs) (Mair et al., 2012).

Trust informs household choice on where to send children to school and is itself informed by perceptions of education quality in state and non-state schools, with a trust deficit in the former contributing to households choosing the latter (Banerjee and Duflo, 2012). Hartwig (2013) identifies absenteeism of state school teachers—which is partly a product of political economy factors, where teaching unions protect non-attending state teachers—as one indicator of poor state education quality. This reduces levels of trust and accountability between parents and state schools and their teachers (Kitaev, 1999; Lipcan, 2016). Lyon and Porter (2010) point out that there is greater accountability between small enterprises and low-income communities where trust is an informal, personalized trust and relationships are an important means of reducing uncertainty. This thesis finds trust placed in small education enterprises is of a similar kind.

1 The shortfall in education provision by the state and the role of low-cost schools

The key finding that, on average, low-cost schools provide 52% provision of early-years and primary education in the seven research cities is consistent with research in South Asia, where such schools are established in response to the shortfall in state education (Sen, 2009; Banerjee and Dufflo; 2011). This is particularly the case in low-income communities, where there are few, if any, state schools (Härmä, 2021). To address this shortfall in the seven cities, low-cost schools have been growing at an average rate of 11% in the ten years to the date of the fieldwork (Chapter 4, Section 3). These small schools, with an average of 164 pupils, receive no financial support from the state and depend almost entirely on average annual fees of US$125 per child (Chapter 4, Table 2).

The lack of state schools is a phenomenon that is manifesting in a context of growing demand for education fuelled by population growth, urbanisation and migration - particularly in low-income urban communities (Tooley, 2009). Post-independence African governments adopted and pursued Western models of education with universal primary education (UPE) being the goal and the state being the expected provider (Adelabu and Rose, 2004). Policies based on this model were supported by international aid donors and INGOs, despite insufficient funding (which was depleted further by corruption) (Moyo, 2010). Governments, already constrained by low tax revenues, were hindered further from delivering UPE by structural adjustment programmes introduced in the 1980s and 1990s that resulted in a freeze on civil servant (including teacher) recruitment and levels of state education provision (Sapri, 2001).

The African government policy focus on primary education ignores early-years care which, this research found, is a key characteristic of most low-cost schools and a priority for low-income households—especially women. The case studies revealed that, in keeping with the policy focus on primary education, governments allocate a small percentage of resources to early-years education. In Lagos, only 1% of state teachers in 2018 were early-years teachers (Chapter 5, Section 2). In Nairobi in 2019, the proportion of early-years teachers was 10% (Chapter 6, Section 2.1). Low-cost schools have stepped into this gap to meet the demand from households wanting a safe place for children whilst parents and caregivers go to work (Devercelli and Bowen Day, 2020). Low-cost schools address the shortfall in state provision, particularly in early-years care, with the most common type of school (65%) being a combined early-years and primary school. The Dar es Salaam (Dar) findings provided a clear picture of this model of provision, where stricter regulations of primary education have resulted in low-cost primary provision being 14% but low-cost early-years provision being 93%. Early-years provision is an important factor contributing to the role that low-cost schools are playing in African urban centres.

The key role low-cost schools play is also a function of perceived education quality, providing households with a basis for entrusting their children to a school. This thesis does not directly assess

the quality of education in low-cost schools, but other research indicates that it is as good or better than state schools (Ashley Day, 2014; Lipcan, 2016; Grey Lobe et al., 2022). The longevity of low-cost schools indicates that parents believe the quality of education is satisfactory, and Stzompka (1999) points out that such history builds reputation and trust. Trust is based not on input-based requirements set by regulators requiring teachers to be qualified (38% of low-cost school teachers are not (Chapter 4, Table 2)) but on greater accountability of teachers to proprietors and parents, which results in teachers being present in the classroom and teaching. By contrast, absenteeism of teachers is a recognised problem in state schools (Kingdon, 2007; Hartwig, 2013; Kitaev, 2019).

This thesis supports findings in the literature that asymmetry of information on education quality is ubiquitous, with regulators not publishing school achievements in the national end of primary examinations, inspection reports or other measures of school performance (Baum et al., 2018a). Parents have to obtain such information directly from schools. Low-cost schools, being local, tend to facilitate such information gathering, whereas it is harder to obtain such information from distant state schools who may be more reluctant to part with statistics. Households use other proxies of quality such as class size (Adelabu and Rose, 2004). This thesis validates this finding with the pupil-teacher ratio (PTR) in low-cost schools being on average 24:1, compared with the state PTR of 41:1 (Chapter 4, Section 3 (ii)). The state school PTR increases to 70:1 when state teacher absenteeism of two days in five is considered (Hartwig, 2013).

Two other results from this research - the prevalence of early-years in low-cost schools and the presence of local teachers - provide grounds for why Grey-Lobe et al. (2022) in their randomised control trial research found education quality in low-cost schools to be superior to state schools. First, Marmot (2015) points out that readiness for school, and therefore early childhood development (ECD), is a predictor of school success—as recognised in Europe, where children enrolled in formal ECD achieved better education outcomes at 15 years old. If this holds true in low-income communities, where low-cost school pupils typically receive multiple years of ECD input, compared to state primary only schools where pupils do not, it can be expected that pupils in low-

cost schools will have better learning outcomes. Few researchers seem to have made this connection. Second, low-cost schools tend to employ teachers from the local community, resulting in less social distance between pupils and teachers, which Tooley (2015) argues improves learning. Local teachers may be more committed, more motivated, and more present and engaged with children, thereby improving education quality (Rolleston and Adefeso-Olateju, 2014).

Both case studies revealed that institutional voids in ministries of education contributed to the shortfall in supply of state education and asymmetry of information on education quality in all schools. Corruption and rent seeking reduced resources available to finance schools and teachers. Asymmetry of information concerning measures of educational quality in state and non-state schools contributes to a trust deficit between parents and state schools and reinforces the perception that state school education quality is poor. State teacher absenteeism and high PTRs reinforce the low trust that state schools will deliver quality education. In contrast, the thicker trust built by low-cost schools with their local communities encourages parents to choose such schools to address the consequences of institutional voids at government level impacting levels of education provision and education quality. Both case studies illustrated the importance of greater accountability of low-cost schools and their teachers to parents in delivering learning outcomes and building trust. In contrast, the institutional voids in ministries of education contribute to the lower levels of accountability and trust between parents and state schools and their teachers – encouraging parents to choose low-cost schools instead.

The Lekki case study indicated that institutional voids at the regulatory level, evident in rent-seeking activities of officials, contributed to thin trust between low-cost schools and regulators. Similarly, in the Bridge case study the poor and sometimes hostile relationship results in schools performing their role with no support from government and no sense of being in partnership to address educational needs in low-income communities.

2 The financing of low-cost schools and barriers to finance

This research finds a shortfall in finance to low-cost schools of US$1.8 billion across the seven research cities (Chapter 4, Table 7). Only 15% of low-cost schools have been able to access loans from conventional financial institutions (Chapter 4, Table 3). Lack of certification is a factor contributing to lack of access to credit, as 46% of these schools are not certified (Chapter 4, Table 2). This finding is consistent with the literature indicating unrealistic certification requirements, such as employing more expensive qualified teachers or having a playground three times the size of the school building, are difficult to meet in low-income environments (Baum, et al., 2018a). Pursuing the Western model of education, post-independence African governments adopted and perpetuated the regulatory framework and certification requirements inherited from their former colonial powers and supported by aid donors (Adelabu and Rose, 2004). Tooley (2009) argues that requiring schools to own land and have purpose-built structures is particularly onerous in low-income communities. Both in colonial and post-independence times, ownership of land has not been an issue for state schools—the state often owns the land and buildings are purpose-built. As reported by schools in the seven research cities, the colonial legacy of input-based regulations opens opportunities for rent-seeking by officials who threaten to close uncertified schools unless bribes are paid. Sen (1999) argues that such a regulatory apparatus preserves the wellbeing of the few (with power) at the expense of the many (without power).

The political economy of education regulation, with vested interests who use their power to preserve input-based certification requirements that facilitate rent-seeking, creates a barrier to finance for low-cost schools. Conventional financial institutions reported they would not lend to uncertified schools (Chapter 5, Section 6.3), a finding which validates the observation by Dercon (2022) that elites preserve such regulations to facilitate rent-seeking and personal enrichment. When reforms to certification requirements are made to be more accommodating, as seen in the Nairobi case study, resistance from civil servants can takes place (Chapter 6, Section 2.2).

Both case studies revealed a trust deficit between low-cost schools and conventional financial institutions due in part to institutional voids in the school regulatory bodies contributing to schools not being certified. Without certification, banks indicated they would be unwilling to establish a lending relationship with schools. A finding of the Lagos case study highlighting institutional voids at the school association level suggested that greater trust and stronger relationships between low-cost schools and school associations could improve the strength of the latter and its ability to influence government policy and bank lending thereby improving access to finance.

This research also revealed that there is a trust deficit between banks and low-cost schools due to perceptions of risk and asymmetry of information. Low-cost schools have lower access to finance than other SMEs in sub-Saharan Africa–15% versus 50% (Quartey et al., 2017). Beck (2013) argues that a barrier to finance is created when SMEs lack financial records, as is the case with 26% of schools in the study not keeping separate financial records (Chapter 4, Figure 16). Both case studies revealed that banks appear to be unaware of the longevity of low-cost schools (Chapter 4, Figure 19) and other risk mitigating factors, such as the 41% rate of female ownership of schools (Chapter 4, Figure 20). If such characteristics were known and taken into account, perceptions of risk might be reduced, thereby increasing available finance at a lower cost.

Other barriers to finance exist due to institutional voids, with low-cost schools excluded from the financial system. In the study it has emerged that 44% of low-cost schools have no bank account. This financial exclusion is seen in the microfinance literature, where micro-entrepreneurs were excluded from conventional financial institutions until the advent of microfinance institutions (MFIs) (Mair and Marti, 2009). This thesis discovered the emergence of financial intermediaries—Edfin in Lagos, and Edpartners in Nairobi—targeting loans to low-cost schools to address this void. If these intermediaries can expand to address the shortfall in finance and demonstrate the creditworthiness of small school enterprises, as MFIs - such as Grameen and BRAC did - with micro-entrepreneurs, additional finance may be attracted to the sector.

3 Addressing barriers to finance

Considering the shortfall in conventional finance for low-cost schools, this research investigated whether non-conventional sources of finance could address the barriers to finance. It found that unconventional finance such as impact investing is starting to play a role. The two case studies supported the literature on impact investing by identifying the dual motive of such investors of achieving financial and social returns (Nicholls, 2015). Investments in low-cost schools can fulfil this dual aim by returning capital and generating social objectives such as educating girls. The impact investors in Bridge, such as Bill Gates, enabled a large low-cost school chain to be built in Kenya (Chapter 6). Other northern hemisphere impact investors in Lekki enabled the school to expand operations in Lagos (Chapter 5).

Providers of non-conventional finance adopt a different approach to lending and investing compared with conventional FIs. Establishing a relationship of trust with the school operator and its management was important in both case studies and required the performance of on the ground due diligence. In the case of Lekki this process took 3 years. With Bridge, investors performed due diligence to satisfy themselves to invest and entrust capital to the school chain. Scale is important to impact investors and direct investing into low-cost schools such as Lekki is difficult to justify for small investments. The impact investors in Lekki saw their investment as a pilot and lesson learning exercise and concluded it was not a scalable approach given the due diligence and legal costs incurred to establish trust and the small size of investment. In contrast, the Bridge was able to attract larger investments of US$5milion plus that justified the cost of investment.

Both case studies revealed the role financial intermediaries can play in addressing the institutional void in unconventional finance due to impact investor requirement for larger deals to justify the cost of investment. Aggregating intermediaries can attract larger amounts of impact investing capital to deploy in smaller loans to low-cost schools. Such bodies address the institutional void by building trust and a relationship with their investors and then with the schools they finance. Both case studies indicated that the latter activity was informed by the social impact Edfin and Edpartners look

to achieve. This contrasts with the approach of formal FIs who appeared reluctant to invest the necessary time to establish relationships and trust with small low-cost schools.

This research contradicts Cohen (2021) and other supporters of impact investing, who argue that it can play an important role in addressing the shortfall in finance faced by social enterprises such as schools (Edoren, 2018). First, impact investing in the form of US dollar debt places the currency risk on the local enterprise. In Lekki's case, the devaluation of the Naira over the period of the loan resulted in the impact investing finance it received being as expensive as local conventional finance would have been (Chapter 5, Section 7). From a risk sharing perspective, impact investors can be challenged to accept all or part of the currency risk.

Secondly, impact investors can be guilty of "silicolonialism" – applying northern hemisphere, neo-colonial, technology-based solutions to low-income communities in a top-down approach to address social needs. When this takes place, such providers of finance are similar to the neo-colonial aid agencies and aid donors criticised by Easterly (2006), who argues that solutions need to be homegrown and emanate from the bottom up. Most low-cost schools in the literature (Tooley, 2009) and in this research are bottom-up, local, and community-based enterprises.

Third, barriers to non-conventional finance arise from institutional voids, where the minimum size of an impact investment, by DFIs for example, is far larger than what is needed by small enterprises. Financial intermediaries are required to bridge the divide, a role played by MFIs with micro-entrepreneurs.

Fourth, international aspects of political economy were also found to reduce the supply of impact investing finance, with international teaching unions and INGOs exerting pressure to prevent further investments by DFIs, such as the IFC, into non-state education (Chapter 6, Section 4.2 (vi)). The vested interests of teachers' unions, INGOs and local elites identified in preserving the Western model of education in low-income countries are active in preventing non-conventional finance going to low-cost schools.

A surprising source of finance that addresses the institutional void, found in the Lagos case study but not in the Nairobi case study, was the US$1.4 billion Micro, Small and Medium-Sized Enterprise Fund established by the Central Bank of Nigeria to increase finance to women run enterprises (CBN, 2022). This enabled low-cost women school owners to access seven-year concessionary finance (interest rates of 9% versus commercial bank rates of 30%) through banks and MFIs. Where there is political will and a social and economic rationale for providing concessionary finance, central banks are in a position to act as the CBN did. This initiative could be replicated in other countries, leading to economic growth and job creation in low-cost schools.

4 Contribution

As noted in Chapters 1 and 2, this thesis addresses the lack of literature on the extent of low-cost schools in sub-Saharan Africa and on their financing. The research makes a theoretical contribution to the understanding of the political economy of education in resource-constrained contexts and provided new insights into the political economy of education policy, regulation and funding and low-cost schools. It emphasised the particular effect that colonial legacy and Western models of education have on state provision and the regulation of low-cost schools in sub-Saharan Africa, with its associated rent-seeking and corruption by local elites and vested interests, such as teachers' unions. The thesis questions whether the Western model of education—assuming majority state provision—is appropriate in African contexts.

A theoretical contribution is made to the literature on institutional voids, particularly as it relates to small enterprises operating in a regulated environment such as education, and the role institutional voids play in hindering access to finance and the parallels between micro-entrepreneurs and low-cost schools. The discovery of new financial intermediaries looking to fill the void in Kenya and Nigeria was a further significant contribution on which there is scope for further research.

The thesis enhances understanding of proxies of educational quality which households use to establish trust, particularly where information asymmetry on education quality exists. The

importance of locality was emphasised in terms of affordability, access and teacher accountability within low-income communities. The role of reputation seen in the case studies contributes to the literature on the importance of reputation in building trust in low-income contexts, given that "there is limited research on how reputation functions in emerging markets" (Gao et al., 2017, p.2151).

The thesis makes an empirical contribution through providing data on the shortfall in state education provision and the extent of low-cost schools in urban centres in sub-Saharan Africa. The thesis provides data on how low-cost schools are financed and on the shortfall in finance to such schools in the seven cities—thereby quantifying the unmet demand for finance for the first time.

Regarding the phenomenon of low-cost schools, the inter-city comparisons highlighted factors that increase understanding of why households choose to send their children to low-cost rather than state schools. The importance of early-years education is highlighted as addressing a key need of households but also as an area not prioritised by government policy and resources. This adds to research by Marmot (2015) on the importance of ECD in later learning, within a low-income country context.

Finally, the thesis contributes to the understanding of the role non-conventional finance can play in education provision in low-income communities and adds to the impact investing literature. It draws attention to international aspects of the political economy of education and how they can impede the provision of impact finance to low-cost schools.

5 Limitations of the research and transferability

The research focused on education provision in cities and not rural areas, meaning the findings could not be applied to very different contexts. Cities researched represented approximately 20% of the population of each of their countries. Having clearly illustrated the phenomenon of low-cost schools in urban centres, this research raises the question as to the extent of this phenomenon in rural areas.

A second limitation of this research was in taking seven city data points and making comparative analysis between cities to identify factors that contributed to the shortfall in state provision and access to finance. Although the comparisons made across the seven cities could not entirely explain the differences between cities, it was very evident that differing policies on state versus private provision had been highly significant.

A third limitation was survivor bias. The 1,390 schools surveyed had managed to overcome the challenges of operating as small enterprises in resource-constrained environments. This research therefore did not explore why low-cost schools fail and what factors lead to closure.

6 Questions arising and areas of future research

Questions that arise from this research include the extent of provision of low-cost education in rural areas and whether such schools have similar barriers to finance as urban schools. Research into the extent of low-cost secondary schools and their financing would provide a more complete picture of the phenomenon and assist policymakers and finance providers.

Given the fragmented nature of the low-cost school sector, research on the opportunity to create networks to build inclusive education, franchises to communicate education quality or co-operatives with the school operators would be useful in exploring whether the advantages such schools have in their communities that stem from being small and local (Schumacher, 1974) can coexist with economies of scale arising from shared resources and greater collaboration and organisation.

Research could be conducted into the extent of both international and domestic philanthropic finance for education in Africa, and its effectiveness. This would include child sponsorship identified in this research. An exploration of combining such funding with other sources might reveal original and sustainable methods of funding education. Other sources of non-conventional finance, such as national development banks, merit further research given their ability to lend in local currency.

Edoren's (2018) observation of low-cost schools as social enterprises, supported by this study, suggests that research into the enabling environment, legal and societal, for such entities might be of value.

7 Recommendations to address the lack of access to finance faced by low-cost schools

The implications for policy and practice are to recognise that suitable incentives are needed for different actors if opposition to change from vested interests is to be overcome. Opposition from international and domestic actors, as seen in the case studies, can be expected, and for any proposals to succeed these actors would need to be incentivised to support and be involved in changes that are designed to benefit children, their learning, and wider society.

7.1 Recognition of low-cost schools

Policymakers could recognize the phenomenon of low-cost schools and acknowledge that they educate large numbers of children in low-income communities in Africa. Seeing them as partners, appreciating them as social enterprises and respecting the trust they have established with their communities could raise their visibility and status with domestic and international audiences. This requires addressing the power asymmetry between those with the power to set policy, regulations and determine funding, and the low-cost schools, and questioning the appropriateness of the colonial model of education provision and regulation adopted hitherto. Elites and those in power will need to acknowledge that a different model of educational provision is more appropriate in their countries. Reforms could be made in the three key areas of certification, information on education quality, and ECD.

7.2 Certification

Policy and regulation could be reformed if governments officially recognise all low-cost schools charging fees of below an agreed amount, so that differentiation is made between schools serving low-income communities and higher-fee schools. This would move away from the colonial legacy of input-based regulations, which are inappropriate to low-income contexts. Provisional certification

could be given, with five years provided for the uncertified schools to meet revised and realistic minimum health and safety criteria, as in Abidjan. Such criteria could be agreed with low-cost school associations, self-certified by the schools and validated by school associations, NGOs, or even a minimum number of households whose children attend a school. Such light-touch regulation would provide recognition without imposing undue workloads on existing regulatory bodies.

Provisional certification could be given to new entrants and uncertified schools so that all providers of education at ECD and primary level are recognised and data on them is captured. Government statistical functions may need expanding so that low-cost schools are regularly included in calculations of enrolment rates (Heyneman and Stern, 2014). Thus, official figures would be more complete, and policy and funding decisions would be informed by accurate data.

As seen in the Nairobi case study and in the literature, opposition can be expected from rent-seeking civil servants, state teacher unions and INGOs. As commented by a bilateral aid donor in Lagos, "political economy forces are hard to navigate." Such reforms, if achieved from within a country or organisation, are more likely to be sustainable than if introduced from without (Härmä, 2021).

7.3 Information asymmetry and education quality

Recognition of low-cost schools would enable all schools to enter pupils in the end of primary school examinations using the individual school's name. Performance of all schools should be published. Andrabi et al. (2017) demonstrated that when government policies account for a multiplicity of providers in rural villages in Pakistan, the dissemination of credible and comparable information on learning quality improves performance in the low-cost schools and simultaneously strengthens the public sector.

Full certification can be granted over time, subject to meeting minimum education quality standards, applied equally to state and non-state schools. A focus on education quality allows entry of schools that can deliver it, holds them to account and supports improvement (Edoren, 2018). If schools achieved a minimum standard of education quality, they would retain their certification, but if they

fall below the minimum standard, school action plans could be adopted with a view to improving. This would apply to all schools, including state schools, with a view to raising accountability across the education sector. Action could be taken with schools that fail to meet minimum standards such as closure, merger or transfer of management to another operator. Such transparency could facilitate low-cost schools being seen as partners in education rather than competitors or enemies. The government would be fulfilling its responsibility for all children across the system to receive a quality education. (Baum et al, 2014).

7.4 Early-years provision

Shafik (2021) argues that investment in children's early-years is one of the most cost-effective ways of producing an educated labour force that is capable of acquiring new skills, and one of the best ways to equalise opportunities for children born into disadvantaged backgrounds. As the findings of this thesis illustrated, the state has not invested in ECD but left it to the non-state sector to provide. Rather than building new ECD schools, governments could leverage the current low-cost school physical and human infrastructure and support them. If such schools expand their ECD capacity, they could absorb more children. For households unable to pay the minimum school fees, alternative funding sources described below could be approached. These include government departments such as health and finance (which have an interest in associated benefits of better child nutrition and ECD job creation), may be able to contribute to the costs.

7.5 Absorbing out-of-school children in low-cost schools

UNESCO (2021) estimates the number of out-of-school children in sub-Saharan Africa to be 20%. These children tend to be the poorest of the poor whose families cannot afford the non-tuition costs associated with state schools which, based on this research, are estimated to be 40% of the fees of low-cost schools **(**Edwards et al., 2019). If governments recognised all low-cost schools and these schools had access to finance to increase capacity, all out-of-school children in the seven cities could be absorbed by low-cost schools, without adversely affecting the quality of education provided. The PTR levels can rise from those found in this study without negatively impacting education quality, as

seen in Singapore and South Korea, which operate with higher PTRs than other countries, yet deliver excellent education outcomes, enabling them to remunerate teachers better (Whelan, 2009).

Where schools are unable to expand physically, they could adopt a double shift system, with younger children attending in the morning, older children in the afternoon, and different teachers on duty in each shift. Households should be expected to make a contribution in kind, as seen in Vietnam, where cash or in-kind payments supplement school resources (Härmä, 2021). Such a partnership underlines that the state, service providers and community all have a stake in the education of the child. This is also consistent with Smith (1776), who advocated the state and parents should share the cost of the teacher.

If this approach were adopted and all children enrolled in school, African governments would receive domestic and international recognition for solving a long-standing problem facing low-income countries. The costs of this would be far lower than if the state had to build new schools and train new teachers. Moreover, if the state paid low-cost school fees in full for out of school children absorbed, low-cost schools educate for a third of the cost of state schools so it would be cheaper on a cost per child basis, than putting those children into state schools (Tooley, 2014; Pritchett, 2015).

7.6 New institutions for education quality

Given the institutional weaknesses in regulatory bodies and the conflict of interest the state faces as regulator and provider, this thesis suggests consideration should be given to the creation of an independent institution responsible for education quality improvement. Girindre (2021) argues that real progress in learning outcomes in low-income countries can only be achieved with monitoring progress and collective accountability for improving results. A national body would aim to do this and work with all schools in the country to improve education quality over a 20-year time horizon, operate outside the electoral cycle and be held accountable for the health and improvement of the education sector. Such a role would be similar to central banks, which are concerned for the health and efficiency of the financial sector. Such a body would ensure that end of primary examination results for each school is disseminated. It may introduce other measures of education quality, such

as “education value add” using baseline data, to address the current asymmetry of information on education quality. The body would have powers to transfer management of underperforming schools, remove teachers who are sub-standard, guilty of serial absentees or implicated in misconduct, and close schools that do not deliver an agreed minimum quality of education. The goal would be to improve education quality over time and across the education sector.

This approach is consistent with Lewis and Patrinos (2012), who argue that mixed systems need outcomes (such as attendance and enrolment) as a measurement of impact to identify best practice within and between systems, inform evidence-based policymaking and support an effective regulatory environment. Such an institution could take responsibility for developing the professional knowledge and skills of teachers, focus on appropriate classroom practice and pedagogy, and expand vocational training for ECD and primary staff. Of importance to low-cost school teachers is to learn on the job and obtain an accredited qualification, enabling them to earn more and build a career (Marmot, 2015).

7.7 Increasing access to conventional finance

Official recognition of low-cost schools, even if through provisional certification, as proposed above, would reduce the regulatory risk associated with uncertified low-cost schools. The effect of improved official recognition may depend on context. How much difference this would make is debatable in light of Abidjan’s experience, where 9% of schools have access to credit but 76% of schools are certified. Certifying the other schools may have little impact on their access to finance.

If size and capacity of low-cost schools increases as out-of-school children are absorbed and more early-years children are enrolled, school income will rise. Banks may be more willing to lend to them, as improved cash flow should be able to service loans to fund increased capacity.

Based on the seven-city analysis, it would appear that addressing information asymmetries on school cash flow, profitability, longevity and ownership gender may have a greater impact on increasing access to conventional finance. Incentives are needed to persuade all schools to keep

separate financial records and provide banks with non-financial data that mitigates risk. If schools adopted such practices, banks would be provided with the necessary information upon which to assess risk and make loans. This may increase finance to schools and address the shortfall identified in this research.

To increase conventional financing to low-cost schools, the financial exclusion of these schools needs to be addressed. Official recognition and a favourable partnership with the state may assist this, reducing the fear some schools have of being formal enterprises. If becoming banked is linked to the provision of concessionary finance to increase operational scale, as seen in Lagos with the MSMEDF, schools may be attracted to becoming banked.

7.8 Financial intermediaries

If new financial intermediaries are to play a similar role to MFIs, they will need to demonstrate that low-cost schools are creditworthy before conventional banks are prepared to lend. Intermediaries such as Edfin and Edpartners will have to attract more capital. They will also need to expand and share information, as MFIs did, on portfolio quality to demonstrate the repayment ability of schools and encourage more intermediaries as well as banks to service the sector.

If intermediaries can link provision of school loans to education outcomes, they may be able to attract funding from impact investors, DFIs and philanthropic sources, as the MFIs did. Working with multiple schools, intermediaries can make bulk purchase of items, passing on the savings to schools and bringing down school operating costs, as Edfin did with mobile phone data.

7.9 Increasing access to non-conventional finance and other sources

If central banks in other countries imitated the Nigerian MSMEDF, concessional finance could be made available via local FIs to fund new or larger classrooms, materials and equipment. Such financing would increase the enrolment of low-cost schools from a current average size of 164 children (Chapter 4, Table 2), and leverage their existing physical and human infrastructure. Governments would make savings from not having to build new schools, train new teachers and

fund the ongoing costs of new state schools. Rather, this approach would allow governments to fulfil their obligation to ensure all children receive a quality education (UN, 1948). Such an approach transforms the private sector into a force for good, rather than a creator of social or environmental problems for which governments must raise revenue to try to fix (Cohen, 2021).

Given the demand for places in low-cost schools and the shortfall in finance they face, funding from impact investors, DFIs, aid agencies and philanthropy could be attracted into the new intermediaries described above and possibly into new institutions that could, with the support of government, work with the education quality institution (Section 7.6 above) to achieves its long-term goals. The restriction on development banks financing the education sector could be removed so that they could invest in both physical and human infrastructure.

8 Potential impact

The need for the private sector to play a role in achieving the SDGs is accepted by the United Nations, as set out in SDG 17 on partnerships, which states that a successful sustainable development requires partnerships between governments, the private sector and civil society (UN, 2015). It is unlikely that SDG 4, on the provision of inclusive and quality education for all, can be achieved if the 193 country governments are expected to deliver quality education to their populations unassisted (UNESCO, 2021b).

It is noteworthy that a contribution to nine SDGs can be made if countries can make progress in successfully achieving SDG 4. These include SDG 1 of poverty alleviation, as increased education increases a person's future earnings; SDG 2, where children are fed by schools their nutrition benefits; SDG 3, as schools can be conduits for better health practice and health information dissemination; SDG 5, since empowerment of women is increased if the female owned low-cost schools expand; SDG 8, as more jobs created in the education sector and increased skill levels of teachers, particularly ECD practitioners, resulting in better quality of work; SDG 10, given that inequality is addressed where girls are educated and women run businesses succeed; SDG 13, since

alleviating climate change comes indirectly from the benefits of more quality education for girls and falling fertility rates (Lutz, 2009); SDG 16, whereby education contributes to peace, justice and strong institutions; and SDG 17, through partnerships between civil society and government. This thesis has argued that the financing of low-cost schools could positively impact the achievement of SDG 4.

By working with the low-cost school sector and leveraging off the human and physical capital already on the ground, issues of equity and access could be addressed in a different way than that which has been historically promoted by the Western education model supported by INGOs, aid agencies and northern hemisphere governments. As Härmä (2021) observed in Vietnam, real progress in education provision and quality was achieved by combining state funding with parental contributions in cash or kind. In Vietnam, parents were expected to contribute 20% of the cost of educating their children but importantly held schools and teachers accountable for performance (Härmä, 2021). In a sub-Saharan African context, parents in low-cost schools are already paying for the education of their children and holding schools accountable. If governments would come alongside these parents, recognise the schools and contribute towards the cost of absorbing out-of-school children from the bottom socio-economic quintile, progress towards quality education for all could more readily be made.

9 Conclusion

The suggested changes to policy and practice made above could result in both state and low-cost schools being held to account for educating their pupils to an agreed standard, creating more teacher and support jobs, and building a more skilled teacher workforce. Opposition from vested interests wishing to preserve the status quo can be expected but, if overcome, reforms would benefit children from low-income communities and societies across Africa. This would contribute to meeting the aspiration stated by Adam Smith (1759, p. 63) identified in Chapter 1, whereby all

people possess “that great purpose of human life which we call bettering our condition” shared by African parents who want their children to have a better future.

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Appendix 1 Seven-city school survey research instrument

Seven- city school survey research instrument

Researcher number:		**Researcher name:**	
Questionnaire no.:		**Study area name:**	
Date of interview:			

A. SCHOOL IDENTIFICATION

School Name	
Proprietor Name/ *Proprietor **male / female** (enter 1 as appropriate)	**Male / _____** **Female/_____** **Not Applicable____*** ***use this option if the school is owned by a church mission or a company**
Interviewee name Interviewee should preferably be proprietor	
Interviewee position	Proprietor ____ Head Teacher/principal _____ Deputy Head Teacher/Principal _____ Other (specify): _____
Address (street & no.)	
Physical Location Description / landmarks	
Phone numbers	Proprietor_____ Interviewee _____

B. SCHOOL CHARACTERISTICS

B. 1	**Year of establishment**	
B. 2	**Ownership status** Select 1	1 Individual 2. Faith-based 3 NGO 4 Corporation 5 community 6 Partnership of Individuals 7 Other (Specify)_____
B. 3	**Does proprietor own any other schools?**	_____ number of schools additional to present one
B. 4	**Registration status** Select one If answer 1 or 2, skip to B.6	1 Registered, Ministry of Education 2 Applying for registration, Ministry of Education 3 Unregistered, no application in process

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B.5	**If unregistered with Ministry of Education why?** Select all that apply.	1	Registration too expensive	2	Process too complex
		3	Requirements impossible to fulfil	4	Land is unaffordable
		5	School is new, I haven't thought of it	6	School is new, and I plan to apply when school a bit more established
		7	No benefit to me		
				8	Other (specify):
B.6	**Are there any benefits from being registered?** Select all that apply. **All schools should answer this question, even if unregistered**	1	Better reputation	2	Charge higher fees
		3	No more harassment from government officials	4	Good to be legal/ 'above board'
		5	Access to banking services &/or loans	6	Access to information from government
		7	No benefits	8	I don't know
		9	Other (specify):		
B.7	**Are the school premises owned, rented, or what kind of title do you have?** Select 1	1	Owned	2	Long lease
		3	Short lease	4	Month-to-month
		5	Granted for free/	6	Other (specify):
B.8	**Levels served** Select all that apply.	1	Creche/ day-care	2	Nursery/ KG
		3	Primary	4	Lower secondary
		5	Upper secondary		
B.9	**What Association(s) is the school a member of?** Write the name of the association. If none, skip to B.11	1. _____ 2. _____			
B.10	**Does the association provide you with any services/benefits?** **Enumerator**: DO NOT READ OUT OPTIONS LISTED HERE Select all that apply.	1 Teacher training 2 Peer learning / (management etc) 3 Protection from government 4 Access to loans 5 Communication with Government 6 Unified exam 7 Feeling part of group 8 External assistance/ help in need 9 Access to information (govt) 10 I don't know/not sure 11 No benefits 12 Other (specify) 13. N/A			
B.11	**Year of last government inspection visit:** If known, enter year	1 _____Year (4 digits) 2 Never inspected 3 Inspected, but don't know when			
B.12	**Month of last government inspection visit:** If known, enter month	1 _____Month (2 digits) 2 Never inspected 3 Inspected, but don't know when			

B.13	**Authority of last inspection (by government)** Which authority conducted the last inspection visit? Select 1	1 Local education authority level 2 State/ district school inspection. 3 National (MoE) school inspection 4 I don't know 5 Other (specify): _____
B.14	**Do you have a school development plan that you are currently working to carry out? If so, can I please see a copy of it?** Select 1	1 Yes there is a drafted plan, soft or hard copy seen by researcher 2 Yes there is a drafted plan, but no copy could be shown 3 There is no drafted plan but there are plans to improve the school 4 There is no school development plan 5 Other (specify): _____
B.15	**Do you monitor children's learning/progress in their studies?** Select 1 If NO or no response, skip to B17	1 Yes 2 No 3 No Response
B.16	**How do you monitor their learning/ progress?** Select all that apply.	1 Checking termly examination scores and comparing them with previous results for each child 2 Monitoring children's homework and other assignments 3 Teachers continually monitor how well children are understanding in class 4 I don't know 5 No response 6 Other (specify): _____
B.17	**Is there any way for you to compare how well your students are learning compared with other schools'?** Select all that apply.	1 Yes 2 No 3 I don't know 4 No response
B.18	**If yes, how are you able to compare? Please describe.** Select all that apply.	1 Compare through quizzes/exams run with other schools 2 Gather exam papers / other school work of competing schools to compare 3 Ask parents/community members about other schools' quality 4 Talk to children from other schools, probe their learning 5 Through performance of children from other schools on our entrance test 6 Obtain tests/other assignments from other schools 7 Take part in quizzes/exams/competitions with other schools in community 7 Other (specify): _____
B.19	**Do you check how your students are doing compared to other schools, using national examinations at the end of primary / lower and/or upper secondary school?** Select all that apply	1 Yes CEPE (primary leaving exam) 2 Yes Lower Secondary Exam 3 Yes Upper Secondary Exam 4 No 5 No response 6 I don't know 8 Other (specify): _____
B.20	**Do you provide training for at least some of your teachers every year?** We mean any training that is more than just a brief orientation/ direction from the proprietor, principal or head teacher. It should be some structured training in teaching methods and/or pedagogy. Select 1	1 Yes >> B.21 2 No >> B.23 3 No response

B.21	**How often would any teacher in your school expect to receive some training?** Select all that apply	1 Yearly or more often 2 Every 2 years 3 Every 3 years 4 Every 4 or more years
B.22	**Who provides the training?** Select all that apply	1 School managers: principal, head teacher, proprietor 2 External trainers hired to provide training in school 3 Teachers attend training courses outside of school 4 I don't know 5 No response 5 Other (specify): _____
B.23	**What else do you do to make sure the quality of teaching is good in this school?**	1 Monitor teachers closely 2 Check teachers' lesson notes 3 Tell teachers to plan lessons/ use lesson notes Apply strong pressure on teachers to perform 4 Look at students' assignments and exams to know what needs to be done, and to re-focus teachers' efforts 5 Provide the teaching-learning materials teachers need to do well 6 Use motivational techniques and specific commendations of teachers – raise enthusiasm for job 7 Bonuses/ other money incentives/ bonuses in kind 8 Listen to teachers' issues and challenges 9 Conduct formal performance appraisals 10 Check teachers' skills through teacher exams 11 Provide training 12 Monitor the timing of progress through the syllabus 13 Set specific targets for teachers 14 Only hire qualified teachers 15 Actively involve parents/ school community 16 Fire/ dismiss poorly performing teachers 17 ther (specify): _____
B.24	**What would you like to do to improve the quality of teaching and learning in your school, if you could afford to?**	1 Provide pre-prepared lesson notes / lesson plans 2 Provide more teaching-learning materials teachers need to do well 3 Provide bonuses/ other money incentives/ bonuses in kind 4 Provide more training / longer training 5 Only hire qualified teachers 6 Fire/ dismiss poorly performing teachers 7 Buy computers 8 Buy books for library 9 Hire more teachers 10 Hire better teachers 11 Hire teaching assistants 12 Other (specify): _____

C. SCHOOL ENROLMENT - ALL CHILDREN IN THE SCHOOL

C.1	How many pupils are in the school this year (2017-2018)?	
C.2	How many pupils were in the school LAST year (2016-2017)?	

C.3 Pre-primary students for the current school year (2017-2018)

Grade	Creche/ day care (very young children)	Nursery/ kindergarten 1	Nursery/ kindergarten 2	Nursery/ kindergarten 3	Nursery/ kindergarten General***
Male					
Female					
Total					

*** Researcher: please note: do not use the 'general' column as a total column. Use it in schools where there is just one pre-primary/ nursery/ kindergarten class and all the children are mixed together.

Note re: questions C.4, C.5, C.7, C.9, C.10 on maximum enrolment capacity: This refers to the maximum number of children that the school can cater for, considering how many teachers the school has and how much classroom space there is.

C.4	What is your maximum capacity for creche right now?	
C.5	What is your maximum capacity for KG right now?	
C.6	What is your maximum capacity for Nursery right now?	

C.7 Primary students in the current school year (2017-2018)

Grade	Primary 1	Primary 2	Primary 3	Primary 4	Primary 5	Primary 6	Primary 7
Male							
Female							
Total							

C.8	What is your maximum capacity for primary right now?	

C.9 Secondary level students in the current school year

Grade	Senior 1	Senior 2	Senior 3	Senior 4	Senior 5	Senior 6
Male						
Female						
Total						

C.10	What is your maximum capacity for Lower Secondary right now?	
C.11	What is your maximum capacity for Upper Secondary right now?	

D. TEACHERS (and other staff)

D.1	**Number of non-teaching staff**	(Write number): _____									
D.2	**Number of teachers** (Write numbers in the boxes)	**D.2.A Regular full time (FT) teachers paid by school**		**D.2.B Other FT Teachers paid by government**		**D.2.C** Part-time teachers		**D.2.D** Volunteer teachers		**D.2.E** TOTAL teachers	
		Male:	Female:	Male	Fe-male	Male	Fe-male	Male	Fe-male	Male	Fe-male
D.3	**Of total FULL-TIME teachers (in D.2.A plus D.2.B), how many are present today (now)?**	(Write number): _____									
D.4	**How many of your teachers have taught at your school.....**	A For less than 2 years _ _____ (number) B For 2-5 years _____ (number) C For more than 5 years _____ (number)									

D.5	**Please provide the numbers of your teachers, by qualification and gender, in the table below (REGULAR FULL-TIME TEACHERS - those counted in D.2.A and D.2.B)**			
	Qualification:	**Male**	**Female**	**Total**
A	A Level Completion or lower (unqualified teachers)			
B	Degree (e.g. BA) or diploma but no teacher qualification			
C	Fully qualified teacher (according to government standards)			
	TOTAL			

D.6	**Please provide the numbers of the FULL-TIME TEACHERS by their age group and gender [Note: check that the total adds up to the total number of teachers given in D.2.E above]**			
	Age groupings:	**Male**	**Female**	**Total**
A	Aged up to 24 years			
B	Aged 25 and above			
	TOTAL			
D.7	**Please provide the numbers of the PART-TIME and/ or VOLUNTEER TEACHERS by their age group and gender [Note: check that the total adds up to the total number of teachers given in D.2.E above]**			
	Age groupings:	**Male**	**Female**	**Total**
A	Aged up to 24 years			
B	Aged 25 and above			
	TOTAL			

D.8	**Please provide the numbers of all NON-TEACHING staff by age group and gender [Note: check that this total adds up to the total number in D.1 above]**			
	Age groupings:	**Male**	**Female**	**Total**
A	Aged up to 24 years			
B	Aged 25 and above			
	TOTAL			

Enumerator please note: For the next 4 questions, be aware of who your respondent is. If you are speaking to the head teacher, ask D.9 like this 'Please sir/madam, I would like to ask what your qualification is?' If you are speaking to the proprietor, as D.11 that way instead.

D.9	**What is the qualification of the head teacher/ principal?**	1 A-level/ upper secondary or lower 2 Diploma or degree, but no teaching qualification 3 Fully qualified teacher according to govt standards
D.10	**What is the age of the head teacher/ principal?**	
D.11	**What is the qualification of the proprietor?**	1 A-level/ upper secondary or lower 2 Diploma or degree, but no teaching qualification 3 Fully qualified teacher according to govt standards
D.12	**What is the age of the proprietor?**	

D.13	**Are all classes separate with a dedicated teacher at all times?** If, for e.g., primary grades 1 & 2 are combined, then answer 'no'.	1	Yes	2	No
D.14	**Do pre-primary classes have their own teachers at all times?**	1	Yes	2	No

D.15	Are your teachers allowed to **charge their students at this school for private tuition after the main school day? i.e. fee paid direct to teacher**	1	Yes	2	No

E. CLASSROOMS AND FACILITIES

E.1	Do children have to bring their own **drinking water** to school?	1 Yes 2 No (school provides water)
E.2	How many **working toilets** are there in total?	
E.3	How many **working toilets** are there for pupils to use?	
E.4	How many **separate** classrooms are there in good enough condition to be used daily, in all weather?	
E.5	How many laboratories are there that are equipped and used for science/other relevant lessons?	
E.6	How many working / powered computers are there that are used for student lessons/learning?	
E.7	Does the proprietor/ Head Teacher/ school management have regular access to the internet?	1 Yes 2 No
E.8	Do students and other teachers have access to the internet at school?	1 Yes 2 No
E.9	Roughly what percent of students have an English textbook? This does not have to be an exact figure – an estimate is enough. Read the % groupings to the respondent.	1 0-19% 2 20% - 39% 3 40% - 59% 4 60% - 79% 4 80% - 100% 6 NR / DK
E.10	What percent of students have a Mathematics textbook? This does not have to be an exact figure – an estimate is enough. Read the % groupings to the respondent.	1 0-19% 2 20% - 39% 3 40% - 59% 4 60% - 79% 5 80% - 100% 6 NR / DK
E.11	If you have any library/ books for children to borrow, how many books are there in your school library?	1 N/A 2<100 3 100-300 4 300-500 5 >500
E.12	**Source of electric power** Is there a source of power for the school? Select all that apply.	1 Yes, mains supply 2 Yes, generator 3 Yes, solar 4 No
E.13	**Does the school require physical improvements? If so, what kind?** Select all that apply.	1 None 2 More classrooms needed 3 Renovation of classrooms 4 Renovations of other areas 5 Proper/permanent building needed 6 New facilities, such as lab, library, toilets 7 New teaching-learning materials 8 Computers 9 Other (specify): _____

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F. BANKING AND SCHOOL FINANCES

Enumerator: This section of the questionnaire deals with very sensitive and confidential information. Please remind the respondent that this information will not be shared with anyone outside of the microfinance institution.

F.1	What is your main source of funding? Select 1	1 3 5	Fee payments (parents) Church/ Mosque Other (specify):	2 4	Government Proprietor's own money
F.2	Do you have a secondary/partial source of funding? Select 1 Select all that apply	1 3 5 7 9	No, no other funding Bank/other loans Mosque Community Organization/NGO Other (specify):	2 4 6 8	Proprietor's own money or family money Church/Mission Charity Government subsidy (BY LEVEL???)
F.3	**What was the main source of the funds you used to start the school?** Select 1	1 3 5	My savings from job earnings Inheritance Loan from family/friends	2 4 6	Spouse's money/earnings Bank loan Other (specify):

Read to the respondent: <u>Now I will ask you about the fees that parents pay in order to send their children to this school</u>

F.4	Firstly, how many terms do you have per school year?	. 1. One 2. Two 3. Three						
	DESCRIPTION	WRITE AMOUNTS IN Francs						
		1er	2eme	3eme	4eme	5eme	6eme	TOTAL
F.5	Frais maternelle							
F.6	CP1-CP2							
F.7	CE1-CE2							
F.8	CM1-CM2							
F.9	6eme							
F.10	5eme							
F.11	4eme							
F.12	3eme							
F.13	2eme							
F14	1er							

F.15	Droit d'inscription (par annee) Maternelle	
F.16	Droit d'inscription (par annee) Primaire	
F.17	Droit d'inscription (par annee) Secondaire	
F.18	Frais annexes (par annee) Maternelle	

F.19	Frais annexes (par annee) Primaire	
F.20	Frais annexes (par annee) Secondaire	
F.21	Droit d'inscription et frais annexes (par annee) Maternelle	
F.22	Droit d'inscription et frais annexes (par annee) Primaire	
F.23	Droit d'inscription et frais annexes (par annee) Secondaire	
F.24	Boite de craie a l'inscription	
F.25	Papier rame a l'inscription	
F.26	Autres frais (specifies)	

	Extra costs to families (AVERAGES)/	Paid to whom?	WRITE AMOUNTS IN FRANCS					
			Daily	Weekly	Monthly	Termly	Yearly	N/A
F.27	Afternoon classes/ extra coaching	1 To school 2 Direct to teacher						
F.28	Uniform	1 To school 2 Outside school						
F.29	Textbooks	1 To school 2 Outside school						
F.30	Stationary/ note books /copy books, pens etc	1 To school 2 Outside school						
F.31	Lunch	1 to school 2 outside school						
F.32	Others (Specify	1 to school 2 outside school						
F.33	Which of these fees (coaching, uniform, textbooks etc) contributes importantly to your schools income/running costs? Select all that apply	1 coaching 2 uniform 3 Textbooks 4 Materials 5 Transportation 6 Lunch 7 Other _____ 8 I don't know / NR						
F.34	What percent of parents pay for this during the year? [programmer: make this question repeat for all options selected above]	_____enter % (estimation is ok)						

F.35	**How reliable are parents at paying fees?** Select 1	1 Regular and reliable 2 Mostly regular, sometimes late 3 Often irregular and need to be chased 4 Always irregular, extremely difficult, must chase parents 5 Other (specify):	
F.36	**What actions does the school take when fees are not paid?** Select all that apply.	1 Communication with parents to demand payment 2 Exclude child for 1 day - send home to ask for payment 3 Exclude child until payment made 4 Keep asking/ communicating 5 Accept amounts as and when parent can pay (small amounts) 6 Never exclude child/ kamwe watoto hawatengwi 7 Other (specify):	
F.37	**Do parents withdraw their children without paying balance of fees?** Select 1.	1 Yes, often happens 2 Sometimes happens	

F.38	**Are mothers or fathers better and more reliable with paying school fees?** Select 1.	1	Yes, mothers are better	2	No, fathers are better
		3	No difference	4	I don't know

F.39	**How many children currently receive around a half scholarship/ bursary with regard to the main school fee?**	_____Girls	_____ Boys
F.40	**How many children currently receive a full scholarship / bursary and don't pay any school fee?**	_____Girls	_____ Boys
F.41	**Can you estimate the percentage of fees you lose every year due to parents' non-payment of fees?**		
F.42	**How is your school doing financially? Are you making a profit? Or are you just breaking even? Or are you not making any profit/ you are in loss?**	1. Profit 2. Just breaking even 3. In loss/ not yet breaking even	

Read to the respondent: Now I would like to ask you about all of the running costs of the school, the things you have to pay for to run the school.

F.43	**How many months per year do you pay salaries?**	_____	N/A
F.44	What is the average monthly **salary for a pre-primary class teacher (teaching only pre-primary classes)?**	_____	N/A
F.45	What is the **average or middle monthly teacher salary** at this school for teaching primary classes?	_____	N/A
F.46	And what is the **lowest monthly teacher salary** at this school for teaching primary classes?	_____	N/A
F.47	What is the **highest monthly teacher salary** at this school for teaching primary classes?	_____	N/A
F.48	What is the **average or middle monthly teacher salary** at this school for teaching secondary level classes?	_____	N/A
F.49	And what is the **lowest monthly teacher salary** at this school for teaching secondary level classes?	_____	N/A
F.50	What is the **highest monthly teacher salary** at this school for teaching secondary level classes?	_____	N/A
F.51	**Read the entire question to the respondent:** **How much do you pay out every month in ALL salaries for all staff** at the school? We mean the salaries for all of your teachers combined, plus all of our non-teaching staff combined, that you have to pay them every month. **For example, if you have 7 teachers, and 3 non-teaching staff, please tell us what you pay for all 10 of these people, every month.**	_____	N/A

NOTE TO RESEARCHER: these questions require sensitivity - remind the respondent that this is a confidential survey and no one outside of a small research team will see this survey form.

		WRITE AMOUNTS IN FRANCS				
		Weekly	Monthly	Termly	Yearly	N/A
F.52	How much do you pay in **rent?**					
F.53	How much do you pay in **loan payments?**					
F.54	How much do you **pay in bills** (electricity/fuel) and other costs? This should involve all bills, except maintenance					

F.55	How much do you have to spend on **maintenance** every year?							
F.56	**Do you pay any of these fees to government?** Read the list of options to the respondent. Select all that apply.	1	Registration renewal	2	Land tax			
		3	Property tax	4	local government tax			
		5	work permits tax	6	Environment tax			
		7	Corporation tax	8	Proprietor's income tax			
		9	Value Added Tax (VAT)	10	Others (specify ALL)			
		11	None					
F.57	What is the **total** of these **government fees/taxes** (above)?	Francs_____ **1. Monthly 2. Termly 3. Yearly 4. N/A**						
F.58	How much do you pay for **teacher training services?**	Francs_____ **1. Monthly 2. Termly 3. Yearly 4. N/A**						
F.59	How much do you pay for other school development/ school improvement services?	Francs_____ 1. Monthly 2. Termly 3. Yearly 4. N/A						

This section is on the <u>BANKING SERVICES</u> used by the proprietor for the school

F.60	**Do you have a bank or microfinance bank/ institution account specifically for the school?** **NOT** any account in the proprietor's name.	1	Yes, account 1 – Bank/ Microfinance name:	2	Yes, account 2 – Bank/ Microfinance name:
		3	Yes, account 3 – Bank/ Microfinance name:	4	No, there is none If No, SKIP TO F50
F.61	**What kind of financial records do you keep in the school?** This question applies even if school has no bank account, and deals only in cash. Select 1	1	Proper records/ accounts in an accounting ledger	2	Proper records/ accounts in electronic form / on computer
		3	All incomings, outgoings, fees owed to school, salary payments owed, etc. written informally in notebook	4	Only very basic - what parents owe / what teachers are owed, written in notebook
		5	No written financial records at all	6	Other (specify):
F.62	**Is the school's cash flow kept separate from the proprietor's personal cash flow?** This question applies even if school has no bank account Select 1	1	Yes, there is clear separation	2	No, school and personal expenditure / income all mixed / kept together/
		3	Usually separate, but sometimes have to dip into one or the other to cover shortfalls	4	Other (specify):
F.63	**Have you been able to get a loan?** Select 1. **IF 2 or 3 (No), SKIP to F68**	1	Yes	2	No: applied, was declined
		3	No, never tried to get loan		IF NO (2 or 3) SKIP TO F.71
F.64	**If yes, from whom did you get a loan? Please give details of the most recent loan.** If more than one loan, select for the main loan Select 1.	1	Commercial bank	2	Microfinance bank
		3	Private money-lender	4	Family/ friend
		5	Other (specify):		
F.65	**Is this loan still ongoing? Are you still repaying this loan?**	1. Yes 2. No			
F.66	**What was the amount of money borrowed?**				
F.67	**What was the total repayment period in months?**				

F.68	**How much did you have to pay back every month?**	
F.69	**Have you been late with any of the repayments?** If yes, please give the number of late payments out of the total payments up until now.	**1. No, I have not been late** **2. Yes, _____ payments were late out of _____ total payments to date**
F.70	**What did you use the loan money for?** **Select all that apply**	1. Buy land 2. Build own building 3. Build additional rooms 4. Build toilets 5. Build a lab or library 6. Renovations/improvements to building 7. Essential maintenance 8. Buy school bus 9. Pay teacher salaries 10. Other (specify)_____
F.71	Was the loan **suitable for the purpose you wanted to borrow for?** IF yes, SKIP TO F.71	1 Yes > F.71 2 No
F.72	**If not suitable, why not?** Select all that apply	1 Term too short 2 Interest rate too high 3 Amount too small 4 Other (specify)
F.73	Did you increase your school fees after borrowing money?	1 Yes 2 No 3 No response
F.74	Do you **plan to borrow** money in the next 3 years, given the current market conditions/banking system? If answer = 1, skip to F.75	1 Yes > F.75 2 No
F.75	**If no, what would have to change to make you want to borrow? Please describe:**	

YEAR	F.75 IF You plan to borrow, for what reasons, and how much do you want to borrow?	F.76 AMOUNT
Year 1	Reason 1_____ Reason 2_____ Reason 3 _____	Yr 1:
Year 2	Reason 1_____ Reason 2_____ Reason 3 _____	Yr 2:
Year 3	Reason 1_____ Reason 2_____ Reason 3 _____	Yr 3:
	TOTAL	

Codes for 'Reason 1' 'Reason 2' 'Reason 3' above:

11. Buy land
12. Build own building
13. Build additional rooms
14. Build toilets
15. Build a lab or library
16. Renovations/improvements to building
17. Essential maintenance
18. Buy school bus
19. Pay teacher salaries
20. Other (specify)_____

F.77 **Whether or not you plan to borrow, would it be better for your school to repay a loan once a week, once every 2 weeks, or every month over 12 months or every month over 9-month school year?** 1. Weekly 2. Every 2 weeks 3. Monthly x 12 4. Monthly x 9 5. I don't know/ no response
F.78 **Would it make monthly payments easier if there were no re-payments to be made during the summer break? i.e. monthly payments October – June (9 months)?** 1. Yes 2. No 3. I don't know

F.79	If you did get a loan, how much could you afford to pay back every week/ 2 weeks/ month x 12/ month x 9?

G. COMPETITION AND SCHOOL DEVELOPMENT

G.1	**Do you feel you have to compete with other schools to attract pupils / families?** Select 1 If answer is 3, skip to G.3.	1 Yes, there are many schools close by, we compete for pupils 2 Somewhat - there are local schools, but we don't really compete 3 No, we don't have to compete with any other schools 4 I have never thought about this issue / I don't know 5 Other (specify):
G.2	**How many schools do you think directly compete with your school?**	1 _____ Number 2 don't know 3 N/A
G.3	**From which economic groups do your pupils come?** **Enumerator:** Select up to 2 responses, and you can read out options listed. Select up to 2 categories	1 Poorest of the poor 2 Poor, but not the poorest 3 Lower middle class 4 Middle class 5 Upper middle class 6 I don't know
G.4	**What percentage of your students come from the poorest of the poor?**	
G.5	**How / why do parents find your school / choose to come to your school** Select all that apply.	1 Word of mouth / reputation (Including exam results) 2 Advertising - handbills / posters in community 3 Advertising - school walls/gates/bus 4 Advertising - radio 5 Advertising - newspapers 6 Teachers incentivised to recruit within community 7 Other (specify) 8 Don't know

G.6	**Do you face challenges in developing your school?** IF ANSWER IS NO in G.5, SKIP TO SECTION H	1 Yes 2 No 3 I don't know/never thought about it

G.7	**If yes, ask what the challenges are, and then ask how severe they consider the challenge to be on a scale of 1 to 10** **Not very severe>>>>>>>>>>>>>>>>>>>>>>VERY severe** **1 2 3 4 5 6 7 8 9 10** **DO NOT READ OUT THE CHALLENGES LISTED HERE TO THE RESPONDENT** So, for example, if they say 'access to credit', ask them how severe or important is that challenge. If extremely severe, enter a 10 or a 9. If they say it is a challenge of moderate importance, enter around 5. If not very major, enter 1 or 2. Ask the respondent to assign the number value from 1 to 10. **DO NOT READ OUT THE CHALLENGES LISTED HERE TO THE RESPONDENT** .	_____ Access to loans /credit _____ Cash flow / erratic incoming (fees) _____ Parents do not pay full fees _____ Access to suitable land / site to buy _____ Access to suitable land / site to rent _____ Lack of tenure on my rented site _____ Environment problems - e.g. flooding, pollution _____ Financial management skills / capacity _____ Can't afford to hire good teachers _____ Teachers leave frequently _____ Low skill /knowledge of teachers _____ High operating costs, rent, etc. _____ Competition very difficult – many schools in this neighbourhood _____ Lack of registration status limits my ability to expand / operate openly _____ Government interference _____ Background of pupils very low/poor / history _____ Other (specify): _____
G.8	**Do you (or does the proprietor) intend to expand the school?** If answer 2 or 3, skip to G.10	1. Yes 2. No 3. Don't know
G.9	**What type of expansion do you plan/ does the proprietor plan?** Select all that apply	1. add more classes/ grade levels 2. add a pre-primary level 3. add a primary level 4. open a lower-secondary level/section 5. open an upper-secondary level/section 6. add streams of existing levels (meaning additional sections with additional teachers and classrooms for class levels such as primary 1 or primary 2) 7. not adding classes or levels but add pupils/ students to existing classes 8. open up a new school in another location 9. I don't know 10. Other (specify):
G.10	**What do you/ does the proprietor need to do to the school building/site to achieve these plans?** Select all that apply	1. build additional classrooms 2. acquire a new site/ more land and additional classrooms 3. add toilets 4. other (specify) _____ 5. no expansion/ change to building necessary
G.11	**How many additional schools (other than this one we are in right now) do you/ does the proprietor plan to open and operate in the next 5 years?**	

H OBSERVATIONS OF THE SCHOOL - NOT TO BE ASKED AS QUESTIONS

Please record your observations of the school. Give your honest impressions, and try not to allow the proprietor to see this section in case he or she is unhappy with how you perceive the school.

H.1	Are there separate classrooms or are all or some classes arranged in one large room or 2-3 large rooms/halls?	1 All separate rooms 2 1 large space/ hall 3 2-3 large spaces/ halls 4 Classrooms not seen
H.2	Whatever the classroom situation, is the pre-primary section overcrowded?	5 Not overcrowded 6 Somewhat overcrowded 7 Yes, overcrowded 8 Classes not seen
H.3	Whatever the classroom situation, is the primary section overcrowded?	1 Not overcrowded 2 Somewhat overcrowded 3 Yes, overcrowded 4 Classes not seen
H.4	Whatever the classroom situation, is the lower-secondary section overcrowded?	1 Not overcrowded 2 Somewhat overcrowded 3 Yes, overcrowded 4 Classes not seen
H.5	Whatever the classroom situation, is the upper-secondary situation overcrowded?	1 Not overcrowded 2 Somewhat overcrowded 3 Yes, overcrowded 4 Classes not seen
H.6	**What is the school site like?** Select 1	1 Suitable, no threat to health or safety 2 Neighbourhood site with some threats (environment, other businesses around) 3 Dangerous site, many threats from neighbours/rubbish/other environmental problems 4 Totally unsuitable /flooded /polluted /rubbish dump nearby /other threats
H.7	**Type of school building** Select 1	1 Purpose-built, roughly up to standard 2 Purpose-built, not up to standard/bad condition 3 Purpose-built but not of solid construction. Timber /other frame with sheeting for walls/roof - temporary structure 4 Converted building, good space, suitable for schooling 5 Converted building, not suitable for schooling 6 Space in house/apartment (residential) 7 Mixed-use building (school plus other commercial use) 8. No building at all or just partial shelter 9 Shipping container or other converted structure 10 Other (specify): ____
H.8	**Some classes outside due to insufficient all-weather rooms?**	1 Yes 2 No
H.9	**Is the school accessible for disabled children?** Select 1	1 Yes 2 Yes in some areas, not all (e.g. upstairs) 3 No
H.10	**Condition of facilities overall** Select 1	1 Well-maintained, safe 2 Semi-well-maintained 3 Badly maintained 4 Very badly maintained /unacceptable 5 Dangerous to children, totally unacceptable

H.11	**Cleanliness of facilities overall** Select 1.	1	Clean / acceptable	2	Fairly acceptable
		3	Dirty	4	Very dirty/ unhygienic
		5	Totally unacceptable/ unsafe/		
H.12	**Teaching: Did you for the most part observe teachers to be in class and working when you entered the school?** **Were there classes sitting in classrooms with no teacher?** Select 1.	1	Yes - teachers were with their classes	2	Most teachers were with their classes
		3	Some teachers were doing nothing / some classes had no teacher	4	Few teachers appeared to be working
		5	School was chaotic and very little appeared to be going on		
H.13	**Please type in your observations of the school - anything of note or that stands out.**	Write your observations...			

Appendix 2 Finance provider research instrument

Finance provider instrument

Check list interviews
Providers of finance

Ahead of the interview information sheet should be read, anonymity and confidentiality issues discussed and consent form signed.

Overall aim: To understand how fiancé providers see investing in low-cost schools with regard to expected social and financial returns. To understand the lessons learnt from their experience. To understand the role such finance can play in low-cost schools

1 BACKGROUND

a) Name of entity:
Date of interview:

b) What has been your experience in financing low-cost schools to date?

c) Areas of interest e.g. low-cost private primary schools, secondary, student loans etc

d) What are the areas of geographic focus?

e) What amount of funds are available for borrowers, term and cost of finance?

f) Does your funding utilise any of the following instruments?

- equity
- debt
- quasi equity,
- other (if so please explain)

g) Are grants provided alongside the above and if yes, for what purpose?

h) Is provision of finance to enterprises made direct or through a vehicle e.g. foundation, not for profit etc?

i) What has been your experience to date?

2 CONSTRAINTS

What do you think are currently the main obstacles and constraints that limit the provision of finance to low-cost schools running and improving their school as a sustainable business? Please prioritize from 1-8 how critical the limitations are.

Obstacles and Constraints for investing in low-cost schools	Prioritize how critical are the limitations (1-8)
Size of investment opportunities (please explain e.g. too small)	
Suitability of investment vehicle in which to invest e.g. sole trader not a company	
Legal / regulatory obstacles – please explain	

Governance of schools inadequate	
Lack of financial information	
Quality of management	
Lack of demand for finance from the APPS sector	
Exit opportunity	
Others (specify):	

3 Other sources of funding

Has the low-cost schools financed received funding from any of the following external sources:

1. Government
2. NGOs
3. Faith based organizations
4. Private, family, friends
5. Impact investors
6. Other

If yes what, when, how much and in what form e.g. grant, debt, equity etc.

4 Return on investment

What is your perception of the risk associated with the sector?

On average, how much was provided, for what period and on what terms?

Was grant funding provided and if so for what purpose?

What non-financial support was provided / promised by the funder?

What financial return are you looking for?

What social return are you looking for?

How will measurement and evaluation of social returns be performed and by whom (investee, third party, investor, other)?

For funding that was invested return what financial return was achieved / is expected to be made.

What non-financial contribution did the funder make?

If there were no constraints, what non-financial contribution could you the funder have contributed but didn't (potential contribution)?

What were the obstacles preventing the potential contribution being made?

Given the constraints what contribution can impact investing play in funding low-cost schools?

Wat role could government lay to create a more enabling environment?

5 Regulation

What role does the education regulator play in the facilitating financing of low-cost schools?

6 Lessons

What lessons did you learn through this financing experience / provision of funding to low cot schools?

7 Outlook

What form do you think impact investing and affordable education will take in the future?

What other forms of finance are suitable for financing low-cost schools?

What can be done to finance no income as opposed to low-income children wanting an education?

What can the government do / what policies could be adopted to encourage more financing of low-cost schools? Is the government likely to make such changes?

What can the government do / what policies could be adopted to encourage greater provision of finance to low-cost schools? Is the government likely to make such changes?

What problems still need to be addressed / overcome?