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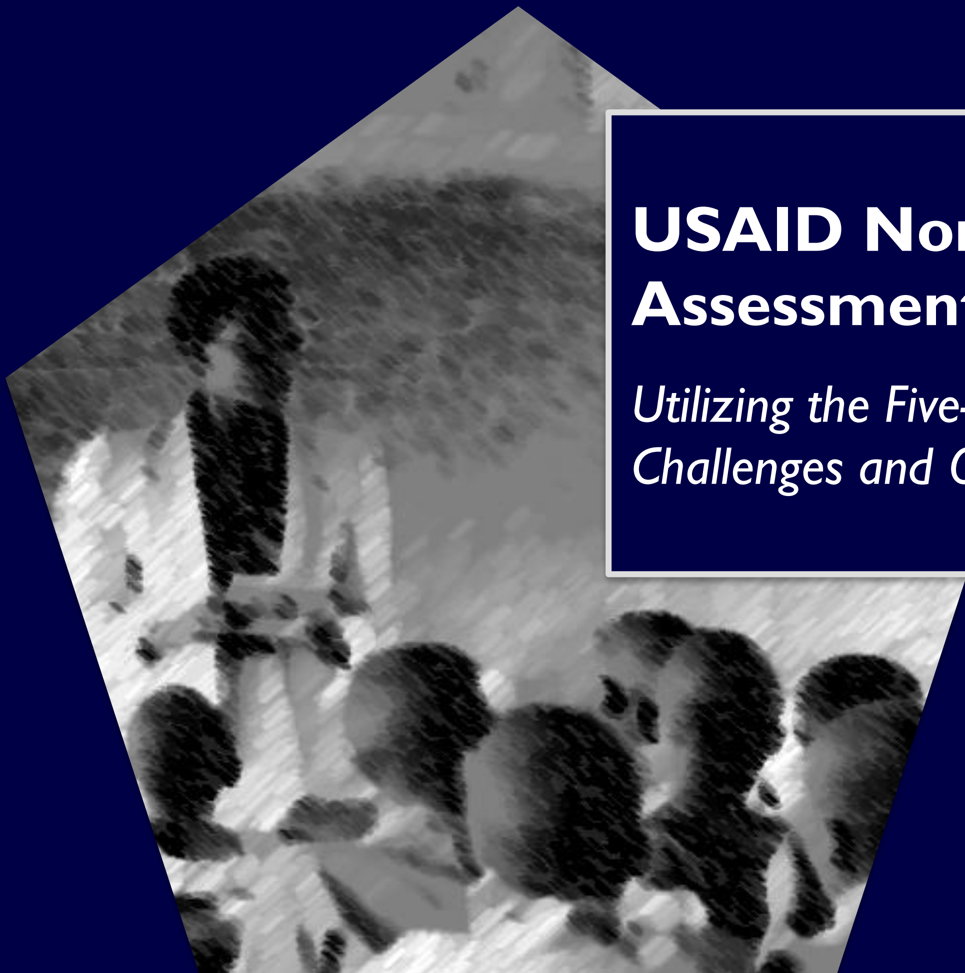

USAID Non-State Education Finance Market Assessment How-To Guide

Utilizing the Five-Point Framework to Assess Non-State Education Challenges and Opportunities

GET STARTED

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THIS DOCUMENT

This Guide was developed under USAID CATALYZE EduFinance (2019-2027), implemented by Palladium. CATALYZE EduFinance develops private sector partnerships to facilitate innovations in financing and service delivery that increase access to low-cost, quality education. CATALYZE EduFinance uses a blended finance approach — the strategic use of USAID funds and private capital — to improve and sustain learning outcomes for vulnerable children and young people across sub-Saharan Africa, Latin America, and the Caribbean (LAC). Collectively, CATALYZE EduFinance, through its locally-led implementing partners, tests creative blended finance solutions across different education sectors, models of intervention, and country contexts to address the substantial global funding gap in education.

The development of the USAID Non-State Education Finance Market Assessment How-to Guide was a collaborative endeavor. This guide was based on the Mobilizing Private Finance for Development (MF4D) guide developed by USAID (Lawrence Camp, Autumn Gorman, and Caroline Smith) and Deloitte (Steve Watkins). In this document, the MF4D Framework was tailored to fit the nuances of the education finance sector in particular. This involved numerous USAID Washington offices and USAID Missions and included the CATALYZE EduFinance team at Palladium: Joe Di Silvio, Ashraf Hammad, and Alexander Read. The Guide was reviewed by Suezan Lee, Andrew Meaux, Lawrence Camp, Anne Laesecke, Dagmawit Tessema, and Autumn Gorman from USAID. Additional contributions were made by Daniel Waistell and Renee Perez from Cambridge Education.

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I. INTRODUCTION

GLOBAL EDUCATION LANDSCAPE

The global education sector currently faces several significant and interrelated challenges. Over 263 million children are out of school worldwide. Low- and middle-income countries face a substantial annual financing gap amounting to nearly $100 billion.[i] Crises and conflicts have placed additional burdens on education systems. The COVID-19 pandemic, in particular, resulted in the closure of schools in over 190 countries, affecting the education of nearly 1.6 billion children and young people.[ii] Approximately 40 percent of low- and lower-middle-income countries reduced their education budgets in 2020, with an average reduction of 13.5percent.[iii] Despite a slight rebound in 2021, education spending declined again in 2022, falling below pre-pandemic levels.[iv] In the same year, the learning poverty rate increased to 70 percent in low- and middle-income countries.[v] Meanwhile, non-state sector enrollment grew, particularly in Sub-Saharan Africa and South Asia, rising from 260 million in 2015 to 291 million in 2020 and expected to reach 347 million in 2025.[vi] Additionally, households are estimated to contribute 32 percent of education investment in low- and middle-income countries.[vii]

The Role of Education Finance

Education finance plays a critical role in addressing the funding gap in global education by increasing investment and supplementing governmental funding from both public and private sectors. The ultimate objective is not only to increase financing for education but also to increase the efficiency and effectiveness of financing for more accessible, equitable, and quality education systems.

Education finance encompasses the allocation, utilization, and accountability of monetary and in-kind resources for education throughout the full student lifecycle. It serves as a key determinant of the sustainability of education systems, driving educational outcomes over time. Domestic financing and optimizing resource utilization sustain long-term viability of education systems. Education finance promotes equity and inclusion within education systems by enabling all children and youth, particularly those from marginalized communities and in crisis- and conflict-affected contexts, to access quality education. This holds especially crucial for girls and students with disabilities, who are often disproportionately affected by inadequate education systems.

Visit USAID's Education Finance page for more information and resources on mobilizing an effective education impact using public and private resources.

Private finance increasingly plays a critical role, especially in contexts where public resources are insufficient to meet the high demands on the education system. Private funding helps fill the gap left by public funding, bringing additional resources that can drive innovation, higher service quality, and expanded access. Specifically, private finance mobilizes funds to support affordable and accessible non-state education services.

Non-state education interventions have both financial and educational outcomes, which are critical to assess. Non-state schools play a key role in supporting strained state education systems in low- and middle-income countries. As investors and direct service providers, non-state schools alleviate supply constraints and, employing affordable models, offer education services to marginalized and low-income families. To understand how education finance can be most impactful, it's essential to examine how these different dimensions interact.

WHO IS THIS GUIDE FOR?

This guide assists anyone who wants to conduct a market assessment of non-state education. It outlines the process for conducting a non-state education market assessment using the Five-Point Framework for Education Finance, adapted from the USAID Mobilizing Finance for Development course.

By using this Framework to conduct a non-state education finance market assessment, users can understand the market system and provide options for mobilizing private finance. Assessment objectives may vary from gaining a broad understanding of the landscape, its characteristics and potential opportunities, to identifying the best opportunities for particular investment sizes and goals. Annex 2 includes examples of the assessment applied in different contexts with distinct objectives.

Individuals or teams with skills in finance, market analysis, education systems and education quality will maximize the value of this framework. This guide, and the assessment it outlines are not appropriate to other education sector or system diagnostics that do not relate to market assessments or private finance. Other tools that may be more appropriate to your needs are listed in the USAID "How-To Guide" on Contextual Analysis for Education Activity Design.

CONTENTS OF THE GUIDE

This guide is organized into the following sections:

Framework Overview: This section outlines the five elements within the Framework and offers an overview of the potential areas for intervention.

Assessment Process: This section provides an overall workflow for the process of conducting an assessment, which leads into the detail of the next three sections.

> Phase 1 – Define the Objective: This section provides guidance to identify the development challenge, determine the applicability of the Five-Point Framework, and adapt the assessment to the specific context and needs.
>
> Phase 2 – Conduct the Assessment: This section outlines the various steps needed to conduct the assessment and includes a full list of guiding questions.
>
> Phase 3 – Analyze the Results and Make Recommendations: This section provides guidance on how to analyze data and identify potential next steps.

Glossary: This section defines key terms used in the document.

Annex 1: This section outlines the CATALYZE EduFinance Theory of Change.

Annex 2: This section outlines three use cases of the Five-Point Framework market assessment.

Annex 3: An attached file (Excel) serving as a Level 1 Market Assessment Diagnostic Tool

2. FRAMEWORK OVERVIEW

BACKGROUND

The Five-Point Framework for Education Finance adopts the USAID Mobilizing Private Finance for Development guide. Originally developed as a tool to assess the constraints and opportunities for mobilizing financing in developing countries, the guide outlines a range of potential interventions to mitigate risks and capture opportunities.

While the Framework's general structure applies across sectors, it requires adaptations to address the unique nuances of the education finance sector. Education, with its public good elements and focus on both financing and educational outcomes, necessitates a sector-specific framework that considers a broad range of stakeholders and factors.

PURPOSE

This guide helps teams conduct a non-state education finance market assessment. The guide can help advance three common purposes:

1. An initial market assessment of the non-state sector in a country to understand the sector generally and identify potential areas of intervention.
2. A targeted market assessment to answer particular questions and generate a list of specific potential areas of intervention.
3. A targeted market assessment looking at a particular sub-system, such as TVET or ECCE.

This guide should not be seen as a rigid framework requiring compliance. Rather, when put into practice, relevant questions and focus areas within each of the five points should be selected based on the geopolitical context, target population, level of education supported, and other contextual factors. Different contexts will require adaptations to the questions and approach and lessons learned during implementation may necessitate revisiting the technical guidance.

While this guide focuses on non-state basic primary and secondary education, the Framework can also support landscape and market assessment of Early Childhood Care and Education (ECCE) provision, Technical and Vocational Education and Training (TVET) provision or other sub-categories. While some questions may need to be adapted or added, much of the framework remains applicable.

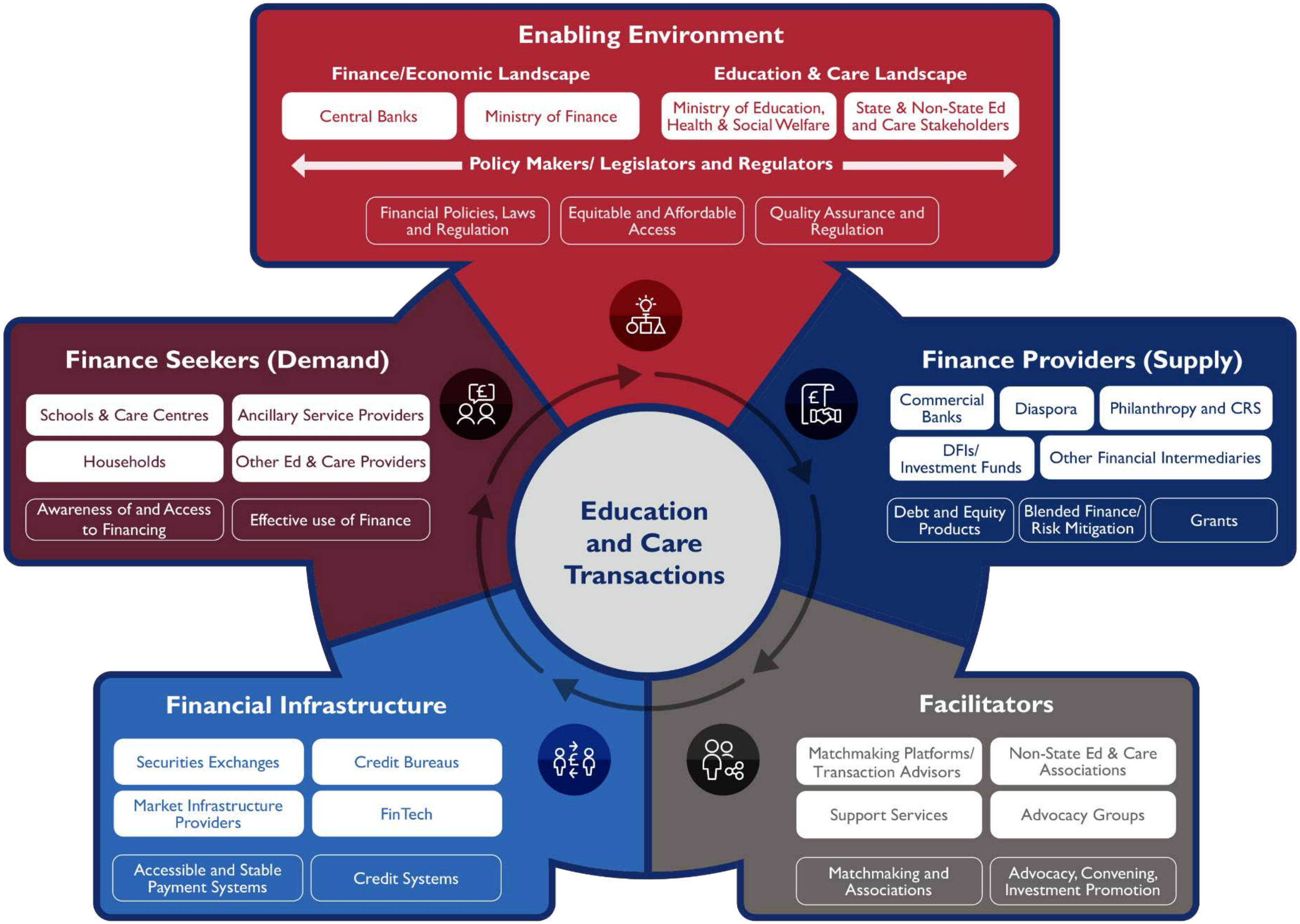
Examples of how the Framework has been used in each of these situations are outlined in Annex 2.

INTRODUCTION TO THE FRAMEWORK

This section provides an overview of each of the five categories within the Framework and identifies potential areas for intervention within each category. This overview aims to develop an understanding of the nuances and complexities within each category before starting an assessment. Later in this guide, guiding questions are outlined to support the assessment process. These guiding questions align with each of the five categories and are organized by sub-categories to create a flow between the high-level framework and the application of the assessment.

Figure 1 depicts the five points of the ecosystem of education finance: the enabling environment, financial infrastructure, and facilitators provide the conditions for finance providers and seekers to connect. Each of these elements involve a variety of key actors, with examples depicted as boxes in the diagram. Each element also highlights potential areas for interventions, depicted as circles, which are explained in more detail later in the document.

Figure 1. Five-Point Framework for Education Finance



Point 1: Enabling Environment

Enabling conditions impact the financial market and the broader education ecosystem, influencing all non-state education activities and related financial transactions. Key elements that create an enabling environment for finance include market regulation and oversight; property rights and the rule of law; economic stability; and conducive fiscal policy, amongst other factors. For education, the enabling environment includes the overall structure of the education system; the education policy environment; political debates surrounding non-state schools; regulation of non-state schools; and USAID Mission priorities related to non-state education, amongst many other factors.

Financial Policies, Laws and Regulation	Equitable and Affordable Access	Quality Assurance and Regulation

Quality Assurance and Regulation

Quality assurance and regulation encompass the entire educational infrastructure, including safety measures, school leadership, management, and the provision of quality teaching and learning materials. Licensing and accreditation of non-state schools are crucial components, ensuring that education providers meet required education standards. Continuous professional development is another integral aspect in directly impacting the quality of education delivered. Engaging with all key stakeholders – parents, students, and the community – helps to understand education needs and refine quality measures. Collectively, these mechanisms protect the investments of families and finance providers while enhancing the sector's credibility and attracting greater investment.

Equitable and Affordable Access

Improving equity and affordable access in education are challenging goals, requiring multifaceted solutions tailored to local contexts. These improvements can produce dividends that benefit the individual and community levels, leading to broader societal advancements. Equitable access in education finance involves implementing policies, allocating targeted resources, and engaging with communities to ensure all children have the opportunity to participate in quality education. Ensuring affordable access includes removing barriers and improving solutions to prevent education costs from deterring enrollment. Both access and affordability can expand the potential market for education and finance providers.

Financial Policies, Laws, and Regulation

A stable financial sector enables finance providers to maintain consistent financing flows to families and education providers. The existence of well-crafted policies and laws create clear regulatory frameworks that govern the functioning of education providers and financial transactions. The effective application of these policies and laws ensures that all parties adhere to agreed standards and practices. Together, these factors can promote a reliable, accountable, and transparent ecosystem that attracts and sustains investment in non-state education.

Point 2: Finance Seekers (Demand Side)

On the demand-side of the non-state education sector, finance seekers may include education service providers, such as non-state schools and ancillary service providers (e.g., technology enterprises, transportation business, teacher training institutes and textbook publishers). It may also include parents and households seeking school fees, loans or other similar products. Given that many of these actors may have limited financial knowledge and capabilities, market assessments should determine the areas for intervention to better support demand-side finance seekers at a more granular level. This includes raising awareness of, and access to, financing, as well as effective use of financial products. Consider types of training or assistance that may be required to ensure that finance seekers take full advantage of beneficial financial products.. The Facilitators section of this guide will help to identify intermediary actors who can further support finance seekers through matchmaking, advocacy, convening, and investment promotion.

Awareness of and Access to Financing	Effective use of Finance

Awareness of and Access to Financing

Education providers must understand the full spectrum of financing options to effectively align their financial strategies with their organizational goals. Awareness of these options enables education providers to secure the most appropriate type of funding and navigate the inherent risks associated with each financing type. By comparing different financing options, education providers can obtain the most cost-effective solutions. Additionally, comprehensive knowledge of, and access to, financing options equips education providers to maintain financial stability during economic fluctuations and other stressors, ensuring the uninterrupted delivery of educational services.

Parents must also be aware of, and have access to, diverse financing options to effectively manage the costs of their children's education. Understanding these options and their terms and conditions can enable families to choose the most cost-effective methods and avoid options with unfavorable terms. By acquiring financial products, families can access higher-quality education services, with benefits such as extended childcare, enhanced safety, and proximity to home – critical factors in a child's enrollment. Comprehensive knowledge of financing allows parents to plan strategically for long-term educational finance at various stages of their children's schooling. Furthermore, knowledge of, and access to, financing can help ensure that education continues uninterrupted, even in times of household financial hardship.

Effective Use of Finance

Effective management is crucial for education service providers as it can enhance education offerings and competitiveness. By allocating funds to strategically improve the quality of education, these investments might include high-quality teaching materials, professional development for teachers and hiring additional staff. Strong financial management also helps education providers to maintain their financial health, manage cash flow efficiently, and plan for future expenses – all essential for long-term sustainability and continuous service provision. Moreover, effective financial management can allow providers to adapt to changing market conditions, such as economic downturns, shifts in government policies, or changes in consumer preferences. Financial agility can allow education providers to continue delivering service, even amid external pressures. For many education providers, navigating the regulatory landscape requires sound financial practices too, a process which includes ensuring that funds are used in compliance with legal requirements and reporting standards.

For families, managing educational expenses over the long term without jeopardizing their financial stability proves critical. Knowledgeable use of financing helps parents to navigate and mitigate risks associated with financial products, such as high interest rates. By effectively utilizing financing options, parents can afford continuous and uninterrupted education for their children, avoiding dropout due to financial constraints.

Point 3: Finance Providers (Supply Side)

Finance providers for the non-state education sector cover a broad spectrum of individuals and organizations ranging from grant-making institutions, such as donors and philanthropies, to private sector actors such as commercial banks, microfinance institutions, impact investors, Development Finance Institutions (DFIs), institutional investors, and many others. Importantly, these different sources of financing can be used together in myriad ways, often within blended finance structures.

Finance providers bundle or source funds, then provide them as debt or equity to entities seeking financing, as described in the Mobilizing Private Finance for Development guide. However, in emerging markets, the spectrum of finance providers is narrow, and thus less competitive than developed markets. Financial institutions frequently have less depth and expertise in financial intermediation, particularly in the education finance market. Beyond their own internal institutional capability, finance providers may be constrained by numerous external factors (i.e., the enabling environment discussed above). As such, market assessments should consider what strategies and resources might be required to address barriers that financial institutions face, in order to facilitate greater lending in the non-state education sector.

Debt and Equity Products

Blended Finance/ Risk Mitigation

Grants

Debt and Equity Products

Debt products can offer a more structured and secure investment option with fixed returns for finance providers. By offering equity, finance providers can share in the risks associated with education investments, which can be an appealing approach in environments where the potential for default or business failure might be higher. Offering both debt and equity options can allow finance providers to cater to a broader range of education providers with varying needs and risk profiles. This diversification matters in markets with fewer financial intermediaries and limited financial services. Debt and equity offerings can also enable new entrants and existing providers to expand their presence in the education sector. This expansion plays a critical role in emerging markets where education needs are vast, but adequately served financial solutions are limited.

Blended Finance

Blended finance structures combine capital from public or philanthropic sources with private sector investments. This approach reduces the risk for private investors by providing risk-sharing arrangements such as first-loss guarantees, making it more feasible for finance providers to enter markets or fund projects that might otherwise carry prohibitive risks. By using concessional funds, blended finance can attract and leverage additional private capital. This multiplication effect can increase the total amount of funds available for education providers, especially in underfunded regions or for innovative educational models. Many blended finance projects in education align with the Sustainable Development Goals, driving change around education quality, access, and other targets.

Grants

Grants may absorb high-risk elements of projects that might not attract traditional financing. By covering initial or risky phases, grants can reduce the overall risk profile, allowing projects to become more attractive to other finance providers. This approach can facilitate the development of new approaches in education. Grants also allow finance providers (especially those with mandates) to achieve social impacts (like DFIs and impact investors) to fulfill specific regulatory or mission-driven objectives such as addressing issues of quality, access, and equity in education. Grants can be directed specifically towards building capacity for education providers, which might involve training, infrastructure development, or research initiatives that do not generate immediate financial returns but are crucial for long-term sustainability and effectiveness.

Point 4: Financial infrastructure[viii]

The Financial sector infrastructure supports the efficient functioning of the financial market by enabling efficient payments and transactions. Key elements within the financial sector infrastructure include payment systems, collateral registries, and credit reporting bureaus and rating agencies, among others.

The fundamental role of the financial sector is intermediation: pooling of funds available to be invested (typically, savings from households and net positive cash flows from businesses) and the matching of them with organizations and institutions seeking finance (typically, businesses and households that can put the funds to productive use).

The extent and sophistication of financial intermediation systems are essential to the financial infrastructure and vary depending on the customers and the context. In emerging economies, these systems can often be a key constraint, as financial sectors are often highly reliant on the traditional banking sector. Recently, new types of financial intermediaries have begun to appear, including crowdfunding websites, matchmaking platforms, and a range of financial services providers making use of mobile and digital technology (termed "fintech"). These private and public entities are often not formal financial intermediaries but are in the business of encouraging or facilitating transactions that have development impact. Financial intermediaries can also include village and savings loan groups.

Accessible and Stable Payment Systems

Credit Systems

Accessible and Stable Payment Systems

Accessible and stable payment systems can offer parents and family ease of use and cost-effectiveness, allowing them to make timely payments for education expenses. These systems are particularly beneficial for families without easy access to traditional banking services, ensuring that financial barriers do not disrupt a child's education. For education providers, stable payment systems can allow for reliable, consistent cash flows, critical for day-to-day management of operations and long-term planning investments. For finance providers, a robust payment infrastructure can help reduce the risk associated with disbursement and repayment. This stability can encourage the extension of more credit and financial products within the education sector. Additionally, currency hedging solutions can support the management of risks associated with currency fluctuations, helping to protect all parties from potential financial losses due to exchange rate volatility.

Credit Systems

A robust credit information system can ensure parents and families can have easier access to financial products by showcasing their creditworthiness. This could lead to more favorable loan terms such as lower interest rates and more flexible repayment options, further reducing the financial barriers to education. For education providers, these systems can help in secure financing by assuring providers of their financial health and repayment capacity. For finance providers, these systems can reduce the risk of defaults, enabling them to offer financial products more confidently and extensively. Additionally, asset registries can provide accurate records of the ownership, status, and value of assets, which are critical for securing asset-backed financing. For finance seekers, a well-maintained asset registry can allow them to leverage their physical assets to secure financing, especially for long-term capital-intensive projects. For finance providers, these registries ensure the assets pledged as collateral are duly verified and valued, minimizing the risk associated with secured lending.

Point 5: Facilitators

Facilitators help to connect the education and financing sides of the non-state education sector. These actors and services help to support finance providers, finance seekers, and the enabling environment through matchmaking, advocacy, and convening power. The group also includes actors who support and promote the non-state education sector, such as sector associations as well as higher education institutions and researchers who produce influential knowledge products and support advocacy efforts within the sector.

Matchmaking and Associations | Advocacy, Convening, Investment Promotion

Matchmaking and Associations

Matchmaking platforms connect finance seekers with finance providers by offering tailored financial solutions by understanding the specific needs of education providers and parents. These platforms then match finance seekers with the appropriate financial products or services. For education providers, associations can help achieve economies of scale that individual education providers might not manage alone. This can include group purchases of supplies, shared access to technology, and collective bargaining power with vendors. Associations can offer training and development programs for educators and staff. For parents and families, associations can serve as a crucial resource providing information about education service options, financial products, changes in education policy, and other relevant topics. This information can enable families to make informed decisions regarding their education and financing options.

Creating a Cadre of Transaction Advisors/Originators

In developing markets, education service providers and financial intermediaries often lack a connection. . One solution involves developing a cadre of transaction advisors, often local financial consultants, who can bridge this gap. Transaction advisors can identify education financing needs and interface with finance providers to facilitate and prepare for financing.

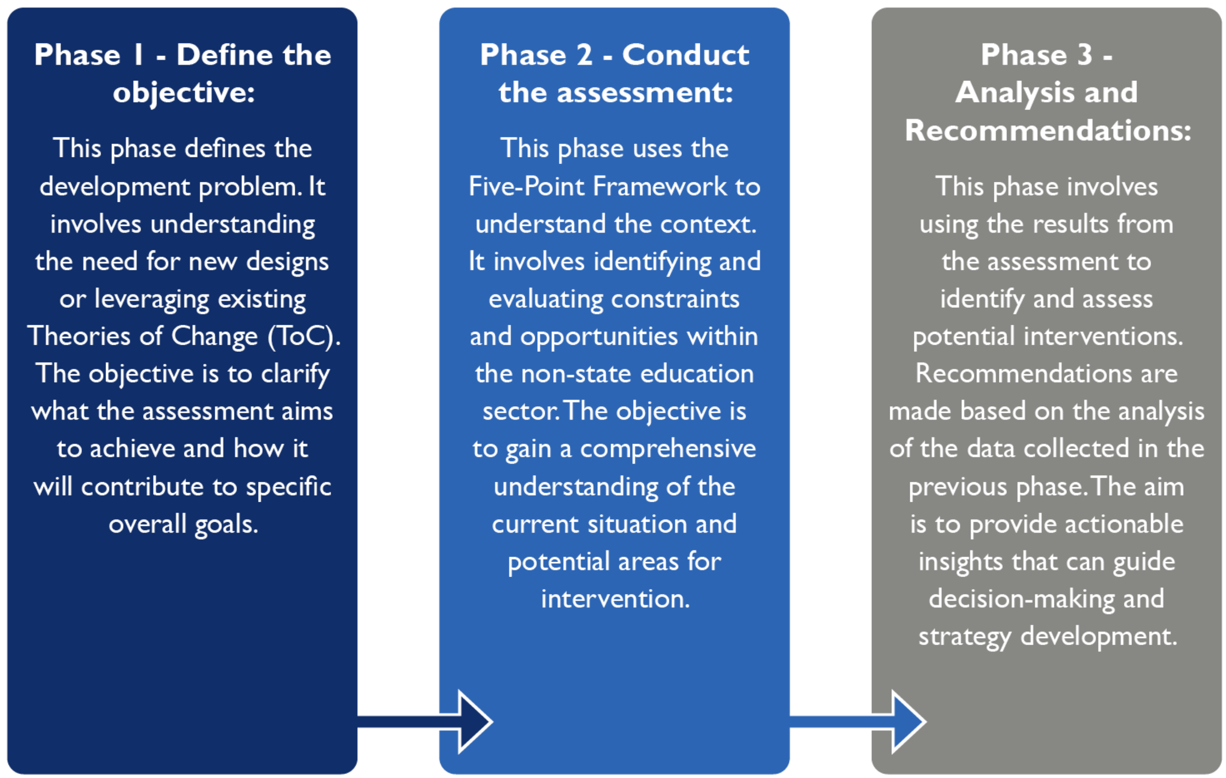
Advocacy, Convening, and Investment Promotion

Facilitators can advocate for policies that create favorable conditions for sustainable education financing. This can involve lobbying for increased public investment, advocating for supportive regulatory frameworks, and promoting policies that encourage private sector participation. Facilitators can also conduct and disseminate research to direct attention and resources to where they are most needed. They also play a crucial role in convening various stakeholders and creating platforms for dialogue, partnership, sharing best practices, and other initiatives. Facilitators can be instrumental in investment promotion. By assisting finance providers in developing new, tailored financial products and structure innovative financing mechanisms., they help attract new investments into the education sector, bridging the gap between financial resources and education needs.

3. ASSESSMENT PROCESS

Figure 2 provides an overview of the phases of conducting an assessment using the Five-Point Framework. Each phase will be elaborated on in subsequent sections. For tangible examples of how this assessment process works in the context of real-life assessments conducted under the CATALYZE EduFinance activity, please refer to Annex 2 - Examples of Five-Point Framework for Education Market Assessments.

Figure 2: Three phases of conducting an assessment



PHASE 1- DEFINE THE OBJECTIVE

Define the Development Challenge

Consider the following:

- ✓ What is the challenge you are trying to solve?
- ✓ Why is it important?

Non-state education groups often face the challenge of improving access and quality of education for particular groups, with the nuanced challenges depending on the level of education, targeted sub-groups, and context.

Define the Role of Finance in this Challenge

Consider how finance could potentially address the identified challenge:

- ✓ What are the financial needs associated with this challenge?
- ✓ Are there gaps in financing that impact this challenge?
- ✓ Can financial resources be effectively allocated to address the challenge?

In this first phase, it is crucial to recognize that finance plays a critical role in addressing development challenges, but it does not offer cure-all solutions.

As mentioned in the introduction, this framework and assessment may not be relevant for all education sector assessments. Before proceeding, review whether your objective focuses on the education market, the non-state sector, and the role of private finance to ensure this framework suits your assessment.

Adapting to the Specific Context

The team leading the assessment should adapt the process to the local context and evidence needs. Two common use cases of the Framework and required adaptations are summarized below.

1. **Informing activity design:** Sometimes, the market assessment is employed at the very start of activity design, before developing a formal theory of change. In this case, the market assessment would be used to inform the options for key inputs, activities, outputs, outcomes, and ultimate long-term impact of a potential education finance activity. This process should account for key outcomes and outputs identified by stakeholders, while also considering the key entry points and problems to be addressed, which are based on the full five-point assessment. If the theory of change and associated indicators are not yet developed, the market assessment can propose a theory of change and associated indicators as part of the analysis, if needed.
2. **Informing inception period or re-design considerations:** If the market assessment occurs when a theory of change has already been developed, or exists in draft form, the five-point assessment should be aligned with the project theory of change (see Annex 1 for the CATALYZE EduFinance Theory of Change for those conducting CATALYZE market assessments). Incorporate the indicators developed in alignment with that theory of change and results chain, with special attention given to collecting data that will enable target setting for the activity's specific key performance indicators (KPIs). For example, if a project has a KPI related to the number of new non-state schools supported with finance in a given country, the market assessment should seek to identify key supporting data on the number of non-state schools, disaggregated by the type of school/learning level and region/district.

PHASE 2- CONDUCT THE ASSESSMENT

Feasibility Desk Review

Start the assessment with a feasibility desk review. This exercise helps to review your objective and desired scope, while using a rapid desk study to assess the feasibility and inform the scope of the assessment. This desk review should generally ask questions such as:

- ✓ How much relevant and reliable data is publicly available?
- ✓ Who are the relevant stakeholders for the assessment and how accessible are they to you?
- ✓ What are the priorities and desired outcomes of key stakeholders and users of assessment findings?

Answers to these questions will help you refine your assessment scope (and potentially your objective), allowing more effective planning for data collection.

Data Collection

A market assessment using the Five-Point Framework will typically utilize a mixed method approach to data collection, such as key stakeholder interviews; surveys of non-state schools and other key stakeholders in the intervention regions; focus group discussions; and desk reviews of research on the education and finance sector, as well as government data and policy documents. Examples of key stakeholders to be consulted for primary research include demand and supply side actors, such as industry experts, financial intermediaries, government officials, USAID, education-focused programs, associations of school parents, school owner/operators, community members, and other funders/donors, along with implementers of education finance projects in other contexts as useful.

The selection of stakeholders should align with your assessment's purpose and scope:

Initial Market Assessment / Broad Landscape Approach: For a comprehensive landscape assessment, engage with a diverse array of stakeholders. This should include representatives from government agencies, non-state education providers, financial institutions, parents, and community members. The objective is to capture a wide range of perspectives to understand the overarching education finance landscape.

Targeted Market Assessment / Specific Niche Approach: For a targeted assessment of a specific niche, consider a purposive sampling strategy. Begin with key informants within the niche and utilize a snowball sampling technique, where initial informants recommend additional stakeholders. This approach facilitates a deeper understanding of the specific dynamics within the niche.

Guiding Questions

The data collected can be used to answer guiding questions across the Framework. These questions can be adapted to fit a particular context, sub-sector, or objective. Not all questions need to be answered. Select and answer the ones most relevant to your context and objective. When compiling an assessment report, structure it based on the five categories and the sub-categories, if helpful. However, these are guiding questions, so answering all questions in the report may not be necessary.

Outlined below are the guiding questions for each of the five categories of the Framework, organized by sub-categories:

Enabling Environment

Equitable and Affordable Access

Equitable Access:

- ✓ How many non-state schools are in the country/major cities?
- ✓ What are common types of non-state schools (i.e., religious, private schools for specific groups – such as those for girls or children with disabilities, community-based, etc.)?
- ✓ What percentage of students access education through state schools versus non-state schools? Does this percentage change based on socioeconomic status, geographic location, or other equity factors (e.g., gender, disability, or being part of another marginalized group)?
- ✓ What enrollment and growth trends have been observed in recent years?
- ✓ Are there any school chains/franchises, especially in the low-cost school segment?
- ✓ What are the specific challenges faced by non-state schools in recruiting and retaining qualified teachers, and how do these challenges impact the quality of education provided?
- ✓ What issues related to gender and social inclusion exist in this context in terms of access, safety, retention, learning outcomes, etc.? How accessible and accommodating are non-state schools to children with special needs or disabilities?
- ✓ What has been the impact of shocks or crises on the education system (including length of disruption and impact on learning loss, especially for vulnerable or disadvantaged populations)? Have shocks impacted the access to non-state schools?

Affordable Access:

- ✓ What is the fee range for low-, low-medium-, and high- fee schools? Are the schools able to set their own fees, or is there a government mandate on fee structures? What is a typical fee collection schedule?
- ✓ Why do parents, especially in low-income families, choose to send their children to a non-state school over a state school?
- ✓ How affordable are the existing options for different market segments, particularly the most vulnerable? How is affordability calculated?
- ✓ What tools and support systems are available to help parents plan and manage the financial aspects of their children's education?

Government View of Non-state Sector:

- ✓ What is the current status of the education sector's policy priorities, regulations, and budget?
- ✓ What is the overall structure of the national education system (e.g., curriculum, language of instruction, etc.) for state and non-state schools?
- ✓ What is the overall position of the government on non-state schools providing access to education?
- ✓ Does the government actively support non-state schools? Are different types of non-state schools supported in different ways (e.g., for-profit vs. non-profit, religious vs. non-religious, etc.)?
- ✓ In what ways are non-state schools associated with the Ministry of Education?
- ✓ What are the government priorities, if any, for expanding access to non-state education (e.g., are there any policies supporting attendance in non-state schools, such as vouchers)?

Quality Assurance and Regulation

Quality Assurance:

- ✓ What are the government priorities, if any, for improving the quality of non-state schools?

- ✓ What structures and mandates from the government must non-state schools comply with to meet quality standards?
- ✓ How does the government measure and ensure the quality of state and non-state schools (if at all)? What specific criteria or benchmarks are used by the government to evaluate the quality of education?
- ✓ What is the supply and quality of the overall teacher pool, including the certification process and professional development/training?
- ✓ Does the non-state education sector have any existing quality measurement and monitoring systems?
- ✓ What evidence is there that non-state schools are providing, or able to provide, a suitable level of quality in terms of student learning outcomes or other foundational quality metrics? (Foundational quality metrics related to school environment include, but are not limited to strength of pedagogy, curriculum and learning materials; safeguarding protocols; student learning outcomes and/or employment outcomes for TVET interventions; teacher training, quality, retention rates; student retention rates; educational assessment and data tracking systems; parent and community engagement structures; school management practices, and others.)

Regulation:

- ✓ What is the extent of the government's role in monitoring non-state schools? What policies guide this?
- ✓ What do government registration and licensing requirements look like in practice for non-state schools (e.g., can anyone start a school)?
- ✓ What are the challenges to, and obstacles faced by, schools in becoming registered and licensed, and how does this affect their ability to access finance?
- ✓ What type of accountability systems are in place?
- ✓ Is non-state school enrollment information collected by the government? By individual schools? Is there data on unregistered schools?

Financial Policies, Laws, and Regulation

Financial Sector Stability:

- ✓ What is the status of the overall economic system in this context? What trends are evident in recent years?
- ✓ What are the most likely projections for economic growth and stability in the near future and medium term?
- ✓ What is the overall strength and maturity of the banking and finance system?
- ✓ Have there been any significant shocks or crises that have affected the financing landscape? What are their effects?

Existence of Policies and Laws:

- ✓ What are the key components of the country's fiscal policy and regulatory framework that impact private financial institutions and transactions?
- ✓ What is the status of key foundational components of the financial system, such as property rights and rule of law?
- ✓ Which specific policies and regulations impact education lending and investment?
- ✓ What key regulations exist for small businesses and entrepreneurs?
- ✓ Which specific regulations would impact non-state education institutions?
- ✓ Are there government policies helping or hampering loan recovery?
- ✓ What role do policies and regulations play in promoting financial literacy and education?

Application of Policies and Laws:

- ✓ How effective and consistent is the implementation of existing policies and laws?
- ✓ Where are the biggest gaps between policy and regulation – on paper, and in reality?

- ✓ In practice what are the biggest policy- and regulation-related opportunities and risks in relation to education lending and investment?
- ✓ What steps have the government and other funders taken to support non-state schools facing shocks and stressors?
- ✓ Are there known structural issues in expanding non-state schools (e.g., high barriers for registration, restrictions on fees, public school teachers' unions, government attitude towards private sector)?

Finance Seekers (Demand Side)

Awareness of and Access to Finance

Awareness of Finance:

- ✓ What is the market demand for non-state schools?
- ✓ What types of populations demonstrate the strongest demand for these schools? What barriers are faced by parents who might otherwise be interested in non-state schools (i.e., lack of financial literacy, cultural beliefs about lending, etc.)?
- ✓ Are there other education enterprises that require financing (e.g., distance learning companies, technology providers, teacher training institutions, Edtech, or other ancillary education businesses)?
- ✓ What initiatives exist to improve awareness of finance for underserved or marginalized communities?
- ✓ What is the level of demand for financing and investment from schools or education service providers in the non-state sector?
- ✓ How aware are schools and service providers of the different potential sources of funding available to them?

Access to Finance:

- ✓ What is the prevalence of non-state schools accessing financing? What kinds of trends exist for non-state schools to access financing?

- ✓ What are some of the key challenges and opportunities in accessing financing for non-state schools?
- ✓ What is the average financial need for entrepreneurs or non-state school operators, (i.e., what is their funding gap, and for what purpose do they need financing)?
- ✓ What financial barriers and opportunities exist for entrepreneurs and non-state school operators?
- ✓ How do non-state schools and education providers ensure access to quality educational resources, infrastructure, and safe learning environments? What are the barriers to accessing these resources, and how are they addressed?
- ✓ What initiatives exist to improve access to finance for underserved or marginalized communities?

Effective Use of Finance

Finance and Managerial Skills:

- ✓ What strategies do non-state school operators use to maintain financial health, manage cash flow efficiently, and plan for future expenses?
- ✓ How do non-state school operators ensure compliance with legal requirements and reporting standards in their financial practices?
- ✓ What resources are available for non-state education providers to adapt to changing market conditions, such as economic downturns, shifts in government policies, or changes in consumer preferences?
- ✓ What resources are available to families to manage the costs of their children's education in non-state schools?
- ✓ How do parents, school owners and other education service providers navigate and mitigate risks associated with financial products, such as high interest rates?

Education Quality Improvement Capacity:

- ✓ Do non-state education providers use diagnostics or data to help identify where investments to improve quality are most needed? To what extent, if any, are schools utilizing assessment approaches or other tools to measure how quality improvements translate to improved learning outcomes for their students?
- ✓ What strategies do non-state education providers use to promote quality improvement in their education offerings?
- ✓ Are there specific areas of quality improvement that are regularly prioritized when allocating financial resources?
- ✓ Are there operators that already have education quality in place (with evidence) or could have them in place with the right technical assistance (TA) or capacity building? What level of TA would be required, if at all, to ensure standards for educational quality are met or exceeded?

Finance Providers (Supply Side)

Debt and Equity Products

Variety of Finance Institutions:

- ✓ Who are the leading banks and microfinance institutions (MFIs) and other non-bank lenders in the country, by assets?
- ✓ What are the key banking and microfinance sector performance trends and what is the impact of any structural issues (e.g., interest rate caps, subsidized government lending undercutting private players, loan repayment culture)?
- ✓ Who are the major players in different segments including: secured/collateralized lending, small- and medium-sized enterprises (SMEs) lending, non-banking financial institutions (NBFIs), and mortgage finance?
- ✓ What are the main challenges and barriers facing banks, microfinance institutions (MFIs), and NBFIs in expanding their impact-driven finance portfolios?

Availability of Relevant Debt and Equity Products:

- ✓ Are there any known banks or MFIs extending loans to non-state schools?

- ✓ What strategies do banks and MFIs use to manage the risk associated with loans in sectors like education and SMEs?
- ✓ What percentage of banks' SME portfolios are in the education sector?
- ✓ Which bank(s) is/are doing significant lending to non-state, low-fee schools? How do loans to the education sector perform compared to other sectors?
- ✓ What percentage of MFI and other NBFI portfolios are in the education sector?
- ✓ Which NBFI(s) is/are doing significant lending to non-state, low-fee schools?
- ✓ Are there lenders offering school improvement, school fee, or other education-related loan products?

Terms of Existing Debt and Equity Products:

- ✓ Under what terms do banks or MFIs extend loans to non-state schools (e.g., average loan amount, interest rate, repayment term, collateral conditions, delinquency rates, etc.)?
- ✓ What are the interest rates especially for retail, SME, or personal loans? Are they market based, based on ceilings/caps, or inflation-driven?
- ✓ What is the repayment structure and terms?
- ✓ What is the average loan size for education-related loan products? Are these paid directly to schools or to the parent/borrower? What is the rate and timeline of repayment?
- ✓ What are the average levels, or delinquency rates, of non-performing loans (NPL) in the banks and MFIs?

Blended Finance

Presence of Funders for Blended Finance:

- ✓ Are there examples of blended finance or private sector led finance solutions in the country? Which sectors incorporate blended finance?

- ✓ Are there existing or potential donors, foundations, impact investors, DFIs, etc., supporting the education system?
- ✓ What are their key priorities or focus areas in the education sector, if known?
- ✓ What are their key priorities or focus areas related to non-state education, in particular public-private partnerships and other areas that relate to the educational ecosystem?
- ✓ Are there instruments that help private investors to mitigate risks in education finance investments, such as first loss guarantees, concessional capital, or insurance products?

Maturity of Blended Finance:

- ✓ How widespread are the examples of blended finance in the country, across various sectors, and within education specifically? Are there a small number of examples, or are these mechanisms more common?
- ✓ How many years have such blended finance examples been in operation?

Grants

Presence of Grant-Making:

- ✓ Are there examples of grant-making interventions in the non-state education sector?
- ✓ Which types of actors are offering grant support for non-state actors? Actors may include, but are not limited to, donors, foundations, and the grant-making divisions of impact investment funds.

Variety of Grants:

- ✓ What are the primary purposes for which these grants are used (e.g., for operational expenses, capital expenditures, or other specific needs)?
- ✓ What reporting and compliance requirements do finance providers put in place to distribute grants?
- ✓ Do finance providers face challenges in ensuring compliance with intended grant usage?

- ✓ What types of initiatives receive grants? Do market trends or organizational priorities impact the selection of eligible initiatives?
- ✓ Are there examples of initiatives that use performance-based grants in the non-state education sector? What are the main reasons why performance-based grants have been used and are they seen as successful? How do market trends or organizational priorities impact the selection of eligible initiatives? How do finance providers establish milestones or deliverables?

Financial Infrastructure

Accessible and Stable Payment Systems

Ease and Cost of Payment Systems:

- ✓ What payment systems and infrastructure exist for moving money from funding sources to end users? What constraints exist in each of these?
- ✓ What are currently the preferred payment systems for the non-state education sector?
- ✓ What is the status of digital infrastructure in this context? How is that used within the financial system and what innovative models are starting to emerge?
- ✓ What is the status of mobile payment systems/digital finance/fintech?
- ✓ Are there crowdfunding or diaspora networks? How do those move money within the system?
- ✓ What bottlenecks are there in the payment systems for the non-state education sector?

Currency Hedging Solutions:

- ✓ Are currency hedging solutions available for foreign lenders?
- ✓ If so, how reliable and effective are they?
- ✓ If not, how is currency risk managed in other ways?

Credit Systems

Strength of Credit Information Systems:

- ✓ Do credit bureau and national identification systems exist?
- ✓ How strong and reliable are they, and how widespread is their use?
- ✓ What are the key opportunities and gaps related to credit information in the education finance sector?

Strength of Asset Registry Systems:

- ✓ Do asset registry systems exist?
- ✓ How strong and reliable are they and how widespread is their use?
- ✓ What are the key opportunities and gaps related to the education finance sector?

Facilitators

Matchmaking and Associations

Matchmaking:

- ✓ What groups exist in the financial sector that work to facilitate interaction between traditional and/or non-traditional financial institutions and intermediaries? What role and services do they provide their members?
- ✓ What groups exist to facilitate interactions and support between non-state schools and other ancillary services?
- ✓ Are there already other partnerships between/among non-state schools, government, non-government organizations (NGOs), private sector, or others?

School Associations:

- ✓ Are there private school associations? What role and services does the association provide to its members?

- ✓ Are there any particularly prominent or influential associations?
- ✓ Are there roles that school associations could play that they currently don't?
- ✓ In what ways do private school associations engage in advocacy or policy dialogue to influence education policies and regulations?

Advocacy, Convening, and Investment Promotion

Research and Advocacy:

- ✓ Are there prominent research and advocacy services focused on the non-state education sector and/or the education financing sector? What are their focus areas and limitations? What level of influence do they have?
- ✓ In what ways do research associations engage in advocacy or policy dialogue to influence education policies and regulations?
- ✓ What groups exist in the financial sector that work to advocate for interaction between traditional and/or non-traditional financial institutions and intermediaries?

Convening and Investment Promotion:

- ✓ What entities or platforms convene stakeholders within the education finance sector? What roles and services do they provide to their participants?
- ✓ What organizations or entities specialize in promoting investments in the education sector? What specific services do they offer to attract and support investors? How do they facilitate the introduction of new financial products or services?

PHASE 3- ANALYZE AND MAKE RECOMMENDATIONS

Overall Five-Point Framework Scoring

The first, and most simple, form of analysis coming from the assessment is a high-level scoring analysis. Using the data gathered from the assessment, a score can be allocated for each of the five categories, the intervention areas, and the sub-intervention areas outlined in the guiding questions section. This calculation can be done using the diagnostic tool developed for this Framework (Annex 3). Each sub-intervention area can be scored from 1 – 5 (weakest to strongest) based on a simple question and scoring guidance. The diagnostic tool then calculates a mean score at both intervention area level and for each point of the Five-Point Framework. This exercise identifies potential weakest area in the market assessment for attention and potential intervention development

A closer look at the diagnostic tool

The input tab outlines the framework area, intervention area, and sub-intervention areas, providing corresponding questions and scoring guidelines. Users input a score, and the system automates the analysis while allowing for optional adjustments to the weighting.

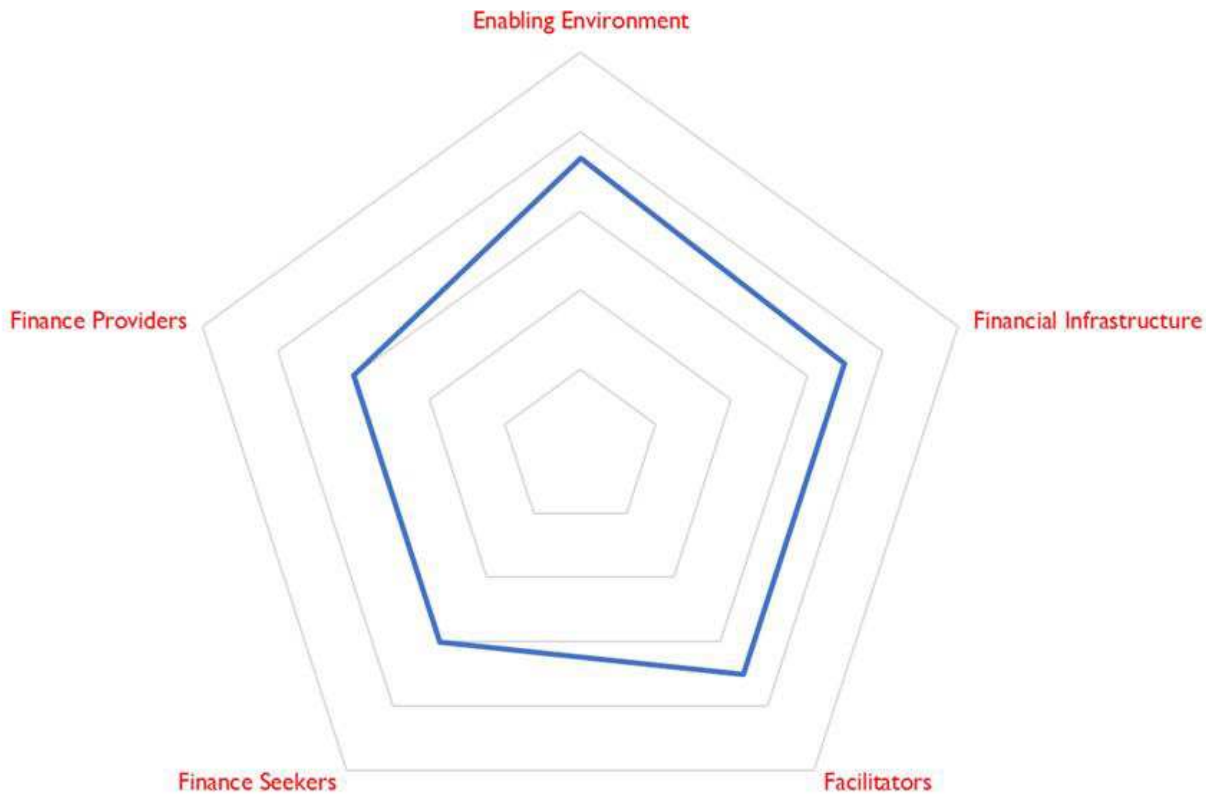
The output tab provides a comprehensive visual assessment of a country's relative strengths and weaknesses using a spidergram for the Five-Point Framework, highlighting potential opportunities for targeted intervention.

Output 1 delivers results at both the Five-Point Framework and intervention area levels, enabling the identification of significant strengths and weaknesses. A spidergram provides an overview of the relative strength of each of the five points, and bar charts offer deeper insights into each intervention area, helping to narrow down areas of focus.

Output 2 ranks sub-intervention areas from weakest to strongest and provides space to note potential interventions for promising sub-intervention areas.

A spidergram can visually depict the diagnostic score, highlighting areas where the country excels or needs improvement in the Five-Point Framework (see Figure 3 on following page). Scores closer to the perimeter indicates the relative strength of each point of the framework, while scores closer to the center indicate possible weakness and potential opportunities.

Figure 3: Spidergram Example, Generic



More in-depth analysis approaches can include:

- **Thematic coding of stakeholder interviews and focus group discussions**: Thematic coding forms a type of qualitative analysis that identifies recurring themes, providing valuable insights into the perspectives and experiences of different education finance stakeholders.
- **Descriptive analysis of quantitative surveys**: This analysis can include measures of central tendency, variability, and relationship to identify key patterns, constraints, and opportunities within education finance.

- **Social network analysis**: This method examines the relationships between entities and how and how their interactions influence the behavior and outcomes of the entire education finance network. This analysis can help identify key stakeholders, understand the dynamics of the network, and spot potential champions or bottlenecks in the system.

Analysis of Key Takeaways and Potential Next Steps

It can be helpful to revisit the original objective and generate some summative analytical takeaways after answering the guiding questions. The overarching guiding questions outlined below are a useful start, but additional questions may arise depending on the specific objective. After thoroughly understanding the issue, the role of finance, and the constraints, consider the potential interventions. The questions below can help identify next steps. Similarly, generating a SWOT analysis with the collected data may help identify potential interventions.

It is important to note that identifying interventions may be contingent upon the objectives of the assessment. In certain cases, the aim may be solely to conduct a landscape analysis. Conversely, the primary output may be a compilation of specific interventions for consideration as in the market assessment "Entry Points into Early Childhood Care and Education (ECCE) in Rwanda" conducted in 2023 to identify potential follow-on activities on top of the existing CATALYZE EduFinance Rwanda intervention.

- ✓ What are the top two or three policy enablers/facilitators to expand access to and improve the quality of non-state education? What are the top two or three policy-level challenges or barriers?
- ✓ What are the top two or three enablers or facilitators in the financial sector to expand access to and improve the quality of non-state education? What are the top two or three challenges or barriers?
- ✓ What types of funding and finance are the most appropriate given these opportunities and challenges?
- ✓ Who are the key stakeholders that need to be involved for these challenges to be addressed? What roles do they need to take? What is the value proposition for each of them to get involved in a new education finance activity to solve these challenges?
- ✓ What interventions or models are most promising to help solve the challenges and barriers in the education and financing ecosystems? What are the entry points for them to address these barriers?

Assessing the Potential Interventions

Answering the guiding and overarching questions related to the Five-Point Framework assessment will help to develop potential interventions for consideration for key stakeholders. For instance, in the Rwanda ECCE Market Assessment referenced above, CATALYZE focused on identifying key parameters of an intervention early on. This approach resulted in the development of three actionable models that could serve as potential investment opportunities for USAID. In contrast, the CATALYZE Somalia Market Assessment resulted in a few indicative models that could be considered for implementation. Annex 2 provides outlines how each country defined their objective, conducted the assessment, and developed recommendations tailored to their context.

To move forward with potential interventions, the assessment team must refine the models with specific partners upon receiving buy-in for the general concept. This assessment may initially be a long list of possible interventions and entry point options. The Five-Point Framework does not presume a "right" solution for any given challenge, much less a universal one.

The factors in the checklist below provide a method for analyzing the different considerations and balancing the many trade-offs inherent in deciding which interventions and entry points are most appropriate given the particular context.[ix] No single development intervention likely scores highly across all these dimensions. Strength in one area often balances with lower effectiveness in another. Considering which of these factors are most critical to the objective can help determine the key question: Which interventions are going to be most effective in addressing the challenge we identified?

1. **Time to Impact:** How quickly will the impact of an intervention be realized?
2. **Sustainability:** How likely is it that this intervention will have a lasting impact, including beyond the completion of the specific development intervention?
3. **Cost-Benefit:** How does the investment required for an intervention compare to the benefits expected?
4. **Risk Assessment**: What are the identified risks associated with the intervention, and what mitigation strategies are in place? How might these risks impact the timeline, sustainability, and overall success of the intervention?
5. **Impact on Learners**: How does the portfolio of interventions prioritize reaching the most marginalized and supporting the strongest educational improvements, while still ensuring the financial viability/sustainability of the interventions and investors?

6. **Scalability:** How broad is the intervention's potential scope of impact? How easily could the intervention be scaled-up or repeated?
7. **Minimize Market Distortions:** The intervention should not result in the financial market pricing of funding availability being significantly different than would result from a well-functioning financial market.
8. **Additionality:** How confident are you that an intervention will have an effect that might not have happened otherwise?
9. **Country Context:** How relevant and appropriate is the intervention in the context of the present country culture, systemic feasibility, etc.?

Developing Recommendations

Finally, create a final proposal for recommended interventions. The diagnostic tools provide possible interventions linked to each sub-category within the Five-Point Framework. The format, specificity, and detail of these recommendations will vary based on your original objective. For specific objectives, these recommendations may need to include projected timelines and budgets as well as outlined expected outcomes, and potential spillover effects. For broader objectives, the recommendations may provide a more general outline of the most promising interventions and entry points to facilitate further discussion and consideration.

Some examples to consider are included on pages 48-52 of USAID's Mobilizing Private Finance for Development guide, although there are a wide variety of further options that are beyond the scope of this guidance. There are a wide set of resources on different funding and financing models to support non-state education that the reader can reference, including a detailed set of resources developed by NORRAG on different innovative financing models for education, the Education Finance Network's Evidence Gap Map (EGM) developed under CATALYZE, as well as many available resources on pay-for-results models, and blended finance approaches.

Final Assessment Report

The final assessment report will vary depending on context and objective. Generally, the report could conclude the assessment process by including a detailed mapping along all the five points and sub-categories, including answers to most relevant guiding questions and any additional tailored questions needed for the particular context. It could also include a high-level scoring of the five points and a summative analysis based on the overarching guiding questions. Next, the report could present a curated shortlist of high impact intervention options and entry points, and a summary analysis of the trade-offs associated with each model for consideration in project design discussions. Finally, the report can outline some recommendations and next steps, which may include potential models, outcomes, and relevant indicators, depending on the specific context and objective.

4. CONCLUSION

Supporting non-state education, especially through public-private blended finance approaches, is complex. It involves a wide range of financing needs, educational models, and constraints that vary by country and even by individual project context. Adding to this complexity, there is also a broad array of potential interventions, each with its own set of trade-offs.

The USAID Non-State Education Finance Market Assessment How-To Guide offers a comprehensive framework for stakeholders to utilize when assessing a new market and navigating this complexity. This guide applies to all types of private education finance intervention and across a large variety of non-state education sub-sectors and providers. Each of the five points and process guidance will provide a strong foundation for undertaking this work to those assessing new markets and designing new activities.

Importantly, this assessment serves as a starting point. It can, and should, be tailored to each specific context in which it's utilized, the key stakeholders involved, and the specific objectives of the activity. When properly applied and tailored to each context, the Five-Point Framework and accompanying processes outlined in this guide have the potential to lay the foundation for a strong non-state education finance intervention by identifying enabling factors, barriers, and key entry points or intervention models that can address them.

5. GLOSSARY

Ancillary Education Services: Supportive services in the education sector that complement core learning, such as transportation, catering, and after-school programs.

Blended Finance: A term used to describe the use of catalytic capital from public or philanthropic sources to increase private sector investment in developing countries to realize the Sustainable Development Goals (SDGs). Blended finance has the potential to help scale quality education by mobilizing additional private sector resources. It is a critical piece of USAID's commitment to working with the private sector. Most instances of blended finance are structured around investable opportunities, such as the Global Innovation Fund.

Crowdfunding: A method of raising capital through the collective effort of friends, family, customers, and individual investors, often facilitated through online platforms.

Currency Hedging: Financial strategies used to reduce, or manage, the risk of currency fluctuations affecting the value of investments or business transactions.

Diaspora Networks: Networks of individuals who have emigrated from their countries of origin but maintain connections and contribute to their home country, often through remittances or business investments.

Digital Infrastructure: The foundational digital technologies and systems that support the functioning of a modern economy, including internet connectivity, data centers, and cybersecurity systems.

Early Childhood Care and Education (ECCE): Refers to organized, non-familial learning and care programs that directly serve children before formal primary school entry. These programs begin at birth and extend through the start of primary education and are intended to support learning as well as to provide care.

Education Finance: Monetary and in-kind resources made available for education from a variety of public and private actors covering the full student lifecycle, from pre-primary through higher education, and addressing the question of how resources are allocated, used, and accounted for to achieve sustainable, quality education for all children and young people.

Education Systems: Consists of people, public and private institutions, resources, and activities who jointly contribute to improving, expanding, and sustaining learning and educational outcomes.

Loan Products: Various types of loans offered by financial institutions to meet the diverse needs of borrowers, including business loans, personal loans, mortgages, etc.

Microfinance Institutions (MFIs): Entities that specialize in providing financial services to low-income clients or those lacking access to banking.

Non-Bank Lenders: Financial entities that offer loan products but do not hold banking licenses, operating outside traditional banking regulations and systems.

Non-Banking Financial Institutions (NBFIs): Financial institutions that provide certain banking services but do not hold a banking license, such as investment firms, or insurance companies.

Non-Performing Loans (NPL): Loans in which the borrower has not made scheduled payments for a specified period, indicating a high risk of default.

Non-State Schools: Non-state providers of education that include private, for-profit, non-profit, community, faith-based, and other non-governmental organizations.

Private Finance: Private financing includes all non-public financing for education. These resources can be domestic or international. While the private sector is frequently thought of as companies, foundations, and investors, private resources for education come overwhelmingly from individual households, including from remittances.

Public Financing: Public financing includes the government-budgeted resources for education. Public funds may be domestic, such as partner country budgets that fund education, or they may be international, such as those from donors and multilateral institutions. In most cases, public financing for basic education comes overwhelmingly from partner country governments.

Secured or Collateralized Lending: Loans that are backed by collateral, meaning the borrower pledges an asset as security for the loan, which the lender can seize if the loan is not repaid.

Small and Medium-Sized Enterprises (SME): Businesses that employ typically less than 250 people (for medium-sized enterprises) or less than 50 people (for small firms), with levels of revenue or assets that do not exceed a specific threshold, varying by country.

Sustainability: In education, sustainability means that the education system has the ability to produce learning and educational outcomes over time beyond the project or activity lifespan, or USAID's presence in the country.

Technical Assistance (TA): Expert advice and support provided to organizations or governments to enhance their capacity and effectiveness in specific areas, such as financial management or educational program development.

Technical Vocational Education and Training (TVET): Education, training, and skills development related to occupational fields, production services and livelihoods.

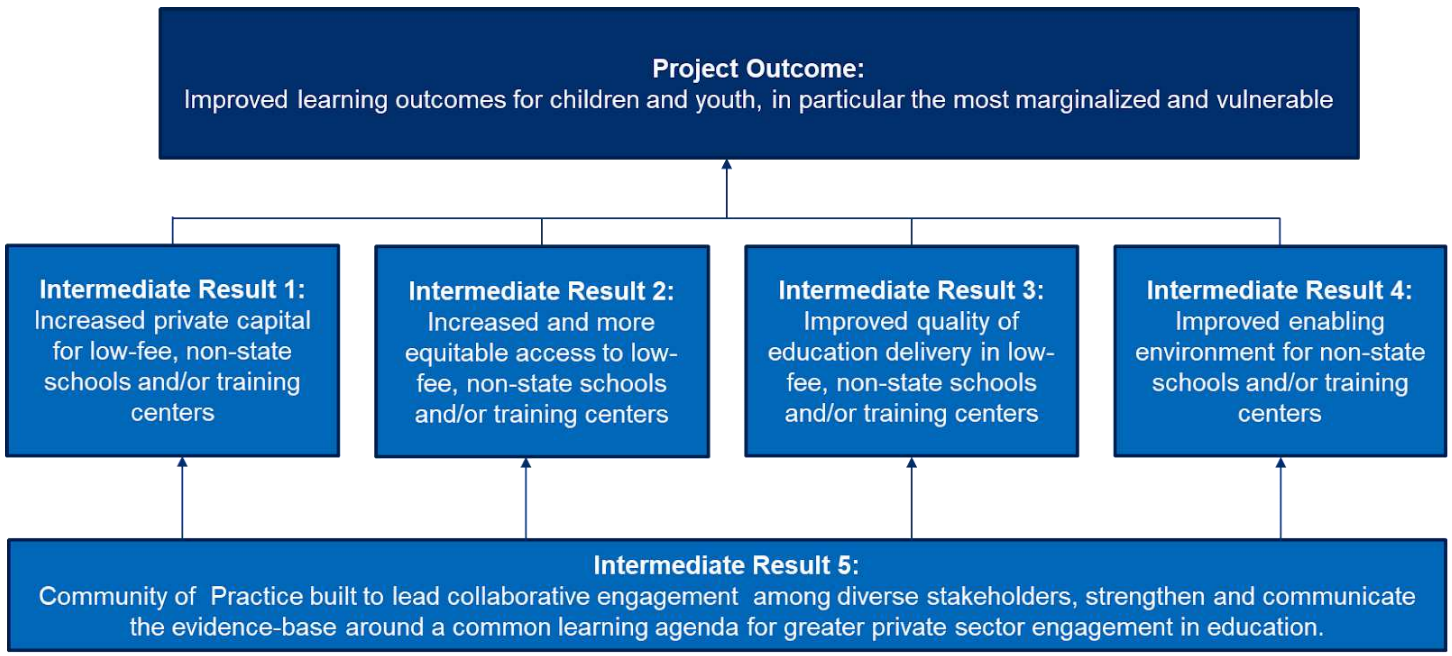
6. ANNEXES

ANNEX 1 - CATALYZE EDUFINANCE THEORY OF CHANGE

The theory of change establishes that: **By developing** private sector partnerships that strengthen the entrepreneurial ecosystem for education and support innovations in education financing and service delivery, **USAID will mobilize investment** in the education sector, **increase access** to quality education, and **improve learning outcomes** for disadvantaged children and youth in less developed countries.

As shown in Figure 4, the overall, long-term aim of CATALYZE EduFinance aims to improve educational learning outcomes of children and young people, in particular the most marginalized and vulnerable. This will be achieved by focusing on five intermediate results.

Figure 4: Long-term aim of CATALYZE EduFinance



ANNEX 2 - EXAMPLES OF FIVE-POINT FRAMEWORK FOR EDUCATION MARKET ASSESSMENTS

	Somalia	Kenya	Rwanda
Phase 1 – Define the objective	To explore the feasibility of implementing sustainable primary and secondary education business models serving low-income communities. The market assessment covered three main regions in Somalia: Mogadishu, Kismayo, and Baidoa. It concentrated on basic education at primary and secondary level.	To analyze the education finance landscape for low-cost private primary education, explore financial support opportunities and challenges, gather insights from education stakeholders and financial institutions, identify potential partners for CATALYZE EduFinance Kenya, and address COVID-19's impact on education through private sector solutions.	To identify, evaluate and recommend specific market entry points for multi-stakeholder early childhood care and education (ECCE) investments, then turn these recommended entry points into a clear implementation roadmap.
Phase 2 – Conduct the assessment	The assessment was conducted using a mixed methods approach: **Comprehensive Literature Review**: This was the initial step to ensure the research team had a robust understanding of the local context and target groups of the assessment. **Key Informant Interviews:** Conducted with government stakeholders, both from demand and supply sides, as well as EduFinance implementers. **Focus Group Discussions:** These discussions involved parents from state and non-state schools and Community Committee Members.	The assessment paid particular attention to gathering insights from a broad range of stakeholders. Key stakeholders included: **Low-Cost Private Primary Schools (LCPPS):** School owners and administrators across different regions in Kenya and Kenya Private Schools Association (KPSA) **Ministry of Education (MoE) Officials:** Representatives from the MoE in ten target counties provided insights on policy, regulation, and the government's perspective on private education financing. **Financial Institutions:** This included banks, microfinance institutions (MFIs),	The assessment took a comprehensive view on ECCE: **Dual-impact**: The assessment approached ECCE through its dual-impact where interventions can both improve education and development outcomes for children while simultaneously enhancing economic opportunities for women. **Parent and Family Engagement**: The assessment underscored the necessity of including a parenting element in ECCE investments, indicating a holistic approach that combines childcare with parenting support to enhance children's development and women's empowerment.

	Somalia	Kenya	Rwanda
	Quantitative Survey: This survey included public and private school owners. This survey was not designed to be statistically representative but to provide indicative findings. **Collaboration and Review**: Representatives from the Ministry of Education, Culture, and Higher Education (MoECHE) and the World Bank attended an inception meeting, providing inputs into the assessment design. A follow-on meeting with MoECHE reviewed the tools, school samples, and endorsed the market assessment.	Savings and Credit Cooperative Organizations (SACCOs), and digital lenders that offer financial products to LCPPS. **Education Service Providers and Business Service Providers:** Companies providing educational technology solutions, school management software, and teacher training services. **Development Partners and Donors:** Organizations providing grants, equity, and other forms of support aimed at improving education outcomes including the African Development Bank, FCDO, Opportunity International and others.	**Best Practices in ECCE:** The assessment stressed the importance of relying on evidence regarding best practices in early childhood care and education, including workforce training, professional development, and teaching and learning materials. It sought to understand the challenges faced by ECCE/ECD operators in these areas and beyond.

	Somalia	Kenya	Rwanda
Phase 3 – Analyze & Make Recommendations	The analysis considered the unique challenges and opportunities within the Somali context, such as changing political and security climate, the resilience of the private sector, and the evolving financial sector. **Risk-Conscious and Proactive:** The recommendations acknowledged the high-risk environment in Somalia and proposed proactive measures to mitigate these risks. This included working with the Central Bank of Somalia to address financial sector risks and collaborating with international bodies like the World Bank. **Focus on Inclusion and Sustainability:** The team recommended leveraging the momentum of various stakeholders, including the government, USAID, and non-traditional investors, to invest in Somalia's education sector, enhance the quality of education and teacher training, address accessibility and exclusion in education, and work with the Ministry of Education and other entities to strengthen policy compliance and fill policy gaps in the private education sector.	The team synthesized their findings, systematically identifying key enablers and barriers to finance for LCPSS and translated these insights into actionable recommendations at both the national and county levels. **Identifying Key Enabling Factors for Financing LCPPS:** The team identified key enablers including strong demand for LCPPS, a diverse financial sector with prior success in lending to LCPPS, data on success factors among LCPPS that have accessed finance, and competition driving strong school performance. **Key Barriers to Accessing Finance:** The team identified major barriers to finance for LCPPS in Kenya, particularly those that are small, early-stage, unregistered, and/or outside urban centers. These include inability to provide documentation and collateral, lack of formal registration, and limited engagement from financial providers. **National and County Level Intervention Recommendations:** At the national level, recommendations included strengthening relationships	The team analyzed findings from the assessment, identified and evaluated potential entry points for multi-stakeholder investment, examined complementary programming strategies to enhance impact, recommended priority interventions, and developed a clear roadmap for implementation. **Identification of Entry Points:** The team identified three strategic entry points for ECCE investment and innovation, including leveraging the Education Outcomes Fund for results-based financing and boosting corporate support for ECCE. **Strategic Recommendations Development:** The team developed strategic recommendations focused on impactful, scalable initiatives aligned with national priorities. They utilized the identified entry points as the foundation for developing these recommendations, ensuring they addressed the most pressing needs in the ECCE sector. **Action Planning:** The team created action plans for each recommendation, detailing stakeholder roles, anticipated challenges, and expected outcomes. These

	Somalia	Kenya	Rwanda
	Innovative Solutions: The team suggested utilizing Somalia's high cell phone penetration for financial transactions, engaging money transfer operators (MTOs) and mobile network operators (MNOs) in the design and distribution of financial products tailored to the education sector, and encouraging entities like Umbrella Associations to take on roles in credit assessment and guarantees.	between private school associations and financial organizations to enhance debt and equity support, and supporting early-stage investors in the sector. County-level recommendations focused on establishing financial guarantees and incentives for banks in urban areas, creating lending facilities for MFIs and technical assistance for SACCOs in rural zones, and engaging with Islamic finance in North-Eastern counties to cater to local needs. **Call for Immediate Action:** The team recommended prioritizing a COVID-19 relief fund for LCPPS to sustain schools facing financial struggles and support them in adapting to future challenges.	action plans provided a roadmap for implementing the strategic recommendations effectively, guiding the team and stakeholders through each step of the process. **Risk Assessment and Mitigation:** Acknowledging the potential challenges associated with implementing the identified entry points, the team conducted a detailed risk assessment. They identified specific risks such as potential delays in the Education Outcomes Fund, limitations in securing corporate support for ECCE, and challenges in scaling the EduFinance model. For each risk, they developed mitigation strategies to minimize potential negative impacts on the implementation process.

ANNEX 3 - LEVEL 1 USAID NON-STATE EDUCATION FINANCE MARKET ASSESSMENT DIAGNOSTIC TOOL

(See attached excel file)

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[i] UNESCO. (2023). Can Countries Afford Their National SDG 4 Benchmarks? https://unesdoc.unesco.org/ark:/48223/pf0000385004

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[v] UNICEF. (2022). State of Learning Poverty 2022. https://www.unicef.org/media/122921/file/State%20of%20Learning%20Poverty%202022.pdf

[vi] Opportunity EduFinance. (2022). The State of the Affordable Non-State School - Report Brief. https://edufinance.org/content/edufinance/latest/Publications/ANS%20Report/ANS%20Brief%20%E2%80%93%20Digital%20version.pdf

[vii] World Bank, Global Education Monitoring Report, & UNESCO Institute for Statistics. (2023). Education Finance Watch 2023. https://www.unesco.org/gem-report/en/2023efw

[viii] In this fFramework, as adapted for the Education Finance sector, we have also grouped financial intermediaries into this category given that they form a critical function in the financial infrastructure of any context.

[ix] Adapted from the Mobilizing Private Finance for Development (MF4D) guide developed by USAID (Lawrence Camp, Autumn Gorman, and Caroline Smith) and Deloitte (Steve Watkins).