Silverleaf Academy

CATALYZE Education Finance
Tanzania Market Assessment

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1. Overview

1.1 Scope and Approach

This assessment consisted of six weeks of primary and secondary research in Tanzania between August and September 2020. Primary research included dozens of interviews with stakeholders[1] from the education and financial sectors, with a specific focus on the non-state education sector and the education finance market that serves it. Specific attention was given to the current statuses of the non-state school and finance industries, to identifying bottlenecks and scoping opportunities, and to gauging the appetite of financial sector players for expanding financial offerings to non-state school owners and end customers.

Market norms and sector opinions have been derived from a collation of primary research, mainly in the form of Key Informant Interviews, covering the following:

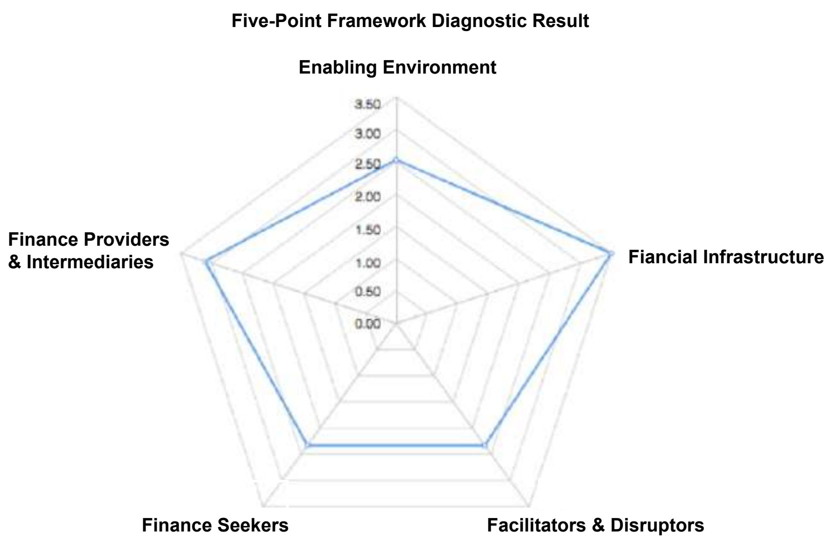
<u>Non-State School Sector:</u>

- 26 non-state primary and secondary school owners/managers
- 6 school associations, all of whom have at least 400 member schools
- 4 school service providers who offered insight into market norms and trends in specific areas, including companies providing school management systems and fee collection services.

<u>Finance Sector:</u>

-10 Commercial Banks
-3 Micro Finance Institutes
-3 Intermediaries

The primary framework used for evaluation was the USAID Five-Point Framework diagnostic tool for Mobilizing Finance for Development (MF4D) as summarised below.



[1] Refer to Annex 1 – full stakeholder list

Key Indexes

- **GDP:** 63.177 Billion
- **GDP Per Capita:** 1,050.68 USD
- **GDP Growth Forecast:** 5.8% in 2020 and 6.1% in 2021
- **Population:** 58,005, 463
- **Population growth:** 2.71%
- <25 **Population under 25**: 63.09%
- **Main Industries**: Agriculture, Manufacturing, Mining, tourism
- **Global Corruption Index Rank:** 96/180
- **Ease of doing business ranking:** 141/190
- **Key languages:** Kiswahili, English, Arabic
- **Independence:** 1961
- **Capital:** Dodoma
- **Political Stability:** 50+ years of peaceful elections
- **President**: John Magufuli
- **Presidential Terms:** 5
- **Next Elections:** October 2020
- **Target GDP Per Capita:** $3,000 by 2025
- **30 regions :** 25 on mainland, 5 in Zanzibar archipelago

1.2 Executive Summary

The United Republic of Tanzania, is home to approximately 57 million people. Similar to most other African countries, Tanzania's population is very young, with a median age of eighteen[2]. Given the relative youth of Tanzania's population, education reform will play a considerable role in determining how successful Tanzania's development policies and programs will be.

Tanzania has seen stable economic policy and GDP growth has been above 6% in all but three of the past seventeen years.[3] However, despite the general macroeconomic productivity, the benefits of this economic growth have not reached a substantial portion of the country. Nearly 50% of Tanzanians are still living on less than $1.90 a day. The global economic crisis caused by COVID-19 will certainly reduce Tanzania's economic productivity and current GDP estimates for 2020 have been reduced from 6% to 2%.

This general economic progress has generated some benefits for the country's education sector. Tanzania allocates approximately 21%[4] of its fiscal budget to education programs. Consequently, enrollment rates across the primary, secondary, and tertiary segments have all notably improved over the past two decades. As an example, net enrollment for pre-primary education reached 45% in 2017 (one the highest in sub-Saharan Africa).

However, despite these laudable advancements in educational access, the quality of education has not exhibited similar improvements. This reality is a consequence of (inter-alia) the insufficient fiscal revenue base available to the Tanzanian government. The suboptimal quality of Tanzania's education sector is manifested in its teacher corps, its infrastructure, its content and curriculum, and its pedagogy.

Investment opportunities in Tanzania's non-state education sector are estimated at USD 100-500M. This estimate is based on the demand for additional schools as well as capacity building within existing schools.[5] Considering the foregoing, there is a clear need for private investment in education to supplement the laudable investments made by the Tanzanian government. Considering the varied set of funding needs (e.g. infrastructure funding, student finance) there must also be a variety of private

[2] Tanzania National Bereau of Statistics
[3] GDP growth (annual %) - Tanzania, World Bank.
[4] UNICEF 2018 Education Brief
[5] The Business of Education in Africa, Caerus Capital, 2017

funding sources that should include bank financing, private credit, private equity, as well as insurance and guarantees. There are three general challenges for the Tanzanian non-state education sector as it concerns these varied sources of funding. First, most funding sources are not sufficiently capitalized to address the demand of the education sector; second, the economics associated with most funding sources are either too rigid or too costly to accommodate the realities of the education sector; and third, there remains an untenable risk perception with regard to the Tanzanian market generally and the education sector specifically.

To address the challenges noted above, in particular the current paucity of private capital in the education sector, it is recommended that Catalyze use its flexible capital base to unlock further funding from traditional funding sources (e.g. banks, private equity); grants and guarantees which are the most ideal forms of capital deployment by Catalyze. Another recommendation is for Catalyze to leverage its network (both international and local) to develop bridging partnerships that will improve insights into the needs and opportunities of the non-state private education segment to benefit not only non-state school operators but also the funder community.

Whilst an increase in the quantity, variety and customisation of financing solutions for the non-state schooling sector will assist in addressing access constraints within Tanzania's education sector, further programmatic interventions are needed to ensure quality is simultaneously increased. Recent education reform marks positive progress, notably the migration from a content based curriculum to a competency based approach and also adjustments to school inspections becoming more focussed on collaborative accountability to quality. For the full benefits of such policy to be translated into effective practice, significant upskilling and modeling of these principles in action is required. In appreciating that the vast majority of education stakeholders responsible for effecting such policy change, such as teachers and inspectors, are products of an old education system, indicates the level of behavioural change required to expect a system wide pedagogical shift. High touch, continuous pre and in-service professional development is required, coupled with appropriate incentive and accountability mechanisms. Additionally, the role of centers of best practice will play an essential role in incubating talent and offering a platform to model good quality education, of which if leveraged and accessed appropriately could offer tangible benefits to state and non-state schools alike.

With a strong growing demand for non-state schools, yet considering the current fragmentation in quality that is offered across the spectrum of schools, it is clear that a similar level of capacity building, accountability and benchmarking of sector standards is required. A holistic capacity development service could lead to both education outcome improvements as well as improvements into operations and school management, which could also result in improved readiness to seek out and bring in external capital. For non-state schools who are afforded some level of flexibility in usage of diversified learning resources, encouraging experimentation and monitoring of new education technologies could earn the education sector at large valuable learnings and a platform to beta tested interventions. A focus on monitoring and learning would be required to capture effective case studies for the education sector. Furthermore, a large opportunity lays in if a significant percentage of non-state schools adopted similar in-classroom and back-office technology solutions, for there to be a centralised collection of data that if analyzed well, could offer newly generated, unparalleled and real-time data into a quickly growing sector.

2. Enabling Conditions

2.1 Tanzania Political Context

Political Overview

Political Stability: 50+ years of peaceful elections & non-violence

Presidential Terms: 5 years

President: John Magufuliv **Ruling Party:** CCM

Next Elections: October 2020 **Regions:** 30 Regions

National Assembly: 357 members

Zanzibar: Semi-autonomous

Tanzania has a long record of political stability, with nearly half a century of peaceful elections and smooth, non-violent transitions of political power | Over the last ten years the country has existed as a multi-party democracy.

Tanzania has held five successful national multi-party elections since 1995. The President of Tanzania and members of Parliament are elected concurrently and serve five-year terms. The President appoints a prime minister who serves as the Government's leader in Parliament. Presidential and Parliamentary elections were last held in October 2015 concluding in the election of John Magufuli as President of Tanzania.

Tanzania is divided into 30 regions; 25 on the African mainland, and 5 in the semi-autonomous Zanzibar archipelago. Zanzibar maintains extensive autonomy, with its own president, legislature, and bureaucracy.

President Magufuli was elected based on an anti-corruption platform and has actively promoted economic development and improving public administration, for which he has received a great deal of praise

2.2 Tanzania Economic Overview

Tanzania Economic Overview

GDP Growth Rate: average 6-7% over past 10 years
Projects GDP Growth Rate: 2-6% for 2020
GDP Per Capita: $1,050
FDI: 1.8% of GDP (decreased steadily in recent years)

Tanzania's real GDP growth rate has consistently averaged over 6% for the past decade | Much of this growth is attributable to strong performances in gold production, agriculture, and tourism. Agriculture accounts for more than 25% of GDP, represents 85% of exports, and employs approximately 80% of the workforce.[6] GDP per capita has increased from $687 in 2008 to $1,050 in 2018. The Tanzanian Government is targeting $3,000 GDP per capita by 2025. Unfortunately, economic growth over the past decades has not reached a substantial portion of the country with over 50% of Tanzanians still living on less than $1.90 a day.

Currently, and as a consequence of COVID-19, the International Monetary Fund (IMF) and the Economist Intelligence Unit (EIU) both project that Tanzania's economic growth will slow to 2% and 2.7% respectively, but will rebound and trend upwards in future years. Tanzania's internal projections are higher at 5.5%.[7]
and 2.7% respectively, but will rebound and trend upwards in future years. Tanzania's internal projections are higher at 5.5%.[7]

Since 1996, Tanzania has focused on macro-economic stabilization and structural reforms. The country has largely completed its transition to a liberalized market economy, though the Government retains a presence in certain sectors such as telecommunications, banking, energy, and mining. The IMF's most recent Debt Sustainability Analysis indicates that debt relief under the Heavily Indebted Poor Countries Initiative (HIPC), combined with the Government's sound macroeconomic policies, places Tanzania at low risk of debt distress.

Banking reforms have helped increase private-sector growth and investment, and the financial sector in Tanzania has expanded in recent years. Foreign-owned banks account for about 48% of the banking industry's total assets and competition among foreign commercial banks has resulted in significant improvements in the efficiency and quality of financial services.

The central government focuses on domestic production and is neither seeking nor attracting new foreign direct investment (FDI). Between 2013 and 2018, net inflows of FDI have fallen from 5.9% of GDP to 1.8%[8] | As a point of reference, the average FDI across low income countries was 3.2% as of 2018, which is troubling for non-state sponsored education as it heavily relies on FDI. Tanzania will need to continue to improve its enabling environment (particularly as it concerns private sector regulation and tax policy) to bring in further foreign direct investments particularly within the education sector.

Tanzania's foreign exchange rate (i.e. Shilling vis-à-vis the United States Dollar), has steadily depreciated on a per-annum basis since the mid-1980s. Since 2014, the Tanzanian Shilling has depreciated against the Dollar by 7%, which, while more muted than other African currencies, represents a notable currency risk for foreign investors who might otherwise seek to invest in Tanzania. This risk is made more challenging by the limited and costly hedging options made available by the financial sector.

[6] ATZ Law Chambers Investment Guide 2017/2018
[7] Poverty headcount ratio, 2017 (2011 PPP), World Bank
[8] Foreign direct investment, net inflows (% of GDP) - Tanzania, World Bank

2.3 Tanzania Business Regulatory and Tax Overview

TRA Tax Rates & Levies

Corporate Income Tax: 30%
Captial Gains Tax: 30%
Witholding Tax (Dividends): 10%
Witholding Tax (Interest): 15%
Witholding Tax (Royalties): 15%
Value Added Tax: 18%
Stamp Duty and Registration: 1%

Requirements for launching a business are relatively fluid and the licensing process can be lengthy, costly and confusing. Accessing the legal system is also problematic due to long delays.

Business regulatory oversight was intensified significantly by the new administration which took office in 2015. Notably, the revival of a number of tax and business regulations that had otherwise remained dormant in policy and unpracticed for over a decade. Backdated tax bills and fines resulted in many local businesses closing down and foreign investors exiting the market due to the abrupt changes in business enabling enviornment

Other new policies across the business sector have been mandatory Taxpayer Identification Numbers (TIN) for all business owners and Tax Compliance Certificates for all companies. An impressive national roll out of mandatory national IDs has also resulted in over 90% of citizens (over 15 years old) being digitally identified.

While the aggressive tax collection and regulatory tightening efforts have negatively affected many, domestic and foreign, private sector players, it is also appreciated that these reforms are necessary for long term positive change and are laying the needed groundwork for more functional administration in the public sector and a more fine tuned private sector in the near term future.

Stable fiscal policy has resulted in adequate foreign reserves and sustainable public debt (below 40% of GDP).[9] The central bank has successfully maintained a stable inflation rate that has been hovering below GDP growth since 2014 and below 5% since 2018.[10] However, a recent IMF assessment indicates that new private investment is needed to increase GDP output and the trade balance deteriorated in 2018, with exports contracting by 3.9% in gross value and imports increasing by 7.8%.

Foreign exchange and capital transactions are permitted with few restrictions, and profits, dividends, and capital can be repatriated. While there exist strong bilateral agreements between Tanzania and its international counterparts, there are ample opportunities to refine and expand upon those agreements to better incentivise investment into the Tanzanian non-state education space.

2.4 Property and Land Rights

Purchasing Property in Tanzania

Purchasing a new property:
- Takes 67 days avg (~3 x of OECD countries)
- Requires 8 separate procedures
- Costs a minimum of 4.5% of property value
- Only entitled to Tanzanian Citizens
- TIC derivative title for foreign investors

Ease of Registering Property ranking: 123/189

All land in Tanzania is considered Public land, which the President holds as trustee for its citizens. Land is divided into three categories which are general land, village land and reserved land. Terms lengths for right of occupancy are between 33 years and 99 years.[11]

The Land Act is very clear that a non-Tanzanian is not allowed to own land, this includes corporate bodies registered in Tanzania with majority foreign shareholding, who are considered as foreign entities. However, foreign entities/investors registered with the Tanzania Investment Centre (TIC)[12] can be issued derivative rights[13] on land designated for investment purposes and held under the name of TIC. Although this seems to be one of the best ways for investors to enjoy the use of land in Tanzania, it has proven challenging to raise capital from commercial banks using a derivative title as security. This is often due to the fact that such a structure designates the use of land specifically for investment purposes and thus restricts the resale options the bank would have under a liquidation scenario. Apart from derivative rights, foreign investors have been able to utilise land in Tanzania through long leases and joint ventures. However these often leave investors overexposed and lacking security.

9 IMF Staff Completes 2020 Article IV Mission to Tanzania
10 Tanzania Inflation Rate, 1999-2020 Data, Trading Economics
11 Hogan Lovells, Acquisition of Land by Foreigners in Tanzania
12 Tanzania Investment Act 1997
13 Hogan Lovells, Acquisition of Land by Foreigners in Tanzania

The fundamental constraint to Tanzania enjoying a robust land market is a lack of secure land titles (both statutory and customary) and an abundance of unsurveyed land. For example, data from the Bank of Tanzania suggests that 75% of the land in Dar es Salaam has not been surveyed. The market is also constrained by the long, costly, and uncertain land registration processes.

One Investor, whose investment strategy includes educational real estate and private school operators in Sub Saharan Africa (SSA), stated that the land regulatory framework in Tanzania is a significant deterrent and presents higher than usual risk.

This has not negated said investor considering Tanzanian education property investments, but the heightened risk has been factored into deal valuations.

Registering a non-state school requires proof of land ownership on which the school will be established. This high start up cost, coupled with barriers surrounding land ownership, has inhibited regional educational providers within East Africa from entering the Tanzanian market. Three notable school group operators cited this as one of the main deterrents keeping them out of what they see as a high potential growth market.

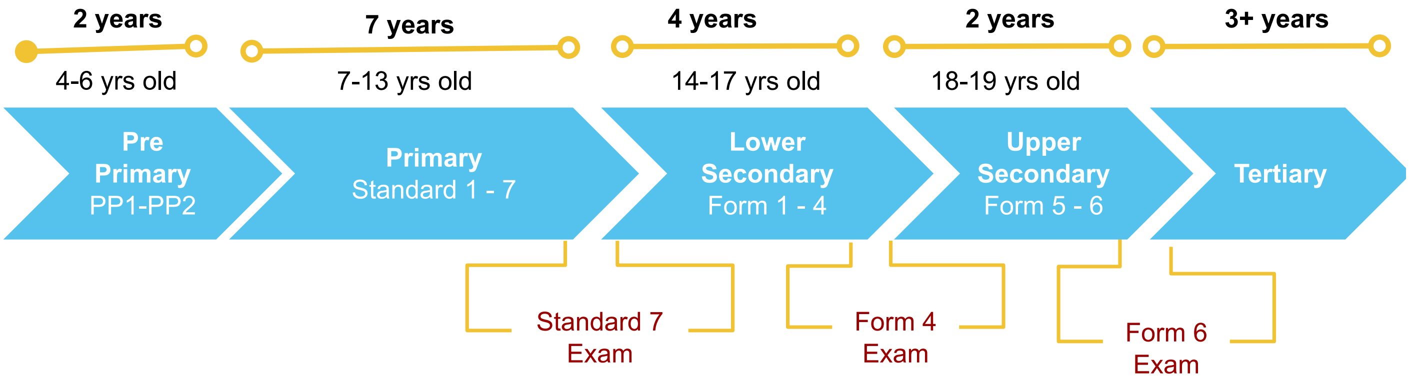
Summary

- Long standing political stability positions Tanzania as a very attractive investment destination within East Africa/ SSA.
- Zanzibar, with their semi autonomy, has deployed a notably more pro-investment strategy and offers a more enabling private sector environment for business and investors. Developments such as Fumba Town Development, which is a free economic zone where foreigners can own land (title deeds), offer interesting alternatives to Mainland Tanzania.
- Under Magufuli's Government, corruption is reducing and public administration and accountability is improving.
- Tax reform while important for the Tanzanian government in its efforts to create better fiscal stability, has proven to be a heightened investment risk for foreign investors.
- FDI has declined steadily and will require concerted effort to regain previous traction.
- Non-Tanzanian citizens are unable to own land, which is a requirement to obtain a non-state school license. The lack of surveyed land and secure title deeds also impedes domestic school owners purchasing land.
- Foreign investors can hold land through the TIC, however such title deeds are not commonly accepted as bank security, as such limiting formal financing options.

3. Education System Overview

3.1 Structure of Education System

Prior to 2015, the formal education system in Tanzania was 2 years of pre-primary (not mandatory), 7 years of free primary, 4 years of fee-paying lower secondary, 2 years of fee-paying upper secondary, followed by various higher education paths.



Tanzania is now in the process of restructuring policy to offer every student 12 years of free compulsory basic education. The main change to the above structure is that one year of pre-primary and four years of lower secondary are now free and will be compulsory. Currently only children who have passed the Primary School Leaving Examination (PSLE) are allowed to enter secondary schools. When the new Education Act is fully implemented, this will change. Progression from one level of schooling to the next is dependent on national examination results at the end of Standard 7, Form 4 and Form 6. There is also a key exam after Form 2. These exams are overseen by the National Examinations Council of Tanzania (NECTA).

3.2 Status of Education in Tanzania

Access to education has increased immensely, especially following the Fee-Free Basic Education Programme in 2015, that has resulted in almost 97% gross primary enrolment | In December 2015, the Tanzanian government declared that free basic education would be provided to all children[14]. Following this, net enrollment for pre-primary education reached 45% in 2017, one of the highest rates in SSA, while the primary education gross enrollment rate is now effectively universal, with net enrollment at 84%. Higher

more than 50 in 2016 and student enrollment has increased from less than 40,000 in 2005 to more than 200,000 in 2015.[15]

Quality of education has decreased and learning outcomes remain underwhelming | Universal access to education was a huge positive step,

education has also expanded rapidly from less than 20 higher education institutions in 2005 to however there are minimal corresponding advances in educational quality, particularly in the early grades. Reading skills remain an acute challenge for many Tanzanian students. A 2014 study showed that only 8% of Grade 2 students could read at grade level and only 8% could add and subtract.[16] Many students graduate from secondary school without mastering the '3Rs' – reading, writing and arithmetic. Uwezo, a leading Tanzanian education NGO, has consistently documented major deficits in all academic areas. In 2017, 20% of Standard 7 students in Tanzania could not read at a second grade level or do second grade subtraction.[17] USAID's own CDCS correctly asserts that "for many Tanzanian students, very little learning is occurring in the classroom."[18] In 2016, at least 87% of Tanzanian second grade students failed to meet a grade level standard for reading comprehension and on oral reading fluency and non-word reading benchmarks more than 90% of Tanzanian second graders did not meet the grade level standard. On each benchmark at least 15% of assessed students received zero scores. The same study demonstrated that 90% of Tanzanian second graders did not meet grade level math benchmarks.[19]

Resource constraints are a key challenge. At the pre-primary level the pupil-to-qualified-teacher

[14] Fee-Free Basic Education Program (FBEP)
[15] Education Sector Development Plan 2017-2022
[16] UNICEF Tanzania. 2018. Education: The Situation
[17] Uwezo, Are Our Children Learning 2019
[18] Uwezo, Are Our Children Learning Report, 2012
[19] ABE-ACR—Final Findings Report, Tanzania National EGRA 2016

ratio is 131:1 and that ratio is skewed by a 24:1 ratio in private schools. The public school ratio sits at 169:1[20]. An effective student to teacher ratio for pre-primary is reflected by the government's mandate to private schools that class sizes be no larger than 25. With ratios as high as the public schools, effective teaching and learning is essentially impossible.

Complicating the matter is a general lack of resources; 66% of teachers self-report that they do not have adequate materials in their classrooms for teaching[21]. Most government schools have poor study environments and lack sufficient textbooks and stationery. Many government schools, especially those in the rural areas, have insufficient classrooms and desks, which requires those schools to operate on a shift system, meaning that some students attend in the morning while others attend in the afternoon. Compounding these limited resources are suboptimal teaching practices, which are generally geared toward rote learning. Many teachers that are attempting to make the switch to a competence-based teaching practice are restricted by the need to use methodology that enables them to effectively manage massive class sizes and a lack of resources suited for implementing non-rote learning.

These low learning outcomes and resource constraints suggest that the focus on enrolment as a government priority may have aggravated existing problems in the education system.

Education is not aligned to the needs of the current job market and is not producing the human capital required to drive Tanzanian's industrialisation goals. A significant factor limiting the economic development of Tanzania is the mismatch of human capital produced by the current educational system, compared to the needs of the private sector and growing industries.

Tanzania is also known for especially weak soft skills and professional skills compared to neighbouring talent pools, namely Kenya. A study of Tanzania employers found that when asked what skills were extremely hard to find, 34% of firms cited behavioral skills, 30% cited inter-personal skills and 28% cited job-specific technical skills. A mere 0.1% of employers stated that workers demonstrated high levels of "life skills" such as self-confidence and perseverance, which play a significant role in whether or not a candidate can navigate the job market successfully.[22] This is seen in the private sector's preference for hiring non-Tanzania candidates for most management and mid-level management positions - before the stricter immigration policies were enacted.

A notable milestone was achieved when the new competency-based curriculum was introduced in 2015. This has been seen by educationalists as a significant step up from the previously outdated curriculum and is a move in the right direction. Competency-based education is focused on developing skills and mastering understanding rather than rote memorization. For the full benefits of this curriculum to be realised, a fundamental shift in pedagogy is required, that existing light-touch trainings have not achieved.

USAID has a long standing history of supporting innovative education interventions improving the quality and relevance of education in Tanzania | The 21st Century Education Program in Mtwara and Zanzibar generated great gains for lower primary students and the Tusome Pamoja initiative trained thousands of teachers and provided benefit to more than a million Tanzanian students in early grade reading. These initiatives are characteristic of the United States view that improving education is an essential method for achieving the Development Objectives of USAID's CDCS for Tanzania.

The improvement of education is relevant to all three of USAID's development objectives in Tanzania but is most directly relevant to Objective 1: Tanzanian Women and Youth Empowered and Intermediate Result 1.3: Lifelong Learning Skills Improved. What is notable is that the CDCS also emphasizes that it is not merely access to education, but access to quality education that is necessary. This is demonstrated by USAID's education policy focusing on improving education quality, primarily in the basic 3R skills with an emphasis on reading, through improving instruction, improving delivery systems and increasing parent and community engagement. The CDCS in particular points to previous failures to effectively engage the private sector to support Tanzanian schools as a major impediment to improving Tanzanian education.

[21] UNICEF
[22] UNICEF Tanzania. 2018. Education: The Situation.
[23] UNICEF Tanzania. 2018. Education: The Situation.

3.3 Education Policy, Regulations & Budget

Tanzania's education budget, as a percentage of its total budget and as a share of GDP, has declined steadily and is below the Southern African Development Community (SADC) benchmarks, which highlights that fiscal resources are inadequate to service demand | Although the overall Government budget has steadily increased, the proportion of this budget allocated to the education sector has decreased steadily over the last 10 years, and currently sits at an all time low of 14.2%.[23] Education spending as a share of GDP also fell to an all time low of 3.2% in 2018/2019l. Annex 3 shows the latest budget allocation.

It should be recognised, however, that the declining share of the total budget allocated to education is mostly due to the rapidly increasing proportion of the budget taken up with debt servicing. If debt servicing is excluded from the total budget, the proportion allocated to education has consistently been over 20%.

Tanzania's Education Budget

- **Share of total Government budget:** 14.2% (below SADC benchmark of 25%)
- **Share of GDP:** 3.2% (below SADC benchmark of 5%)
- **Spending per primary school student:** Fell from \$155-\$97 between 2017 - 2019

The Tanzania government's current resource allocation illustrates its inability to rely solely on a fiscal budget to address its educational objectives. This reality strengthens the case that private investment is a necessity if the education system is going to improve.

Although Tanzania's national development ambitions fundamentally rely on more robust educational outcomes and despite the Government's education policy officially taking a neutral perspective towards non-state education, the reality is government actors can be contentious as it concerns private sector involvement in education | Education in Tanzania is influenced and directed by national level policies. Annex 4 includes all relevant policies. All (K12) education policies, related to state and non-state schools, are prepared by the Ministry of Education Science and Technology (MoEST), and administered and overseen by The President's Office Regional Administration and Local Government ministry (PO-RALG).

Neither MoEST nor PO-RALG have a designated organ, position, strategy or plan focused specifically on dealing with non-state schools. This vacuum has created an endless cold war between the state sector and non-state education sector that directly inhibits the growth of the non-state school sector and the overall education sector in Tanzania.

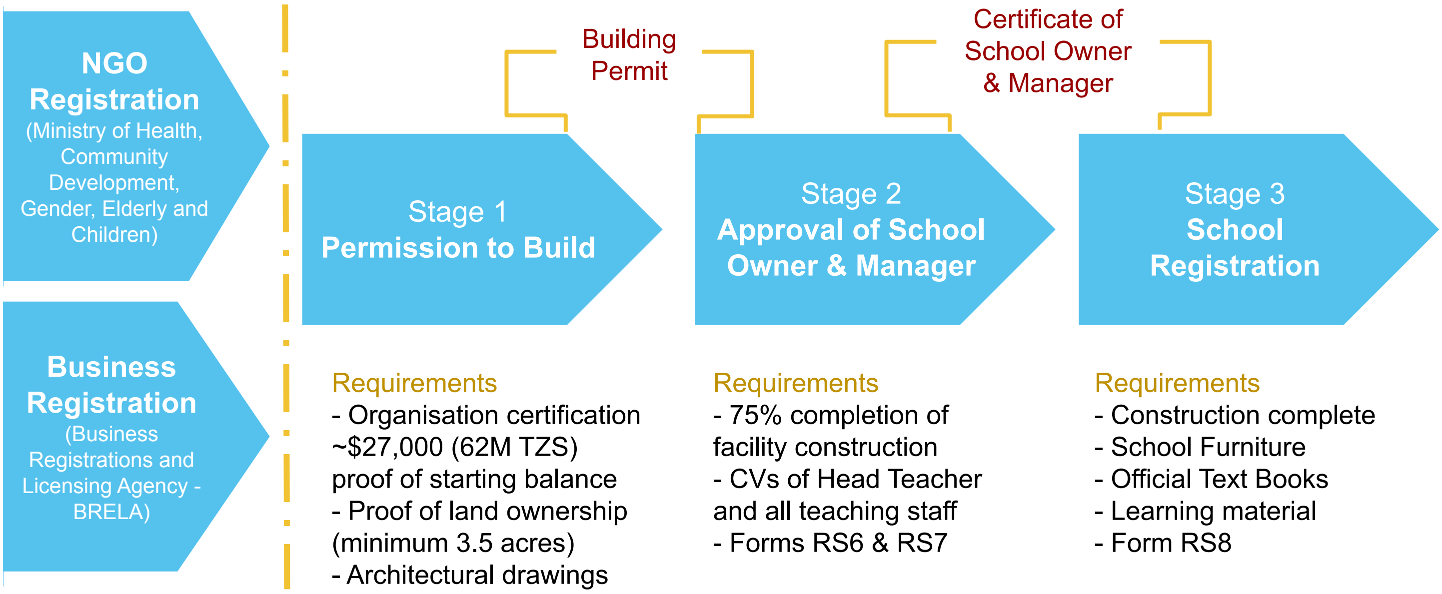
Currently PO-RALG is responsible for operating all state schools as well as regulating both state and non-state schools. Wearing the hat of both an operator and regulator has caused tension and has given way to the long standing discussions around the need for an overarching independent regulator. Tanzania's National Development Plan 2016-21, and other macro-level agendas, clearly state the fundamental necessity of a functioning and effective education system for achieving a more robust domestic human capital market in order to achieve national goals. However these strategies fail to elaborate any clear framework by which the non-state sector can meaningfully contribute to the nation achieving its education goals and the larger societal goals that depend on education.

3.4 Registration Process for Non-State Schools

Education Regulation in Tanzania is unusual in the degree of oversight of the private school sector, compared to other neighbouring countries in the Region. Starting a new private school in Tanzania can take anywhere from 6-36 months and generally costs between \$4,000 - \$25,000. This process is a clear disincentive to entrepreneurs considering opening schools. Individuals, private organizations, and non-governmental organizations are legally permitted to own and operate private schools. These types of organizations are considered for-profit entities by the Government. A high number of formerly not-for-profit organisations have reverted to registering as businesses (with BRELA) to avoid the time constraints, post-registration oversight and more extensive regulations that are applied to entities registered as NGOs and non-profits in Tanzania.

The process for opening a non-state school has 3 clear stages which, while the policy and process path is clear, can be both challenging and confusing in practice | Non-state owners and managers must meet minimum criteria to progress to each stage of registering their non-state school with the MoEST as follows:

[23] National Basic Education Statistics 2018



Minimum infrastructure standards set by the MoEST are unevenly enforced between public and non-state schools. Annex 5 provides a breakdown of site facility requirements. A minimum of 75% of the property requirements must be completed prior to inviting District Quality Assurance Officers to inspect the site. While these site standards are applicable to all schools, public and private alike, the majority of public schools fail to meet these standards while most non-state schools must meet them.

Government approvals are required at every level from Village - National in order to progress through each of the 3 stages. Non-state school leaders apply to the Commissioner of Education through the Zonal Chief Inspector of Schools for a school license. All school applications are approved or revoked by the Minister, including the ability to refuse or revoke registration she/he deems not in the interest of the public. The disapproval or revocation is final and cannot be contested. Annex 6 lays out the various officials involved in the registration process throughout the registration journey. Schools interviewed cited Ward and District level roadblocks as a particular struggle that cannot be negotiated without multiple, and not insignificant, 'facilitation fees'.

There are 14 criteria upon which a school may be denied registration. The challenge is that some of these criteria, and minimum requirements for satisfying them, are opaque and are open to distortion.[24] This ambiguity can cause long delays at certain points in the registration process and can leave school owners susceptible to bribe demands.

These highlighted roadblocks are, however, actively being addressed by the government which is currently moving the registration process of schools to an online system, much like the digitalization of other sectors and government processes. For entrepreneurs the extant process presents a clear disincentive to start a new school.

3.5 Inspections and Quality Assurance

While recent changes in the Quality Assurance Policy have mapped out an impressive approach to collaborative assurance of education quality, further progress is needed to create conducive and aligned efforts to assure delivery of quality education. The current policy affords private schools some limited autonomy. Schools can set teacher salaries, although there are applicable minimum salaries, deploy and dismiss teachers (subject to fairly restrictive and somewhat ambiguous labor laws), but they have to adhere to centralized requirements on teacher qualifications, class sizes, pedagogy, class timing and length, and curriculum.[25]

The Schools Quality Assurance Division (SQAD), under MoEST is responsible for school inspections and for monitoring educational quality. The government attempted to shift the nature of school inspections substantially in 2017 to move away from a strict inspecting/policing approach focused on identifying and sanctioning violations to a more supportive, nurturing approach focused on collaborating to assure

[24] World Bank 2014. 2015
[25] Low-Cost-Private-Schools-in-Tanzania-A-Descriptive-Analysis

quality. The main changes in the system are summarized below in Annex 7.[26]

All schools are subject to these inspections, however non-state schools are inspected on much higher frequency and held to a much stricter standard than state schools. Every school owner/manager named school inspections as a key hindrance in day-to-day operations. Owners explained that despite the policy change to a more supportive approach, there is still a strong sense of 'policing' when inspectors visit.

Inspectors' fealty to the exact language of the inspection criteria often inhibits innovation in non-state schools | One school operator cited an inspector observing an English lesson being taught notably above grade level, whereby the teacher also dealt with a competence that was not scheduled to be taught for several weeks according to the official Government timetable. The inspector demanded that the teacher stick more closely to the schedule mandated by the curriculum, despite the school's avowals that they had covered the relevant material weeks before and that students had previously mastered those skills. Other schools cited similar examples of inspectors limiting effective teaching and learning through rigid fixation on policy include disallowing schools from expanding or shortening class periods in attempts to optimise school day/week scheduling, not allowing for certain paper-based functions like attendance, lesson plans or schemes of work to be created and utilized electronically, and making it difficult for schools to promote school leaders who are degree holders.

Size restrictions limit classroom sizes of pre-primary to 25 students per class with a minimum of two teachers per class, and maximum class sizes of 45 students per class at primary and secondary levels. In practice, these regulations are often more fluid. Regulations limit the number of streams a school may have to four per grade level e.g. 4 classes of a maximum of 45 students in Grade 2. However, like the limits on class size, the limit on streams is sometimes also ignored. One school that was visited during the research had 11 streams of Grade 4 (close to 500 students at a single grade level).

3.6 Teacher Supply and Status

All schools in Tanzania, public and private alike, are only permitted to employ teachers who have teaching certifications from accredited programs. These can be certificate, diploma or degree programs | Annex 8 lays out the process and teacher attributes for each of the 3 categories of qualified teachers. To help meet the growing demand for quality education, Tanzania will need to recruit and train at least 406,600 new teachers by 2030[27].

Teacher Compensation State vs Non-State Schools
The government teacher salary scale[28] is generally more competitive on salaries and benefits than low-mid fee non-state schools. The starting monthly salary of 250,000 TZS (~$120 USD) at government schools is higher than the average starting salary of 200,000 TZS for similarly qualified non-state school teachers. The highest end of the government salary scale, for Head Teachers at a monthly gross of 2.2million TZS (~$1,000 USD) again is higher than what most non-state schools pay for the same position (which averages 1.8M TZS). Interviews, however, recognised a wide range of salaries provided by private school owners, depending on owner and calibre of staff.

Many teachers in Tanzania are enticed to work in the government sector and those with the most talent often are recruited for international school positions. In surveying teachers it was noted that other attractive elements of working for the government are the transparent rising pay scale, the strong pension system, reduced taxes on benefits, long term job security and the prospect for eventual promotion to other government positions.

Talent Shortages for Non-State Schools
Due to the prominent (official and unofficial) use of Swahili throughout the Tanzanian education system, the number of teachers who have a level of English language proficiency sufficient to teach in that language remains staggeringly low. Deploying teachers with poor English to teach an English curriculum has obvious negative academic consequences but also has less well understood social consequences. Often schools impose an English only rule at school leaving students with frustratingly small vocabularies to express themselves in. This inability to communicate has negative social and emotional consequences for children, which lead to the types of low soft skills that the talent market craves.

Candidates with strong English language skills are generally training for secondary and higher level education and have salary expectations that often cannot be met by non-state schools. Private

[26] Education Sector Development Plan 2017
[27] UNESCO
[28] Annex 2

schools often struggle to find good teaching candidates that can offer the type of services that English-medium primary schools market themselves on. This talent gap is a huge growth constraint for the non-state school market, and was reflected during interviews with a number of non-state school operators who are considering, or have committed to, expanding into operating teacher training institutes to groom their teacher talent pipeline.

3.7 Publishing Industry

The publishing industry in 2014 reverted back to full state control, when the government decided to discontinue the market-based system for textbook provision that was established in the early 1990s | The full textbook value chain - authorship, publishing, and distribution - for all education levels from pre-primary to Teacher Education was centralized within the Tanzania Institute of Education (TIE).

The change in curriculum from multiple textbook providers to one official textbook per grade and significantly impacted the publishing industry and contributed to the closure of many private publishers almost irrelevant, confining them to per subject, rendered content from private producing reference books. This policy change publishers, printers and booksellers. The 14 private publishers who survived did so mainly by shifting to publishing non-educational books or focusing on niche markets.

TIE is mandated to provide official books for free to the educational market, state and non-state schools alike. However, in practice, the distribution is confined to state schools. Leaving non-state schools either without textbooks, relying on unofficial textbooks or traveling to Dar es Salaam to purchase from TIE/approved distributors. TIE has invested in an online resource library that is already proving very beneficial in increasing access to official learning resources but problems remain. As tech literacy increases, combined with the already high rates of mobile phone penetration, this open source platform (accessible on mobile phones) can be leveraged for improved access to teaching material, reduced costs and content updates.

Summary

- Tanzania is restructuring to offer every student 12 years of free compulsory basic education (to include pre primary and secondary schooling).
- Access to education is very high, especially at primary level, with close to universal enrollment.
- Learning outcomes have declined across almost every learning indicator and every education level.
- While enrollment has consistently increased over the last decade, education budget as a percentage of national budget and as a share of GDP have both steadily declined over the same period.
- Relevance of education hit a positive milestone in the switch from a content based curriculum to competency based. However further refinement is needed for the education system to produce talent more closely matched to job market needs, especially the human capital needed to advance Tanzania's industrialisation goals.
- MoEST is responsible for setting all education policy, related to state and non-state schools, while PO-RALG implements and oversees said policies. There is no specified department, plan or person designated to non-state sector education. Opinion of private sector education, from Government, is not favourable.
- Starting a new private school in Tanzania can take anywhere from 6-36 months, sumount to costs between $4,000 - $25,000 and involve 3 core stages of registration.
- Criteria to obtain a school license include owning land of minimum 3.5 acres, meeting infrastructure standards, and proof of minimum starting capital. School registration poses a high barrier to entrance into the non-state school market.
- The school registration process is soon moving online, which should ease the process and increase transparency.
- Although notable policy improvements have been made in shifting quality assurance to become more supportive, further progress is needed to shift practice of school inspections to become more effective.
- All schools are only permitted to employ certified teachers to be instructional staff. Compensation is typically lower in non-state schools than government.
- TIE provides the single authorized text book, per subject, per grade, that is mandated for use by every state and non-state school. This is available via TIE's online library that teachers can access of phones.

4. Requiring Finance | Demand Side

4.1 Market Demand for Non-State Schools

The price segmentation of non-state schools can fall broadly into 4 categories of annual tuition fees charged:

International Schools
High Fee - High Quality
$3,000 - $30,000 USD

Low Fee - Good Quality
$500 - $1,000 USD

Middle Range Fee
Low fee internationl /
High fee English Medium
$1,000 - $3,000 USD

Low Fee - Low Quality
$300 - $1,000 USD

Tanzania has one of the youngest populations in Africa (44.69% under 15), a growing middle class, and improvements in the State school sector are proceeding slowly and are limited by the incredible growth required by such a young population. Capacity and quality constraints at state schools have pushed families to seek a more assured quality offering elsewhere. The first, and most consistent factor that pulls students into the non-state school market is language. The language of instruction in almost all private primary schools is English, compared to Swahili at state primary schools. Class sizes also tend to be smaller than state schools, staff are more directly accountable, and teachers are more likely to be employing modern teaching styles.

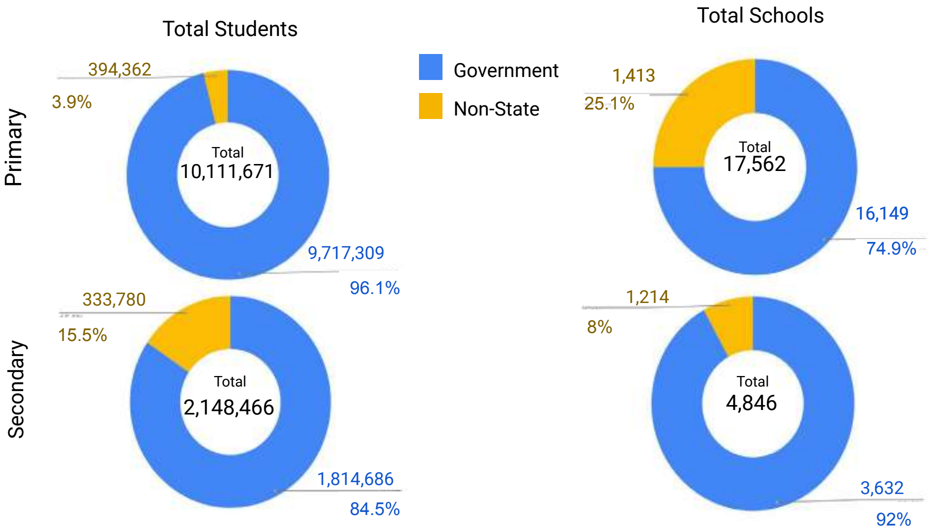
In general, families that can afford alternatives to State school, take them. Average household expenditure on education has been placed anywhere from 30-50% depending on the source and some estimate the actual expenditure may be even higher. In a 2015 study, families of students in private schools spent around 9.5 as much on education as parents who had children in fee-free pre-primary/primary level state schools. At the secondary level, parents paid a little over twice as much so their children could have a private education. Parents are clearly willing to pay for basic education if they are guaranteed quality.[29] In a parent survey, 87.5% of households indicated they preferred the statement, "It is better to raise educational standards, even if we have to pay school fees" to "it is better to have free schooling for our children, even if the quality of education is low."

4.2 Status and Segmentation of the Non-State School Sector

Government statistics show there are over 2,600 non-state schools in Tanzania[30], inclusive of both primary and secondary schools. While many other SSA countries cite having large and difficult to manage unregistered school markets, Tanzania has a much lower, estimated, number of unregistered schools and those are concentrated at the pre-primary level. The number of unregistered schools at primary and secondary level are limited due to thorough inspection and clean up efforts rolled out over the last 5+ years as mentioned in other sections of the report. Additionally the regulation that restricts students at unregistered schools from sitting for national exams is an important filter that naturally moderates the number of unregistered schools.

The fee segmentation of schools falls broadly into the categories and cost brackets highlighted to the left. Although cost of living varies widely between different regions in Tanzania, the average recognised range for affordable primary education is 700,000-1,000,000 TZS and secondary ranges from 1.3m - 2m TZS.

Table 4:



[29] Low-Cost-Private-Schools-in-Tanzania-A-Descriptive-Analysis, Aug 2020
[30] National Basic Education Statistics Tanzania, 2018

Table 4 shows the segmentation and size of the education sector by level and ownership:

In Tanzania private primary education has a significantly smaller market share than it does at the secondary level. Private schools account for 20% of the total enrollment in secondary education[31], which is in line with the Sub-Saharan Africa average of 20%. In contrast, private schools account for only 8% of enrollment in primary education[32], as opposed to the Sub-Saharan Africa average of 14%[33].

This discrepancy is mainly due to a small number of places at government secondary schools compared to the much larger number of primary school graduates seeking spots. This is not a new problem and, in the last 10-15 years, many non-state secondary schools have sprung up to fill this access gap.

4.3 Enrollment Trends and Drivers

Under the current administration, government policy has prioritised the expansion of access to state secondary schools by opening more schools over a broader geographic range to improve accessibility to a larger and more geographically diverse group of students. These expansion plans are underway and the number of state secondary schools continues to rise steadily. Access is improving and, paired with government moves to redress issues regarding insufficient oversight of government teachers, has caused a decrease in the demand for non-state secondary schools. Government projections suggest that enrollment in government secondary schools will double between 2018 and 2025.[34]

Another important factor affecting secondary school enrollment rates was the announcement made by the Higher Education Students' Loans Board (HESLB) in 2017 stating that, due to excess demand and their founding commitment to serve financially needy students, they would only be receiving applicants from graduates of public (not private) secondary schools. HESLB is the main source of education financing for the majority of university students in the country, so the loss of eligibility for these loans is a major deterrent to enrolling in non-state secondary schools.

All of the secondary schools interviewed shared that their enrollment decreased following this announcement and has continued to decline steadily over the last 5 years. One school cited their enrollment dropping from 2,300 students in 2015 to 1,200 current date students. It should be mentioned that private secondary school enrollment has also been affected by other factors. A director of an association of private education investors predicted that the decline in demand for non-state secondary education will continue in the coming years, as state schools continue to address some of the fundamental challenges that originally drove parents to seek alternatives. However, most expect that capacity constraints will re-emerge as Tanzania's school enrollment grows and the demand for private options will resurface. Macro data shared in a recent World Bank study[35] evaluating the steep increase in projected secondary school demand and enrollment, outlined the pace of infrastructure expansion necessary to keep up with demand in the coming decade and all parties concerned agree that the required growth is unlikely to actually occur.

The WB suggested that opportunities should be created to service excess demand in State schools and excess capacity in non-state schools via potential PPP engagements. PPPs seem unlikely under the current regime, but examples of educational PPPs are emerging in neighbouring countries and can serve as helpful reference points. Nascent PPPs are also growing in the agriculture and health sectors in Tanzania and the initial appetite and frameworks for PPS are being stress tested.

While demand for secondary schools may fluctuate, demand for primary school remains consistent. Improvements to quality and relevance on the state side have been very slow and the language of instruction in state primary schools is Swahili. As long as that is the case, parents will remain driven to seek privately operated English schools. Pre-primary and primary schools are seeing strong and steady occupancy growth in most schools interviewed, however the effects of Covid-19 have not yet been accounted for.

4.4 Access to Formal Finance

The start up costs required to establish a new non-state school are not insignificant, as highlighted in section 3.5. Start up capital for new school owners is virtually impossible to find from commercial banks. Five school owners interviewed stated that their start up funds came from family contributions, informal loans or the use of their personal pension funds (that become available upon leaving a job).

[31] National Basic Education Statistics Tanzania 2018
[32] National Basic Education Statistics Tanzania 2018
[33] WDI 2017
[34] World Bank 2019
[35] WDI 2017

Top Reasons for Seeking Capital

1. Capex for facility construction
2. Capex for school vehicles
3. Technology and learning inputs
4. Bridge funding for Opex until next fee collection window

Most schools in the market follow an incremental growth path, beginning with 2-3 lower year classrooms and then adding/building a new class each year to accommodate the previous year's students moving up a level. This model eases the capital and operational expenditures required to grow with secured demand.

Almost all schools stated that school loans could be secured and operators stated that they knew where to secure loans, most frequently the CRDB & NMB banks. Financing terms were well understood by schools interviewed. The largest highlighted obstacles to accessing these loans were prohibitively high interest rates and short repayment periods.

Collateral requirements are also often cited as a barrier, with many banks hesitant or refusing to accept school facilities as the sole collateral type due principally to (a) the reputational risk associated with potentially displacing young learners and (b) the operational risk associated with a limited resale market for fit-for-purpose school facilities. Almost, 71% of private schools own their land and school facilities.[36] Land and school facilities are, in the majority of cases, the main/largest available collateral school owners have access to and most operators struggle to offer alternative collateral if this asset class is not acceptable.

4.5 Unit Economics of Non-State Schools

The majority of school expenditures are devoted to teachers' salaries, which are on average lower in private schools than in government schools[37]. This is especially true in the case of low fee schools[38]. Market norm is also to mandate all school employees to have a personal bank account under the same bank that the school uses, this decreases transaction cost and time to process payroll.

Top Expenditures

1. Staff Payroll
2. Food & Storage
3. School Transport
4. Learning Materials

The second largest expenditure is food costs. Many school owners spoke of significant material savings possible when purchasing dry foods in bulk at lower unit cost during harvest season. Large upfront capital expenditure required for bulk food purchases and appropriate storage facilities make this strategy prohibitive for many schools. CATALYZE could explore equipment financing or group purchase loans to create economies of scale amongst school clusters to reduce net food expenditure.

School Fee Payments | Dominant Market Norms

Payment Plan: Termly Instalments (3 per year)
Primary Payment Platform: Bank Transfer
Top Used Banks: CRDB, NMB, Exim
Aleternative Payment Options: Mobile Money, in-kind barter (usually food items), strong culture of no cash payments
Average Deliquency Rate: 20-25%
Average Default Rate: 5-10%
Regulations: No existing fee capping regulation enforced
Revenue Reprting: All school fee payments must be issued official Tax receipts (EFD- Electronic Fiscal Device)

Despite the Government's attempt to regulate private school fees, all schools are allowed to set their own tuition fees.

All schools interviewed follow a termly fee collection model, which is the market norm from almost all private schools, although some schools serving a more mid-market segment provide incentive schemes for annual or bi-annual payments.

Monthly payment schemes are occasionally available to parents with a proven relationship and track record of timely payment history, or in cases extended to particularly financially disadvantaged parents. Faith-based schools are more likely to offer such payment schemes to parents, as part of their efforts to increase accessibility to lower income families.

All schools interviewed use bank transfers as a primary means of fee collection, which is the most understood and perceived to be a secure transaction method by parents. This is also the cheapest transaction option versus mobile money transactions. Most schools have now banded cash

[36] World Bank 2019
[37] Tooley and Dixon, 2006
[38] Tooley and Longfield, 2015

payments after previously facing challenges in exercising financial controls and oversight.

4.6 Fee Management Services

A number of commercial banks, including CRDB, Equity Bank, NMB and Exim, have recently begun offering school fee management products for school business clients. This service provides a more streamlined, secure, efficient and automated process of managing school fee collections. Positive feedback has been reported by both parents and school managers after the introduction of this new system.

There are currently two main partners, ShuleSoft and BizLogic, that banks are using for backend and tech systems support. Both firms were interviewed and shared ambitious growth strategies that will eventually expand their coverage to the majority of private schools and banks. An opportunity CATALYZE could take is to support one, or both, of these companies in expediting their expansion across the education sector by subsidizing/removing acquisition and onboarding costs associated with serving more banks and non-state schools.

The benefits of more banks offering fee management services, aside from providing more tailored services to school clients, is the intimate understanding they could gain of school businesses. With a rigorous fee management leading to improved revenue bases for schools, together with banks receiving greater insight into school customer data and behaviour, this could create a foundation for banks to adjust their risk profile towards school clients. Annex 9 highlights the main tech service providers interviewed.

These partners are also rolling out fuller services directly to school owners and managers. ShuleSoft and Biz Logic offer fully integrated School Management Softwares that cut across all key functions of school operations, including delivering education. Some of the modules offered by ShuleSoft include academic management, accounting software, student attendance and performance, teacher attendance and professional development, and exam monitoring and reporting. Operators have stated that these systems are effective tools to increase efficiency, help reduce workload, and to support an effective working environment where staff can focus on teaching.

To address the low tech proficiency, and initial resistance to potentially job-replacing technology amongst school staff, each company takes a resource heavy approach to pitching, training and orienting/onboarding new schools, buttressed by consistent follow on support. The data sets and sector insights that such firms will eventually hold will be very valuable in understanding the non-state sector more accurately. This will further benefit all players within a market that lacks quality and consistency of data. The additional role such firms could play in vetting the quality pipeline of financeable schools could save time and money.

4.7 School Associations and Service Providers

The Non-State School sector is fragmented in quality of services offered, price points and in its coordination between peers and stakeholders. There are a handful of prominent associations and affiliate organisations who play active roles in organising, representing and capacity building specific segments of the sector, but many schools either do not belong or are inactive in these organizations. Annex 10 highlights the main actors interviewed and their demographics. The most notable and effective stakeholders are the Tanzania Association of Private Investors in Education (TAPIE) and MOFET. Both of these organizations could prove valuable partners to the CATALYZE strategy in Tanzania, in particular as it relates to vetting and capacity building a strong pipeline of investment-ready schools.

There may also be creative ways of leveraging existing social collateral that exists within certain school owner social groups that could be used to address the risks of high default rates, insufficient collateral and the costs of conducting due diligence. For example if a group loan product scheme were to be introduced to a cluster of school owners, discrete credit ratings could be derived (through communal means) which could reduce credit risk in the future. This could also have the secondary benefit of linking schools and creating communities of good practice as operators become invested in each other's success. Group lending, much like what is seen in the microfinance industry, could increase access to credit for those who might otherwise not have access on a discrete basis. Certain assets in particular may work well for such a group lending scheme; for example grain storage mills that could be shared amongst a cluster of schools in close proximity and possibly transportation and fee collection infrastructure.

4.8 Faith Based Schools and Associations

Christian Social Services Commission (CSSC) is a network with 1,033 fee-charging, church-owned educational institutes (~40 % of private schools in Tanzania).This network of institutes spans pre-primary, primary, secondary, university and teaching colleges and although all are housed under the ownership of 117 different Dioceses, CSSC serves as a core coordination and oversight body. CSSC's main mandate is to advocate, form partnerships, provide quality control and build capacity on behalf of, and at, its member schools.

Table 5: CSSC School Portfolio Overview		
Education Level	**# Schools**	**# Students**
Pre Primary / Nursery	272	13,600
Primary	228	18,240
Secondary O-Level	385	38,500
Secondary A-Level	120	24,000

CSSC's Quality Assurance Unit has recently developed a diagnostic tool that encompasses a six-level grading system. The tool provides a thorough diagnostic, covering over 100 data points across a range of areas such as school Governance, HR/staff retention, financial management, infrastructure, safety & security, academic quality assurance, and social welfare.

The above tool could be repurposed to serve as an initial screening/due diligence for schools seeking to enter the financing pipeline. As an extension of the assessment tool, CSSC has also developed an integrated, robust data management system which they are using to collect school level demographic data, performance data, and financial performance data on each of their schools. When operating at a steady state, this data system will provide real-time performance data on 1,000+ schools across Tanzania. This data system was initially funded by a UKAID-funded innovation program, and is now fully funded by CSSC themselves. There may be value in leveraging CSSC as a partner to vet, deploy, monitor and potentially securitize capital to member schools.

High market demand for Church schools is based on performance (70% of the 100 top performing schools in the country are church schools) but also on parents' desire for ethical, morals-based education. CSSC's General Secretary stated 'if we fail on exam performance or ability to instil ethics, we lose students rapidly'.

The National Muslim Council for Social Services in Tanzania (BACWATA) initially had a large and well-established education portfolio but the size and activity of the network has steadily declined in number and quality since the association's start in 1967. The network now has 40 schools, inclusive of pre-primary through secondary level, that are owned and managed directly by BACWATA, and a further 160 schools that are independently registered but coordinated under BACWATA's umbrella. BACWATA's Secretary explained that many of the schools are in decline. As such they have begun to actively pass management of the schools to third party school managers. Many of the schools are still housed within infrastructure that was constructed in the 1960s and have not had the benefit of steady maintenance or improvements. Many schools have also suffered from fluctuations in enrollment, which has further strained cash-flow.

In attempting to manage operating costs at school level, very few full-time teachers are maintained on payroll, and teachers from other private/government schools are brought in on a part-time basis at varying times and days to lead instruction. This rotational model of reducing full-time salaries and subsidizing teaching with drop-in teachers has been cited as a common practice for other low-cost, low quality non-state schools. Which naturally heavily dilutes the quality and consistency of instruction, particularly at the lower levels where the relationship between teacher and student is often the primary motivator driving student effort. When students are denied the opportunity to form long-term, caring relationships with adults, they suffer both academic and social harms.

BACWATA serves the lowest income demographic out of all school owners/managers interviewed and sometimes removes fees for very needy families. The opportunity to take over and turn around some of the existing 40 schools with a rigorous turnaround strategy would be an interesting opportunity for a school management stakeholder to explore, and is one which the group is open to.

Summary

- With 44.69% of Tanzania's population being under 15 years old, and with the country just being recognised as a middle income country, effective demand for non-state education is very high.
- Top drivers for non-state education include parent demand for English as the language of instruction, smaller classroom sizes, modern teaching techniques and better quality and accountability of teachers.
- Average household expenditure on education ranges from 30-50%
- The lowest bracket of commercially run non-state schools charge fees of ~$300 per annum, with the exception of NGO or faith based schools who provide subsidised fees or scholarship places.
- Parents are willing to pay more for assured and consistent quality
- Tanzania has 2,600+ non-state schools, with 1,413 being primary schools (8% of Tanzania's primary school) and 1,214 being secondary schools (25% of Tanzania's secondary schools).
- There are very low numbers of unregistered schools due to tight regulation and oversight.
- The higher % of secondary schools vs primary is largely due to limited capacity of state school access.
- Parents disincentivized to choose non-state secondary schools since university loans disqualified applicants from private schools.
- Enrollment in non-state secondary schools has cited steady declines, however widely held opinion is that demand will resume once capacity bottlenecks are experienced again on public supply.
- Demand for financing is high amongst non-state school owners.managers, most often for capital expenditure for land, facility or school vehicle purchases. Demand for short term loans was also high to bridge operational costs between typical termly instalments.
- Knowledge of available loan products, terms and comparison of financial products across various banks was high amongst non-state school owners. The resounding sentiment being that the supply of loans was not a problem at all.
- Largest cited obstacles to accessing these loans were prohibitively high interest rates, unrealistic collateral requirements and short repayment periods.
- Most common fee payment plans are on a termly basis (3 x per year), paid via bank transfer.
- Average default rates of fee payments is 20-25% and bad debt (not collected) of 5-10%
- Dynamic fee management services now available on the market to improve collection rates and process.

5. Covid-19 Impact

5.1 Enrollment effects

Pre-primary enrollment has seen a significant decline in the private schools interviewed. With household incomes reduced for many families, many parents are deciding to take their youngest children out of school with the understanding that they will be less impacted educationally and will still be admitted into school the following year. Additionally parents perceive younger children as more vulnerable to the virus and to the possibility of infection.[39]

Secondary schools interviewed shared that they had seen a number of secondary students not returning after either falling pregnant or finding productive work during school shutdowns. School managers noted that they were seeing most of the male non-returnees picking up jobs such as driving motorcycle taxis.

5.2 Teachers and Staff effects

Almost all schools interviewed had applied some degree of staff salary reducations, and school associations confirmed that this was the norm for the private education sector at all levels. The rate of reductions spanned from full removal of salaries (ie 100% reduction) to a 25% reduction of gross salary, the average reduction seen was 50% of gross salaries. Most schools began cuts during the month of March or April - the announcement of closures came on 17th March. The majority resumed their usual payroll in July (the first full month of reopening). Schools interviewed that had not resumed full attendance have not returned to their previous payrolls and have instituted permanent reductions for the remainder of 2020 and/or made wider staff layoffs.

Some of the more stable schools have reported that they are paying back previous salary reductions now that cash flow has resumed. Additionally, some church-backed schools and some international schools kept full payroll throughout the shut down period, however these were exceptions to the rule.

A number of schools, primarily boarding schools, were able to offer vacant dormitory space to teachers and support staff to make up for reductions, and to compensate those who lost their homes due to their inability to pay rent.

[39] Interview: Tanzania private school association leadership members, Sept 2020

Similarly, food packages were a norm within many schools and teachers were provided rice, sugar, tea and other staple rations in place of/in supplement of reduced payment.

5.3 Finance & Cash-flow effects

Schools shut down two days before the scheduled start of Term 2, which in turn correlated with the second installment window for fee payments for almost all schools. Missing this second installment, which many schools are reliant on, meant that schools entered the lockdown period with very low cash reserves and limited options.

Primary and secondary schools were reopened on June 29th, meaning July was the first full month back in operation. Many schools reduced school fees for the remainder of the year, with an average reduction of 20-25%. The majority of schools, however, have not altered fees, using extended instructional hours and curtailed holiday periods to justify maintaining fee levels. The Minister of Education stated that their original tuition fees should be maintained due to the addition of extra instructional time accomplished by remaining open over scheduled holidays. This mostly has been seen positively by non-state school owners and managers who have been able to reference this statement as support when informing parents of static school fees.

5.4 School Timetable & Government Changes

The government has made a few changes in the school calendar to compensate for missed education time. Some of the interventions include:

- Schools to remain open until the end of the year (18th Dec) rather than the usual November closing date
- The standard two week holiday in September was reduced to one week only
- Longer hours (an additional 2 hours per day) of instruction were intended and trialed but were not operationally possible for most schools. Therefore this structural change was discontinued and schools reverted to the usual curriculum schedule

6. Providing Financing (Supply-Side)

6.1 Overview & Banking Sector Performance Indicators

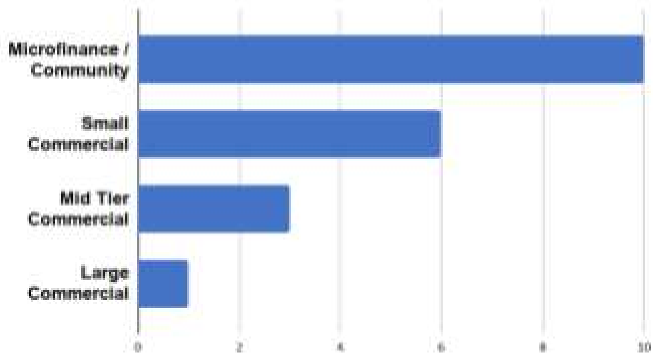
Tanzania has a relatively well established banking sector, with 41 banks. This cohort is broken down by asset size as shown in the table[40] below with market share reflecting the number of banks by tier. Assets are dominated by large & mid tier banks (74% and 20%).

Table 6: Tanzania Banks Segmentation

Tier Type	Market Sizing Total Assets USD	Total Banks	Market Share %
Large Commercial Banks	>$400m	9	22%
Mid Tier Commercial Banks	>$100m	12	29%
Small Commercial Banks	<$100m	13	32%
Microfinance/Community Banks	<$20m	7	17%

In addition to the conventional banking segment, Tanzania's financial services sector includes microfinance institutions, development banks (which we define to include financial institutions assisting with mortgage financing and mortgage finance facilitation), leasing companies, and insurance companies.

Table 7: Tanzania M&A Activity by Bank Tier



The number of banks in Tanzania has often been called excessive and of late the market has been characterised by intense regulatory activity and pressure on consolidation to achieve scale and improve credit quality.

Recent merger and acquisition activity within Tanzania has provoked a consolidation of smaller

[40] Bank of Tanzania Financial Sector Supervison Annual Report 2019

microfinance and community banks as observed in the chart on the left[41].

As a result, banks have seen robust growth across all balance sheet measures across the last five

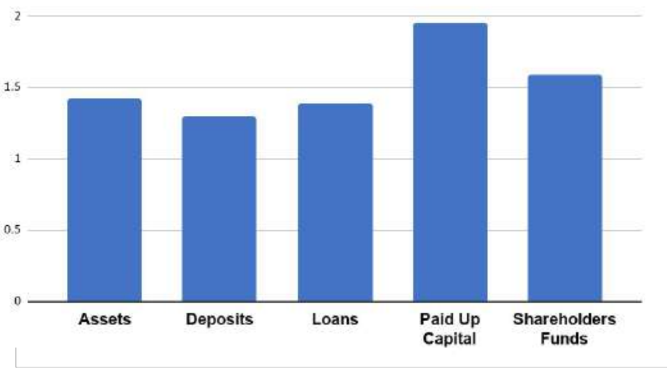


Table 8: 2014 to 2019 Balance Sheet Trends

years with significant investment noted in the shoring up of capital across the market from Tsh1.048 trillion ($599m) in 2014 to Tsh2.049 trillion ($891m) in 2020. Shareholder funds have also increased materially from Tsh3.013 trillion ($1.78 billion) to Tsh4.788 trillion ($2.08 billion) over the same period.

Overall, the banking sector is stable and back to historical growth profiles, and interventions such as CATALYZE, if implemented post 2020 elections, would appear to have numerous banking players available who have sound balance

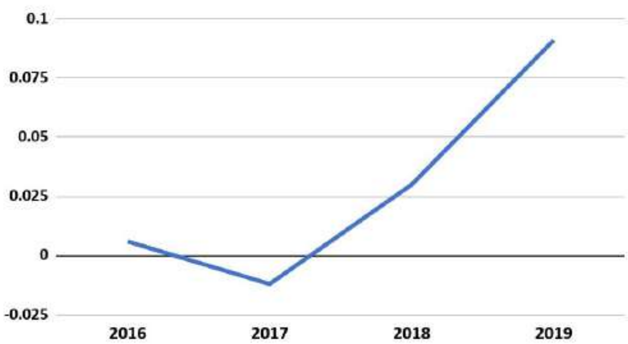


Table 9: Growth Trend in Banking Sector Loans

sheets and are looking to grow, with whom to collaborate.

6.2 Credit Supply & Credit Quality

In 2017, the Tanzanian Central Bank sought to improve credit quality within the banking industry as a consequence of non-performing loan (NPL) ratios peaking at 11%; well above the Central Banks' target of 5%.[42] This increase in NPL is a consequence of various factors including but not limited to a (i) Post 2016 economic slowdown and (ii) the adoption of stricter reporting standards (i.e.IFRS), which had the effect of increasing the average level of bad assets on bank balance sheets. Consequently, banks embarked on targeted campaigns to raise capital. Across the sector, shareholder capital increased materially from Tsh3.0 trillion ($1.8 billion) to Tsh4.8 trillion ($2.1 billion) over a five-year period ending in 2019[43]. The Central Bank achieved its general objective to improve credit quality.

The flow of credit has since resumed. In 2019,

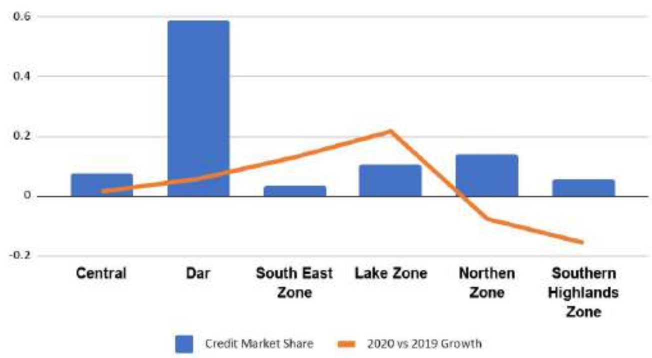


Table 10: Tanzania Credit Market Trends as at March 2020

loan growth rose to 9%[44] (compared to 3% and -1% in the previous two years), and this trend continued in the first quarter of 2020 with credit expanding by 4.4%, and further rising to 8.7% as at April 2020, despite the emerging onset of Covid-19.[45]

The bulk of credit is provided by the largest banks (74% by large commercial banks and 21% by mid-tier banks). This dominance by large and mid-tier banks suggests that these banks are best placed to provide credit moving forward, particularly, as consolidation continues; small and micro/community banks are likely to be most adversely impacted by fluctuations caused by Covid-19 and other problems.

Geographical distribution across Tanzania shows that Dar es Salaam (Coastal Zone) dominates the supply of credit with 59% of all loans, followed by the Northern Zone (14%) and the Lake Zone (10%). However, we anticipate the Central Zone to grow fastest given Dodoma's status as the new capital city of Tanzania.

[41] Bank Mergers the In Thing Now in Tanzania - The Citizen, 30th May 2019
[42] Bad Loan Ratios Jump to 11% - IPP Media 16th November 2017
[43] Bank of Tanzania Financial Sector Supervision Annual Report 2019
[44] Bank of Tanzania Consolidated Zonal Economic Report Decemeber 2019
[45] Bank of Tanzania monthly economic reports

Whilst microfinance and community banks have the smallest representation (as a function of total assets), they can still serve as an effective credit financing channel - particularly for the education sector. As an example, Savings and Credit Cooperative Societies (SACCOS) are not a major source of deposits (Tsh52 billion, $22.5m), however they appear to be an effective credit financing channel (Tsh927 billion, $403m).

6.3 COVID-19 Impact on the Banking Sector

Despite no formal COVID-19 lockdown, Tanzania experienced an economic slowdown in Q2-2020 within certain key sectors, namely tourism, hospitality and education. This economic slowdown adversely impacted banking activity particularly in April and May 2020.

NPLs changed from 10% in December 2019 to 11% in May 2020[46]. Larger commercial banks were generally spared from portfolio write downs due to COVID-19, which is a reflection of the disparity of loan book quality between larger commercial banks and smaller banks.

To combat the general deterioration in banking activity, the Central Bank instituted certain stimulus measures in May 2020[47], including some of the following approaches:

- Reduction of the Statutory Minimum Reserve from 7% to 6%
- Reduction of the discount rate from 7% to 5%
- Reduction of coverage on government securities from 10% to 5% for treasury bills, and from 40% to 20% for treasury bonds
- Enhance retail and commercial loan restructuring and modification programs
- Increase daily transaction limits from Tsh3M to Tsh5M and daily balances from Tsh5M to Tsh10 for mobile money transactions

Additionally, tax holidays on interest and penalties were extended by the Tanzania Revenue Authority. The President's declaration that Tanzania was free of COVID-19 in June 2020 was the final and key element that restored confidence in the economy, and banks generally reported profits for the second quarter of 2020[48].

6.4 Enabling Environment Attributes For The Supply of Credit

The supply of credit within Tanzania has been boosted by three developments during the last decade:

1. Introduction of credit bureaus (Credit Info – 2013, Dunn & Bradstreet – 2016)
2. Introduction of National IDs, which together with voter registration cards means approximately 90% of citizens above the age of 15 have been digitally identified
3. Introduction/improvement of core business regulatory interventions:
    - Taxpayer Identification Numbers (TIN) for all business owners
    - Tax Compliance Certificates for all companies
    - Sim Card registrations and restrictions on multiple SIM cards by networks

Credit reference bureau operations have increased materially in the number of borrowers (2m), and loan records (5.5m) submitted by banks and financial institutions to the Credit Reference Databank.[49] With the full incorporation of MFIs under the Central Bank's regulatory purview[50] in 2020, the market will have an even more robust credit reporting platform. This robustness will enable better assessment of repayment behaviour and a better ability to monitor borrowers and loan portfolios as an approach to mitigate credit risk and reduce NPLs.

As it concerns collateral management, the Tanzanian market has developed a mature asset registry function, with banks able to register moveable assets, debentures, and fixed assets efficiently. Banks are also able to share security, and pari passu lending is a common feature for commercial banks. Syndicated lending is also noted for large transactions beyond the single borrower limit of individual banks, or where banks prefer to share risk given overall deal exposure.

Evidence of the impact of these changes and earlier mentioned Central Bank stimulation has been noted with banks reducing interest rates across the finance sector amongst other changes[51]. Such an example is CRDB who reduced lending rates on all personal loans, including the private

[46] Bank of Tanzania monthly economic reports
[47] COVID 19 Policy Measures introduced by Bank of Tanzania - Clyde & Co, 21st May 2020
[48] President John Magufuli declares Tanzania Corona free - BBC News 8th June 2020
[49] Bank of Tanzania Annual Reports
[50] Microfinance Regulations gazetted September 2019
[51] Tanzania Banks allowed to restructure loans, interest rates reduced - Tellimer 15th May 2020

sector, to 14% in 2020[52] from originally 22%. Further, personal loan lending tenor was increased to 7 years, and loan limits enhanced to Tsh100m.

6.5 Loan Guarantees

Various guarantee schemes have been introduced in the market to assist lenders with risk mitigation. Some of these schemes are Tanzanian-based interventions, and others are available across Africa. The following are active guarantee schemes available to a wide range of banks across Tanzania;

Tanzania Guarantees

- Bank of Tanzania Small & Medium Enterprises – Credit Guarantee Scheme
- Bank of Tanzania Export Credit Guarantee Scheme
- Private Agriculture Support System (PASS) funded by DANIDA (agriculture focus)

Offshore Guarantees

- Africa Guarantee Fund
- Guarantco
- Africa Trade Insurance

The cost of such guarantee schemes range from 1% - 3% and coverage is typically up to 50% of total exposure- with the exception of the Central Bank's Export Credit Guarantee Scheme which covers certain transactions up to 85%. However, the take up of guarantees has been slow due to some of the following factors:

- Challenging to monetize the underlying asset(s) associated with the guarantee
- Limited sector scope for guarantee schemes
- Cost prohibitive either as it concerns fees or interest rate
- Limited underwriting amounts; inability of major guarantors to programmatically underwrite for smaller transactions (e.g. ATI, Guarantco); however some entities are testing portfolio coverage schemes to circumvent this challenge
- Complicated funding structures

Loan guarantee schemes for the education sector will likely not represent a major component of education financing until either (i) the sector further matures or (ii) there is a more concerted effort either from the government or certain private sector participants to employ these sorts of financing schemes.

6.6 Education Sector Credit Overview & Credit Product Offerings

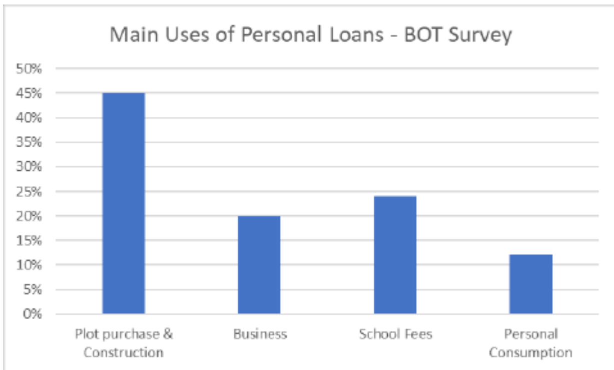


Table 11:

The collective of banks interviewed make up 51% of all loans in the market and an estimated 55% of all educational assets. Only one bank (Amana Bank) defines and operates a specified educational product, whereas all other banks serve the education asset class through generic, pre-existing financial products.

Educational assets comprised approximately 9%[53] of all loans in Tanzania in 2019 (i.e. Tsh1.5 trillion or $653m) and a significant portion of educational financing activity was concentrated in the school fees segment - in particular personal loans.

Based on a 2019 Bank of Tanzania survey exploring the ultimate uses of personal loans, school fees accounted for 24% of all personal loans and personal loans represent the most popular credit product in the country - typically accounting for 30-35% of total loans disbursed per annum.

The largest educational lender in Tanzania is the National Microfinance Bank (NMB), which has undertaken lending in excess of Tsh 1 trillion ($431m) to civil servants (i.e. public school teachers). However, all banks interviewed have some level of exposure to educational clients and almost all recognised the growing demand from the private school segment, suggesting that this sector is becoming an important opportunity set.

The array of educational finance products include business and retail loans, overdrafts, and guarantees. Most loan proceeds are used for asset financing (e.g. equipment or buildings) or working capital.

Loan product terms vary widely based on the credit profile of a given borrower; the forthcoming

[42] CRDB Cuts Loan Interest Rates to 14% - The Citizen 2nd June 2020
[53] Bank of Tanzania Consolidated Zonal Economic Report December 2019

is an approximate standard range of loan terms (as it concerns loan tenor, amount, security, and cost) for the Tanzanian educational finance sector;

- **Loan Rates:** Local currency interest rates range between 12% and 100% per annum (from all interviewed banks the market average was 22%, and 15% for commercial banks only)
- **Loan Tenors:** Ranges between three 3 to 15 years with an average of just under 6 years.
- **Loan Amount:** Ranges from Tsh200,000 ($82) for micro loans to around Tsh10 billion ($4.3m) with an average of Tsh14m ($6.1k).
- **Security**: Banks will often accept the following collateral as security:
    - Unsecured Loans that are tied to direct payroll deductions
    - Motor vehicles
    - Property title deeds
    - Informal security such as certificates and/or sales agreement on plots
    - Debentures on fixed assets
- **Security Coverage:** Banks can lend unsecured where the exposure is less than 5% of core capital but otherwise have to take up to a maximum of 125% security coverage on larger exposures.
- **Loan Cost:** Cost of funding varies broadly with corporate costs generally the most competitive, followed by SME loans, and personal unsecured loans.

Overall, regulated microfinance banks and community banks charge the highest loan rates within the formal banking sector with differences explained by cost of funds as well as portfolio history.

There are anomalies, for instance, NMB offers unsecured personal loans at lower rates than some SME secured loans. This essentially reflects portfolio risk on these assets, and there is a clear correlation between interest costs, associated risks, and bank liquidity to fund these assets competitively (as well as relationship elements where clients may be both depositors and lenders).

6.7 MFI Regulations & Relevance to Credit & School Lending

Historically, MFIs were not deposit taking entities and had limited oversight; the Tanzania Association of Microfinance Institutions (TAMFI), an NGO which is primarily focused on advocacy and capacity building for the MFI sector, governed all MFIs in Tanzania. As of October 2020, all MFIs fall under the Central Bank's governance purview irrespective of its deposit-taking status and will become subject to more stringent banking requirements, some of which are defined below.[54] Moreover, MFIs will now fall into one of four categories:

1. Deposit-taking MFIs (e.g. FINCA)
2. Credit & Non deposit-taking MFIs (e.g. digital lenders)
3. Savings & Credit Cooperatives Societies (SACCOS)
4. Community MFI Groups (Village Community Banks or VICOBAS)

Deposit-taking MFIs shall be grouped as Tier 1 and will follow the regulations applicable to banks under the Banking and Financial Institutions Act 2006. Non-deposit-taking MFIs are defined as Tier 2, which requires a member to maintain a minimum capital of TZS 20 Million (approx. USD 8,700) and the right to engage in the following (inter-alia) activities:

- Microfinance lending
- Housing microfinance lending
- Maintain and operate various types of accounts with banks and financial institutions
- Operation of micro-leasing facilities and consortium lending
- Provide professional investment advice
- Micro insurance
- Equity investment
- Agent banking

Under Central Bank regulation, banks and deposit-taking MFIs must follow standard procedures for screening prospective borrowers including but not limited to defined credit underwriting policies. Further, the Central Bank has defined codes of conduct that address interactions MFIs have with borrowers and other widespread complaints that concerned historical unscrupulous practices. For example:

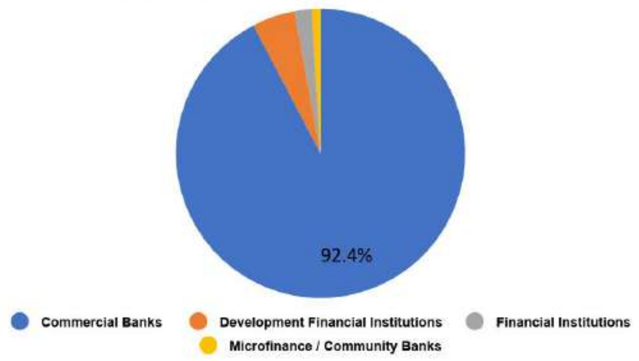
- Instituting complaint handling and dispute resolution mechanisms
- Upholding the rights and interests of borrowers
- Consumer lending education
- Transparent loan product disclosures (e.g interest rates, fees or penalties)

[54] Bank of Tanzania, 2019 Microfinance Guidelines

6.8 MFIs & Non Bank Financial Institutions (NBFI)s Lending Capacity for Schools

SACCOS play a more active role than MFIs in the supply of credit. Collectively, MFIs and NBFIs contribute approximately 0.5% of total credit supplied in Tanzania[55].

Table 12: Share of Assets - Bank of Tanzania



Educational assets within the MFI segment amount to Tsh3.4 billion ($1.5m), with Mwanga Hakika leading the way with an educational portfolio of Tsh2 billion ($870k). As a percentage of total book, educational loans for Finca and Mwanga Hakika were 2% (interestingly dynamic lenders such as Equity and CRDB has similar ratio) and 7% respectively, suggesting educational assets for MFIs are currently a small component of loan portfolios. As is the case with traditional banks, MFIs have significant opportunities to increase educational lending given that most of their existing exposure is not to this asset class.

Several players interviewed (such as Opportunity International - Micro lender, or Equity Bank - commercial bank) have recorded success in educational lending in other countries in Africa. The constraints on enhanced lending are explored in more detail under our review of barriers.

NPLs for MFI range between 3% and 10% (6% on average). These results are surprising given they are lower than that of the averages within the commercial banking segment.

6.9 SME Lending, Mortgage Loans and Loans to Non-State Schools

Challenges noted through stakeholder interviews, related to expanding credit to SME, mortgage loans, and individual loans in Tanzania include some of the following;

- Limited liquidity of banks
- High costs of funding for lines of credit where banks are non deposit taking or unable to mobilise cheap deposits
- Seasonality of school cashflow. Student fee term structure - parents struggle to pay and meet installments i.e. seasonal personal income. Multi-banked borrowers are also over-extended with credit
- School collateral – Asset realisation attached to school facilities is limited due to associated negative public relations of foreclosing a social service, in addition to limited resale value of a specialised facility such as a school building
- School owners and management teams lack business acumen and discipline, and often pursue an expansion agenda which is not justified by operational cash flows
- Performance of schools (and thus their relevance) are subject to annual review following exam results. This can cause large fluctuations in enrollment (and as such revenue) year to year
- Historically high default rates associated with loans to non-state school owners and their customers
- Challenges in realization of security, and limited guarantees and risk sharing options
- COVID-19 impacting demand and affordability of non-state schools
- High costs of debt - this was particularly the case in the past but recent Central Bank regulations have reduced interbank borrowing costs (though not all banks are passing on savings to borrowers)
- Low digital literacy in Tanzania which complicates the use of agents, and consumer product take up
- Sub par collections schemes by some lenders of delinquent and defaulting clients
- Limited data points to allow artificial intelligence to be applied for credit scoring

Mortgage penetration is less than 0.5% of GDP in Tanzania[56] which is much less than peer countries such as Uganda where mortgages are around 1% of GDP, and South Africa which has a mature banking sector and the highest mortgage ratio in excess of 30% of GDP. Total mortgages in the country as of December 2019 were 5,460 with CRDB holding a 40% market share, followed by Stanbic at 13%, and Azania Bank at 6%.

[55] Bank of Tanzania Consolidated Zonal Economic Performance Report December 2019
[56] Tanzania Mortgage Market Update - Bank of Tanzania December 2019

This paltry take up in mortgage volumes is despite the introduction of the Tanzania Mortgage Refinance Company (TMRC) in 2010, which set out to overcome bank funding and pricing constraints for long term lending, through the introduction of a liquidity facility. Additional research into impediments that restrict mortgage volumes is necessary for the benefit of the commercial mortgage market - in particular within the education sector.

The capital markets represent an under tapped funding window for the educational sector. In particular the bond and commercial paper market (through the Tanzania Stock Exchange) is a liquidity option for school operators seeking financing for a myriad of purposes including, but not limited to, facilities development and operational expansion. Current limitations associated with this funding source relate to its nascency and thus diversity of funding participants - consequently, pricing will be notably higher and cost prohibitive for most borrowers. However, time will alleviate these current impediments.

To the foregoing point, the Capital Markets & Securities Authority, and Dar es Salaam Stock Exchange, have introduced a number of novel funding interventions that can be of great value to SMEs/educational companies if utilised correctly:[57]

- Enterprise Growth Market (EGM) – enables SME/early stage companies to obtain funding from the Stock Market without a track record of note[58]
- Real Estate Investment Trusts (REIT) legislation[59] – enables companies to invest in real estate assets (including schools), with various benefits including tax breaks

The Dar es Salaam Stock Market is one of the top ten in Africa for IPOs in the last five years as cited by PWC in their annual Capital Markets report.

Whilst Kenya has led the way for REIT listings with both income and development REITs and recently green bonds, Tanzania has been the most active market for EGM listings in East Africa, and the Dar es Salaam Stock Exchange is only the third stock platform to self list in Africa. Overall, the Tanzania stock market is illiquid for trading, but very liquid for IPOs, as a result various EGM EGM listings have also seen full or near full subscription market placements.

6.10 Private Investors and Donors

There is a healthy number of philanthropic actors and interventions in the education space in Tanzania.The Education Development Partners Group (Ed-DPG) is a group consisting of bilateral and multilateral agencies providing support to the education sector. The Tanzania Education Network (TENMET) is a national network made up of 181 such stakeholders spanning CBOs, FBOs, local NGOs and INGOs working across the government and private education sector. Beyond the members of these groups, there are also many smaller donor-funded initiatives throughout the education space. The interventions working with non-state schools most often focus support towards capital expenditures on school facilities/learning materials or student sponsorships. Both mediums are helpful in assisting the supported non-state schools to serve lower income families than otherwise feasible and to reach sustainability by having certain elements of the school's unit economics subsidised.

The presence of investors in the educational space is still in its nascency, yet interest and appetite have been building for years, and private education remains a market of interest for many investors from the impact investing and private equity sectors alike. Tanzania's education sector represents a greenfield, disparate, and growing market, with few established educational brands. For the right funder and investment strategy, especially where capital can be afforded to generate patient returns, Tanzania can present a compelling opportunity on both commercial and social impact returns.

There are many socially oriented and commercially driven investment firms with an East Africa/SSA wide investment mandate or strategy, almost all of which indicate Tanzania as an under-represented market in their portfolio. In 2019, Tanzania accounted for 9% of PE transactions consummated in East Africa - by comparison Kenya accounted for 56%. The same theme holds true for awards, competitions, prizes, and fellowships targeted at supporting social businesses - that Tanzania has a place in their strategy but has struggled to generate a meaningful pipeline.

Speaking to investors the following key factors were distilled as what underpins this lack of investment execution in Tanzania;

1. A low quality pipeline of investor-ready deals,

[57] Dar es Salaam Stock Exchange Regulations 2014 and Capital Markets & Securities Rules 2011
[58] Dar es Salaam Stock Exchange Regulations 2014
[59] Capital Markets & Securities (Collective Investment Schemes REIT) Regulations 2011

2. Suboptimal counterparty business acumen,
3. Deal identification: A lack of coordination of ecosystems that enable the creation of good pipelines can often lead to missed opportunities due to misunderstandings of local nuances that could otherwise help source good quality deal flow;
4. Small initial investment ticket sizes incurring high relative transaction costs
5. Lack of confidence around security for foreign investors
6. Confusion and angst around the regulatory system and lack of ease of doing business
7. Lack of similar successful investment deals to refer to, study and model off

A number of these challenges could be addressed through the use of effective transaction advisors, who would be mandated to source, vet, prepare, and eventually facilitate investment terms with a pipeline of investable educational investments. This also would provide a buffer and contextual bridge for new investors into the often confusing and misunderstood investment landscape of Tanzania. For those investors looking for large greenfield markets, where there is an under representation of professional, well-known educational brands serving a growing market, the Tanzanian investment thesis is very attractive.

Additionally, there is a growing interest amongst traditional philanthropic actors to better explore using their capital to catalyze and leverage traditional capital into the East African educational sector. Three family foundations in particular, who are already familiar with the East African market and with the education sectorfrom their preexisting philanthropic work, are newer to the notion of blended finance as an effective vehicle. If the case for, and approach to engaging with, blended finance strategies were to be better understood and socialised amongst such actors, a strong alignment of goals could be realised. The concept of blending different forms of capital together can, however, bring initial discomfort or confusion to those used to a more traditional mindset. One family foundation, for example, who has already deployed millions of dollars into education in East Africa, struggled with the notion of their philanthropic returns subsidising commercial deals to allow for more appetizing terms for commercial investors. Curating direct engagements in deepening the case for blended capital deals, with spotlights on successful examples, with prospective philanthropists who are still 'on the fence' might be fruitful in garnering newcomers.

Summary

Overall, the key barriers for educational investing can be summarised as the following:

- Economic and financial market evolution particularly earlier NPLs
- Liquidity or lack thereof particularly for smaller entities
- Collateral insecurity
- Perceived risk (reviewed data suggests education isn't fundamentally different to other sectors)
- Inadequate products for educational asset class
- Limited private equity, as well as domestic and international capital market activity

However the market is ready to transition:

- Covid chapter has not materially affected financial sector and the worst would appear to over in Tanzania
- Mature financial market, with many banks stable and generally doing well
- Sound leadership by Regulators with policies driving change for instance in lending rates and in microfinance sector
- Improved compliance environment to stimulate lending

Capital markets ready to go and many investors likely to want to consider Tanzania for deals post 2020 elections

7. Financial Infrastructure

7.1 Overview of Financial Infrastructure & Distribution Systems

Table 13: Tanzania Bank Channel Distribution Trends

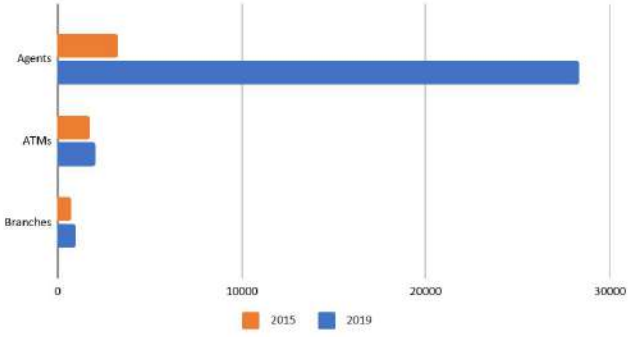
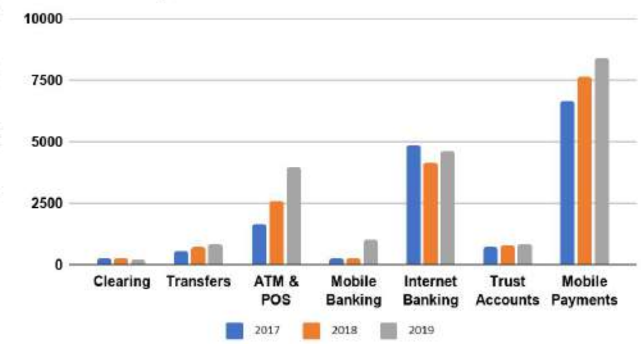


Table14: Payment Trends - Transacted Values Tsh Billions



Historically banks have invested heavily in bricks and mortar as a key distribution channel for clients products and services. However, over the last decade a significant shift has been noted in distribution platforms in Tanzania. Banks have been investing less in branches and ATMs, and rather are now increasingly reliant on agency banking where SME vendors perform basic banking services on behalf of banks.

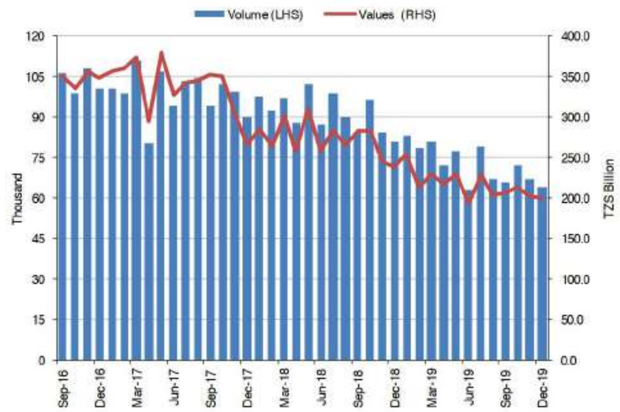
Agency banking has proven popular, due largely to its ability to enable the following:

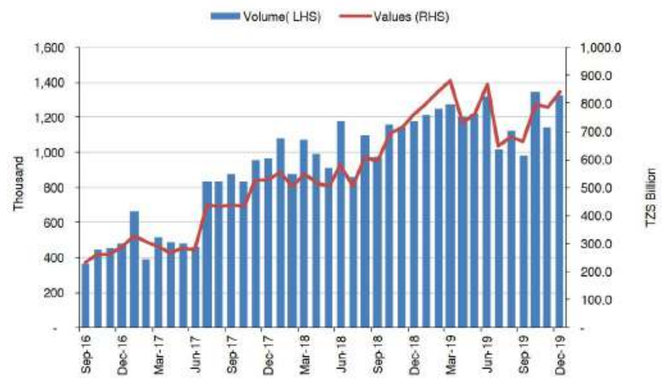
- Rural banking: Enables banks to reach consumers in remote areas
-Cost efficient business model: Enables banks to reach mass market clients with cost effective and agile infrastructure
-Risk Transfer: Transfers investment burden to third party partners and away from banks
-Cashless Risk: Reduces cash management risk within bank branches
-Upselling: Allows banks to focus on premium services
-Shared Savings: Creates an opportunity to lower costs to clients through savings in traditional channels.

Between 2018 and 2019 agents increased by 51% to 28,358 agents[60], which now represents 90% of the physical distribution channels in Tanzania (branches and ATMs are roughly 3% and 7% each).

Agency banking has also enabled enhanced distribution of services to upcountry locations, with 75% of agents in 2019 being located outside Dar es Salaam. The bulk of transactions (approximately 75%) at these agents comprise deposits and balance withdrawals.

Changes have also been noted in market payment systems with cheque volumes declining consistently every year as seen in the below chart from Bank of Tanzania records.[61] Similarly, Tanzania Interbank Settlement Systems (TISS), which covers electronic payments, has shown significant growth since 2016, both in terms of transaction volumes and values, as seen below.





[60] Bank of Tanzania Consolidated Zonal Economic Performance Report December 2019
[61] Bank of Tanzania Annual Reports 2019

7.2 Evolution of Tanzania Internet Users and Mobile Communication Subscribers:

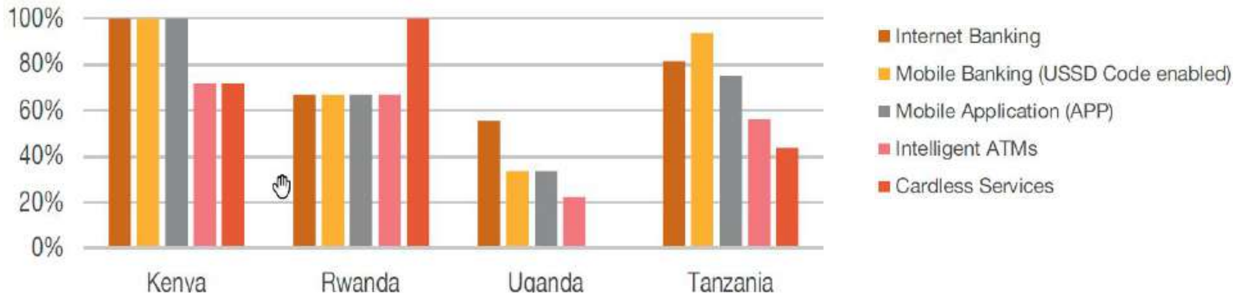


Table 17	2015	2016	2017	2018	2019	CAGR
Internet users	**17,263,523**	**19,862,525**	**22,995,109**	**23,142,960**	**25,794,560**	**29.9%**
Mobile subscribers	**39,665,600**	**40,044.19**	**39,953,860**	**43,497,261**	**47,685,232**	**24.0%**
Note: CAGR= Compund Annual Growth Source: TCRA, 2019						

Whilst usage of internet and mobile services has been growing, Tanzania's embrace of wider digital channels seems to be having less effect as seen in the below table[62]:

Distribution of Digital Channels in East Africa[63]

After making a relatively early start on market liberalization, Tanzania has recently been slipping behind other countries in the region and has been backtracking on private sector participation.

- On the International Telecommunication Union (ITU)'s ICT Development Index, Tanzania's ranking has slipped from 139th in 2011 to 165th in 2017 (subsequent publications have been deferred due to data and methodology discrepancies).

- On the World Bank's Digital Adoption Index (DAI), Tanzania has a score of 0.34, which is above that of Ethiopia (0.27), the same as that of Uganda (0.34), but below that of Rwanda (0.43) and Kenya (0.45).

Sub Saharan Africa Internet Penetration and Technological Readiness is recorded as below:

Country	Population (millions)	Internet Penetration (percent of population)	Technological Readiness 2017 (scale 0–7)	Facebook Users, June 2012 (millions)	Increase in Facebook Users, 2012–17 (percent)
Algeria	41.1	45.2	3.4	18.0	339
Angola	26.5	22.3	NA	3.8	533
Cameroon	24.5	25.0	2.6	2.1	250
Côte d'Ivoire	23.8	26.5	NA	2.4	NA
Ethiopia	104.3	15.4	2.4	4.5	400
Ghana	28.6	34.7	3.6	4.0	150
Kenya	48.5	46.0	3.7	6.2	210
Morocco	35.2	58.3	3.8	12.0	135
Mozambique	29.5	17.5	2.9	1.4	250
Nigeria	191.8	47.7	3.0	16.0	142
Senegal	16.0	25.7	3.3	2.3	228
South Africa	55.4	54.0	4.6	16.0	153
Tanzania	56.8	10.7	2.6	6.1	771

Source: Internet Society (2017).
Note: NA = not available.

[62] Tanzania Communications & Regulatory Authority (TCRA) Annual Report 2019
[63] PWC East Africa Banking Survey 2019

A key constraint to growth has been high weighted prices for internet bandwidth. Accordingly, Tanzania is growing much slower than its East Africa peer countries (see below).

Country	2015	2016	2017	2018	2019	CAGR
Kenya	177,347	280,114	460,069	670,931	930,576	39%
Rwanda	9,820	16,275	45,782	68,095	117,075	64%
Tanzania	86,122	120,339	166,913	215,816	292,816	28%
Uganda	36,689	40,925	89,495	186,327	224,627	44%

Table 20 Source: Telegeography 2019a.

7.3 Digitization of Financial Services

Overall however, Tanzania seems to be evolving naturally as it relates to the digitization of its financial services sector.

Banks are required to publish charges and fees in line with the recently introduced Financial Consumer Protection Regulations 2019. Fees are reasonable for digital services, for instance banks charge Tsh10,000 ($4) for local (TISS) transfers (this is a capped fee).

From a credit perspective, alternate and digital channels are widely used as platforms to access loans. The services on offer are increasingly sophisticated, and uptake is good.

As a result, the digital financial services market in Tanzania, with its more competitive market structure, has grown to rival Kenya which is the largest and most established economy in East Africa and also has a mature digital financial services market. As a specific example, M-Pawa by Vodacom, in partnership with the Commercial Bank of Africa, was launched in 2014, and now has over 5 million customers and issues around 500,000 micro-loans per month.

Mobile payments[64] now dominate the market (42% of transacted values, and 92% of volumes), followed by Internet Banking (23%) and Mobile banking (20%) as the second and third channels respectively for volumes. Clearing and transfers are used more by corporations and record relatively little activity.

Summary

Overall, the market is undergoing significant transition:

Banks actively using alternate delivery channels to engage customers, with Agency banking particularly popular

Traditional payment channels also undergoing change with shift from cash and cheques to mobile and other digital / electronic platforms

Internet penetration not in line with other benchmark countries due to high costs

Improved regulatory compliance and consumer mapping assisting market transparency and paving the way for enhanced lending opportunities

[64] Bank of Tanzania Annual Reports 2019

8. Intermediators / Facilitators

8.1 Overview of Financial Intermediation System

The Tanzanian financial sector is diverse, with over 50 banking institutions of various types, as well as over 100 MFIs and +/- 4,000 SACCOs.

The use of banks has declined in recent years, in both the number of individual account holders and the number of active accounts. This appears to be coupled with a move toward mobile money usage. A number of banks seeking to reverse this trend now offer mobile banking, and several have agent banking services.

The area of disruption in digital financial services in Tanzania has been with the agent aggregator market. Several large companies have been expanding agent networks, and servicing both banks and mobile network operators. The aggregator model lowers the cost of operating agents, as multiple providers can be serviced at a single point. Three major aggregators; Selcom; Maxcom; and Cellulant; also offer their own value-add over the counter services and are innovating through the introduction of loyalty/reward schemes, loan products, and other fintec solutions.

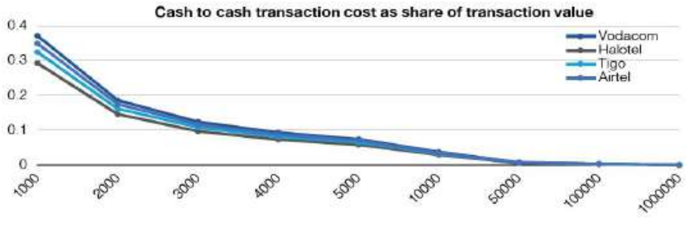
The Central Bank has tended to drive an industry-led approach to DFS interoperability. In 2019, Bank of Tanzania announced the planned arrival of a single platform in 2020 that links different payment systems intended to drive fast, cost-effective, secure payments across the market.

This platform will promote interoperability of digital financial services between all payment service providers through the introduction of a seamless payment clearing and settlement system. The platform also has a core function of encouraging the public to use electronic payments rather than cash.

Similarly, the Tanzania Bankers Association (TBA) in partnership with Visa launched a “be smart, go cashless” campaign to promote the use of self-service channels, including electronic payments.

The TBA Visa initiative is being implemented by 45 banks, which comes after Mastercard’s Masterpass partnership with aggregators and banks in Tanzania, launched in 2018, and other initiatives such as Tigo Pesa and Umoja Switch’s ATM cash out services, launched in 2019.

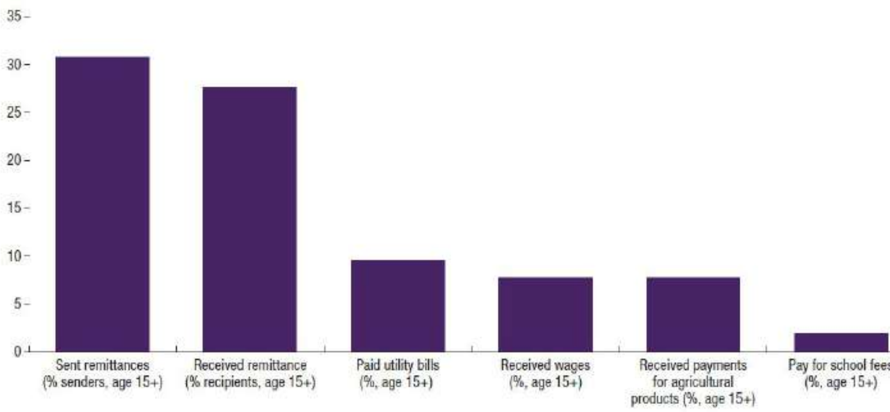
8.2 Digital Payment Costs



Source: Operator websites, Nov 2019.

Overall, mobile money transfer costs are not expensive, as seen below for data compiled by the World Bank in 2019, are a popular channel for transactions in Tanzania, and can be considered viable for school fee payments.

These findings are in line with research undertaken across the African continent by the IMF, which found school fee payments as one of the top 6 uses of mobile money.



Source: Global Findex.

9. Conclusion & Summary

Overall, the supply side of the equation seems to be in good shape. Banks have returned to a sound financial footing in terms of profit and asset earnings as reported by the Central Bank.

Whilst there is room for improvement with property rights, and faster/more broad-based growth post COVID-19, Tanzania seems to generally have enabling conditions for credit growth, such as:

- Financial entities are many, and varied (e.g. SACCOS) servicing all customer segments
- Increasing number of consolidations amongst banks (or non bank financial institutions) is increasing capacity and scale

- The banking market is better regulated and peripheral actors such as MFIs, some of which were previously accused of unscrupulous practises, are now being brought into the formal oversight arena
- The Central Bank has also been supportive with monetary and regulatory policies to support banks
- Physical Agencies (the fastest growing channel) and virtual (M commerce, Aggregators, and other digital channels) distribution is improving and can be used disruptively
- Education is an under leveraged/under lent asset class
- Capital markets regulatory policies have been updated (e.g. REITS) to enable better access to newer forms of funding
- Legislative (property law and rights) and reporting frameworks (bureaus) have been improved to enhance transparency and accountability.

Ahead of our conclusions on partnerships and product/other solutions, it is worth keeping in mind that commercial banks account for over 90% of financial assets as highlighted earlier, and that:

- The top 10 banks dominate roughly 70% of loans, deposits and distribution (branch network).
- Local banks have been growing faster than foreign banks

If the objective is to achieve scale, a focus on the top 10 banks would be an effective intervention to revolutionise the education finance market. However, in the midst of this approach, one must also recognize that access to funding requires a diversification of funding options and funding providers - therefore, we recommend that while focusing on the top 10 banks has a great deal of merit, there is also a benefit to diversifying and thus a need for different sources of funding for education, and there may be merits in running an auction system to bring transparency and competition to selection.

Considering the above, CATALYZE could incorporate a top-down approach to funding whereby it leverages broad funding schemes (e.g. on-lending platforms) to financial institutions as a means to generate scale, but also a bottoms up approach that is more discrete in nature but enables more immediate impact and outcomes. As it concerns the latter, we further observe that CATALYZE could develop relationships with investors that have shown an interest in the Tanzanian market, but have identified real risks that have slowed their participation but that can be mitigated through the use of more flexible, cost-effective, and patient capital. Using various available criteria from publications, and subjective elements from discussions with players, and other interactions with the listed banks we were able to score the banks and rank them in terms of ideal partners.

Table 23: Potential Partner Banks & MFIs

Bank	Top 3 in Assets in Tier	Profitable	Liquid & Able to Lend	Leader in Distribution in Tier	Existing Educational Lender	Private Sector Focus	Appetite to Grow Edu Loans	Existing G'tee P'ships	Strong Product Innovator	Partner Score	Rank (Top 10)	Notes & Comments
CRDB	X	X	X	X	X	X	X	X	X	100%	1	One of the largest banks in Tanzania
People's Bank of Zanzibar	X	X	X	X	X	X	X	-	-	78%	2	Widest distribution network in Zanzibar
Equity Bank	-	X	X	X	X	X	X	-	X	67%	3	Dynamic Management / Group Support
DCB	X	X	-	X	X	X	X	-	-	67%	4	Leading Community Bank in Dar es Salaam
Finca Microfinance Bank	X	X	-	X	X	X	X	-	-	56%	5	Can be considered Microfinance Bank
Amana Bank	-	X	-	-	X	X	X	-	X	56%	6	Sharia Lender
TIB	X	-	-	X	X	-	X	X	-	56%	7	Offers Longest Loan Tenors in the market.
NMB	X	X	X	X	X	-	X	-	-	67%	8=	Excellent partner for public loans.
Exim Bank	-	X	X	-	X	X	X	X	-	67%	8=	Expansion opportunities
Mwanga Hakika		-	-	-	X	X	X	-	-	44%	10	Recently merged bank

CRDB is the only bank that was found to have transacted across all client segments and that has been able to implement individual and portfolio guarantee arrangements. Other banks in the above list who would also be strong partner entities are:

- People's Bank of Zanzibar – A strong player in Zanzibar with a wide branch network, and an established Sharia banking platform. PBZ also has a sound balance sheet, and liquidity.
- Equity Bank is a profitable, well-capitalized (e.g. sound balance sheet) bank in Tanzania and has a good distribution platform both in terms of branches and agent network. Equity Bank received a $50m loan from IFC to provide loans to SME clients affected by Covid-19 and is a key partner for CATALYZE given their dynamic management and appetite for serving the education sector.

The following funding options can support a more blended source of financing and thus catalyze more traditional capital investments within Tanzania's non-state education segment:

Credit Solutions

- The majority of small/community banks and MFIs, as well as several mid-tier banks have strong appetites to grow their credit exposure with the education sector but either lack sufficient liquidity or risk tolerance to do so. The following is a notable solution to address those challenges:
  - On-Lending Schemes: Create an on-lending scheme whereby local Tanzanian banks can access cheaper costs of funds to then on-lend to the non-state education sector. This on-lending scheme should be structured in a manner whereby the cost savings (i.e. from the reduced cost of capital) are passed onto the education sector to ensure it becomes the ultimate beneficiary. To diversify the risk of the on-lending scheme, the program can be structured as a regional mechanism accessible by different educational operators across the East Africa region.

Guarantee Solutions

- The majority of large and mid-tier banks, who contribute in excess of 94% of overall credit, have strong balance sheets and adequate liquidity that could be leveraged or directed to the educational sector. The main identified incentive to support such banks to become more active in this asset class is risk support such as;
  - Existing Loss Guarantors: Several regional guarantee platforms are available for both SME (AGF) and corporate lending (GuarantCo), as well as local solutions (Bank of Tanzania or PASS) which can either be learnt from or leveraged for the benefit of education specific guarantee schemes.
  - New Loss Guarantors: Provide funding to other potential guarantors (e.g. banks) such that additional capital is mobilized (in the form of loss guarantees) to further diminish credit risk and enhance lending confidence in the education sector at more competitive rates and longer loan tenors.

Grant Solutions

- The cost of pure commercial capital is too expensive to be serviced by the majority of low and middle fee-oriented non-state schools, and the availability of philanthropic funding is insufficient to meet their entire funding needs. The blending of the philanthropic and commercial funding can create a weighted cost of capital that addresses the investors return expectations, and can be structured as follows;
  - Direct Infrastructure Funding: Grant capital used to fund certain elements of a school's construction costs to improve its unit economics and its investor's return expectations.
  - Direct Operational Funding: Grant capital used to fund certain elements of a school's operational expenses to improve its unit economics and its investor's return expectations.
  - Technical Assistance: Grant capital used to fund feasibility studies for either (i) new school ventures or (ii) segments within the education sector that support the broader education industry (e.g. teacher training)

Public Solutions

- The Tanzanian government has a limited supply of capital to adequately address its educational needs. However, there are a handful of solutions at its disposal that, if used, can catalyze more private investment in the education sector. Some of the more notable solutions include:

- Tax Credits: A reduction of certain tax rates for non-state schools and or investors within those types of schools.
- Tax Exemptions: Tax deductions for certain fundamental operational (e.g. food, transport, school materials and textbooks) and capital expenditures (e.g. hard costs such as land and raw materials and labor) to reduce the taxable income for non-state schools.
- Economic Free Zones: Preferential rights to certain sectors (i.e. education) that provide (inter-alia): (i) tax holidays on all federal, state, and local taxes (ii) a 100% repatriation of all capital, profits and dividends.

Insurance Solutions

- Country risk and operational risk are often cited investment risks for prospective investors considering the Tanzanian education sector. Insurance companies (e.g. MGen) are seeking growth markets into which they can extend their products and services, and insurance represents a viable mechanism to mitigate against these foregoing risks. Developing insurance products with insurers that directly address investment risk can unlock additional capital into the education sector. The following are notable funding ideas:
    - Business Interruption Insurance: Considering the backdrop of COVID-19, the operating challenges for schools are now more apparent. Creating insurance products that mitigate business interruption risk can improve a school's investment prospects and reduce the associated cost of investment funding.
    - Macro-Economic and Geopolitical Insurance: There are certain macro and geopolitical risks that prevent prospective investors from investing in the Tanzanian education sector. Some of these risks include (i) expropriation and (ii) foreign currency. Broader access to insurance products that cover these sorts of risks will reduce the general investment risk for the education sector and thus encourage further investment.

The following are key opportunities and challenges associated with investment in the education sector:

The following three areas summarize the opportunities for investors to explore within the non-state education segment:

1. Core delivery: Considering Tanzania's demographic makeup, demand is projected to continue to grow for K-12 non-state education. The largest opportunity is the primary non-state education segment.
2. Ancillary services: Among the range of support services needed to further bolster access and quality of education within Tanzania, teacher training and quality transport services (i.e busing) were identified as the largest gaps. Investors (both commercial and philanthropic) could invest in this segment.
3. Education Facilities: There is a considerable financing need for educational infrastructure development (e.g. classrooms and dormitories). Traditional investors who are comfortable with real-estate oriented investing and are seeking fixed income returns, should consider this segment of the education sector.

The following five areas summarize the main barriers facing investors within the non-state education segment:

1. Limited Deal Flow: The Tanzanian non-state education segment is fragmented and there is a limited pipeline of "investment-ready" transactions. While this is a general challenge for many investors, it can also present an opportunity for certain investors who are able to take the time to curate and nurture deal flow.

2. Deal Identification: Relatedly, the underdeveloped education ecosystems for non-state school operators can often lead to missed opportunities. Associations such as TAPIE or transaction advisors such as Anza Entrepreneurs could play an important role in identifying and vetting potential deal flow.

3. Due Diligence and Underwriting Expense: The expense associated with diligencing and underwriting deal flow at times can seem incommensurate with the opportunity set and thus deter investors from expending capital. The use of technical assistance facilities is one measure to mitigate against this challenge; shoring up the support services industries (e.g. legal, regulatory) is another measure to mitigate against this challenge.

4. Business and Regulatory Risk: The uncertainty around the business risk (e.g. teacher costs, fragmented market) and the regulatory risk (e.g. infringing non-state school policies) associated with the non-state education segment breeds a notable lack of confidence around investment security for foreign investors. Confusion and angst around the regulatory regime, the lack of ease of doing business and the lack of similar successful investment deals to refer to, study and model off of are further concerns noted by investors.

5. Underdeveloped Capacity: The support industries (e.g. banks, insurance providers, legal services) lack sufficient understanding or capacity as it concerns the dynamics associated with the education sector generally, and specifically the non-state education segment. This insufficient understanding creates challenges for prospective investors that want to become acquainted with the education sector. Conversely, the non-education segment lacks a sufficient understanding of how to navigate the investment paradigm, which creates similar challenges. Using Associations such as the The Tanzania Institute of Bankers to structure training programs that benefit the broader industry participants will help to mitigate this challenge.

   Innovative Solutions | Additional EdTech innovations such as ShuleSoft, which is an enterprise management system that uses technology to manage fee collection, academic monitoring and reporting and other school operational matters (e.g. lesson plan management, student attendance, human resources), offers an innovative solution that can improve the quality of educational content, lower administrative costs, and optimize fee collection. Such a system is beneficial not only for the school operator, but also prospective financing partners both for pre and post investment due diligence.

   Systemic Matters | There are various inadequate elements that make up the education sector's enabling environment for which the private sector cannot address alone. Some of the more notable elements relate to regulatory policy (e.g. labor policy, tax policy, and urban planning policy) and strategic data collection, storage and management (e.g. countrywide school mapping repository, per pupil costing exercise). If addressed, in collaboration with key stakeholders (e.g. Tanzanian regulatory bodies, private sector, and multilateral agencies) Tanzania could drastically improve the flow of capital (both public and private) into the education sector and thus improve the broader Tanzanian education system. Such interventions require long term, steady collaboration and there are a number of well established groups to commence the collaboration process (e.g. TEN, EDPG, TAPIE, CSSC).

Tanzania's education system, while not currently sufficient to address the needs of its students, is trending in the right direction as it concerns education reform. There remains a clear need for private sector engagement and investment and this involvement must be a collaborative one with the Tanzanian government and other committed stakeholders (e.g. multilaterals) to ensure the establishment of a sustainable educational ecosystem. Throughout this document we have identified areas for further development (and where applicable investment); these areas represent some of the more fundamental elements that will ensure a viable Tanzanian educational system.

10. Annex List

Annex 1: Full stakeholder list of interviews

Annex 2: Five point framework

Annex 3: Education budget allocation

Annex 4: Education policies

Annex 5: School facility requirements

Annex 6: Government approval levels associated with non-state school registration

Annex 7: Quality assurance changes (old vs new)

Annex 8: Teacher qualification type, characteristics and path to qualification

Annex 9: Ed-tech fee management and school management system service provides

Annex 10: School associations

Silverleaf Academy

Annex 1: Full stakeholder list of interviews

Stakeholder Category	#	Institution	Type
1. School Associations	1.1	TAPIE -Tanzania Association of Private Investors in Education	School Association
	1.2	TAMONGSCO - Tanzania Association of Managers and Owners of Non Government Schools/Colleges	School Association
	1.3	CSSC - Christian Social Services Comission	Religious Association
	1.4	BAKWATA - The National Muslim Council of Tanzania	Religious Association
	1.5	TAHOSSA - Tanzania Heads of Secondary Schools Association	School Association
	1.6	TPTU - Tanzania Private Teachers Unions	School Association

Stakeholder Category	#	Institution	Type
2. Private School Service Provider	2.1	ShuleSoft	EdTech Service Provider
	2.2	MOFET - Morale Foundation for Education and Training	Private Company
	2.3	PESNO - Primary Education Services Networking Organisation	Private Company
	2.4	Biz Logic	EdTech Service Provider
	2.5	VodaShule (VodaCom product)	School Fee Management Product

Stakeholder Category	#	Institution	Type
3. Commercial Banks	3.1	NMB PLC	Commercial Bank - Large
	3.2	CRDB Bank PLC	Commercial Bank - Large
	3.3	Exim Bank	Commercial Bank - Mid tier
	3.4	Bank of Africa (BOA)	Commercial Bank - Mid tier
	3.5	Equity Bank	Commercial Bank - Mid tier
	3.6	Mwalimu Commercial Bank	Community Bank - Small tier
	3.7	Dar es Salaam Community Bank	Community Bank - Small tier
	3.8	People's Bank of Zanzibar	Community Bank - Small tier
	3.9	Maendeleo Bank PLC	Community Bank - Small tier
	3.10'	Tanzania Investment Bank	Development Bank
	3.11	Amana Bank	Sharia Compliant bank

Stakeholder Category	#	Institution	Type
4. Micro-Finance Stakeholders	4.1	TAMFI - Tanzania Association of Micro finance Institutions	Support Services - MFIs
	4.2	FINCA Tanzania	Micro Lender
	4.3	Opportunity International	Micro Lender
	4.4	EFC Microfinance Bank	Micro Lender

Stakeholder Category	#	Institution	Type
5. Non-Bank Financial Institutions	5.1	Guarantco	Guarantor
	5.2	FSDT	Enabler
	5.3	MGen Insurance	Insurance company
	5.4	Selcom	Intermediary - M Commerce
	5.5	Tanzania Bankers Association	Support Services - Banks

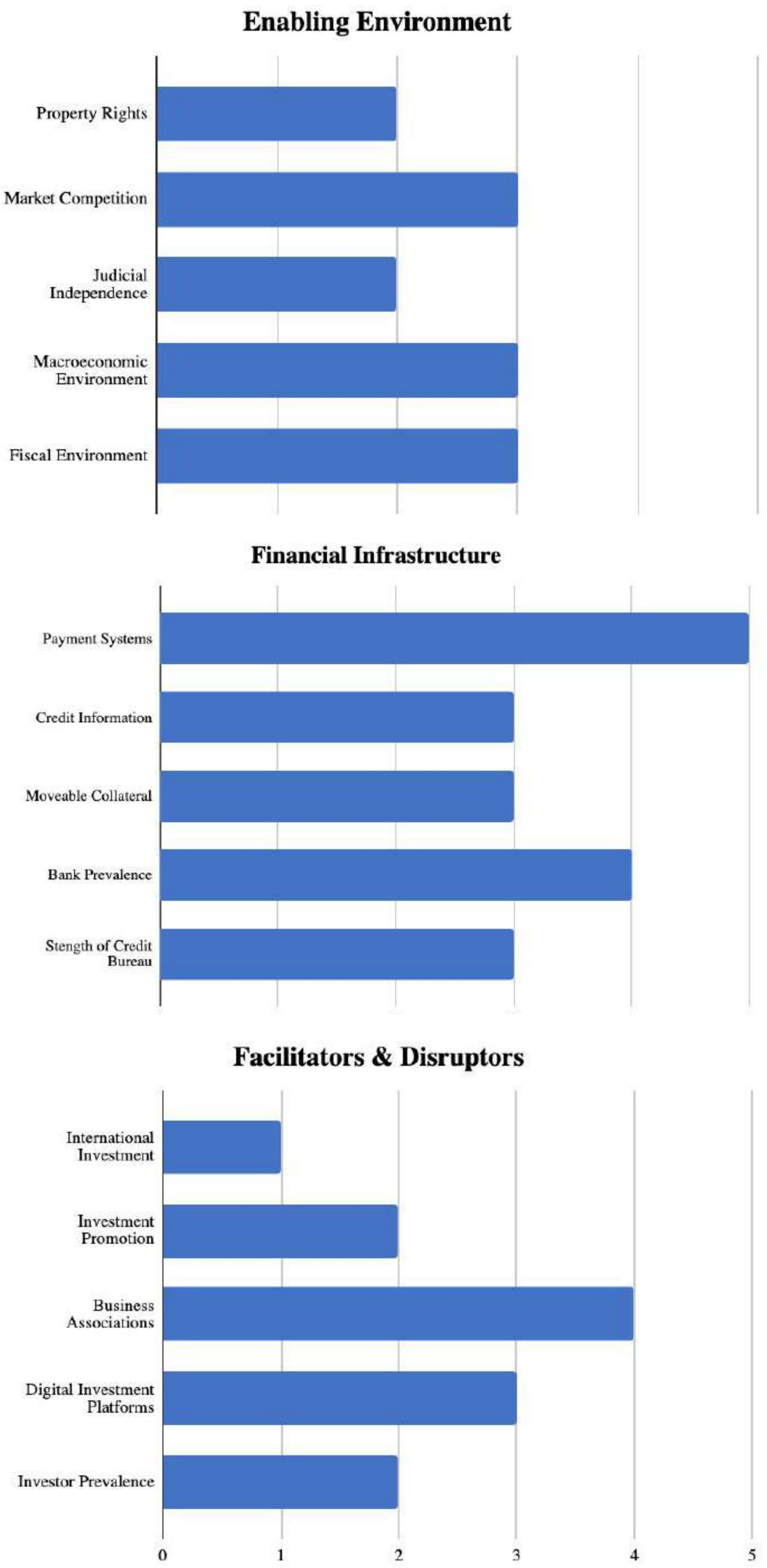
Stakeholder Category	#	Institution	Type
Non-State Schools	6.1	Green Accres Schools	NECTA (English-Medium)
	6.2	Rightway Schools	NECTA (English-Medium)
	6.3	Atlas Schools	NECTA (English-Medium)
	6.4	Soni Islamic Seminary	NECTA (English-Medium)
	6.5	Kinondoni Secondary	NECTA (English-Medium)
	6.6	Upendo Secondary	NECTA (English-Medium)
	6.7	Canossa Primary & Secondary School	NECTA (English-Medium)
	6.8	Latham Education East Africa Limited	Affordable International (Caimbridge)
	6.9	Black Rhino Academy	Affordable International (Caimbridge)
	6.10'	Busara English Medium Pre and Primary School	NECTA (English-Medium)
	6.11	High View International School	Affordable International (Caimbridge)
	6.12	Mwanza International School	Affordable International (Caimbridge)
	6.13	Feza International	Affordable International (Caimbridge)
	6.14	Rida Rabbit Limited – Baybrdige Primary School and Karida Rabbit School	Affordable International (Caimbridge)
	6.15	Morongoro International School	Affordable International (Caimbridge)

	#	Institution	Type
			(Caimbridge)
	6.16	Jamhuri Secondary	NECTA (English-Medium)
	6.17	Hijra Seminary	NECTA (English-Medium)
	6.18	Bondeni Secondary	NECTA (English-Medium)
	6.19	Jitengeni Secondary	NECTA (English-Medium)
	6.20'	Mlalo Secondary	NECTA (English-Medium)
	6.21	Santakagwa	NECTA (English-Medium)
	6.22	Waja Springs	NECTA (English-Medium)
	6.23	Ihsan Islamic Secondary School	NECTA (English-Medium)
	6.24	Alharamain Seminary	NECTA (English-Medium)
	6.25	Ummussalama	NECTA (English-Medium)
	6.26	Bicha Primary	NECTA (English-Medium)

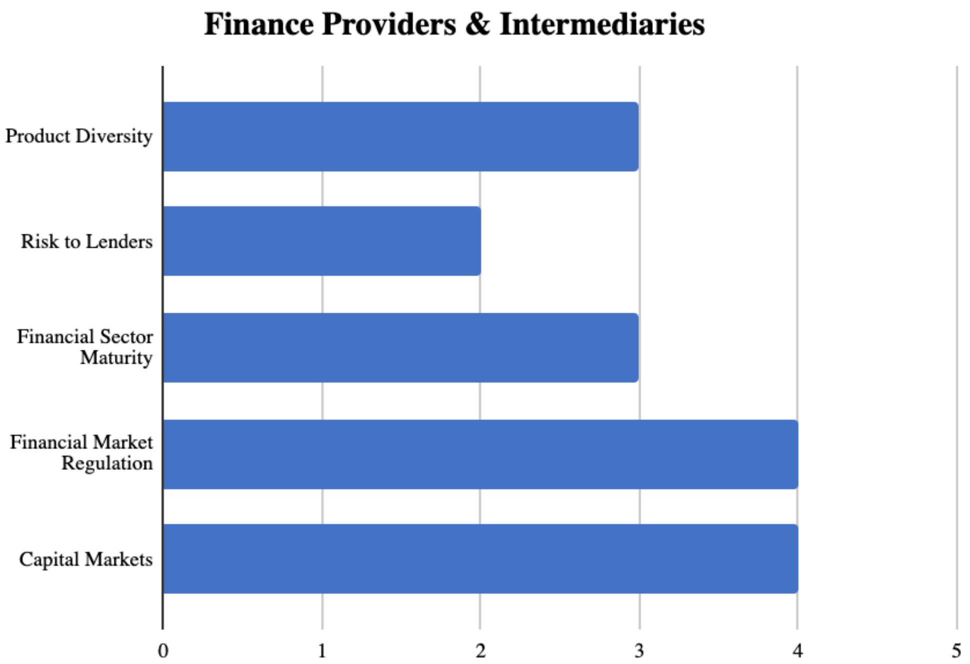
Stakeholder Category	#	Institution	Type
7. Private Funders and Investors	7.1	Human Capital 1 PCC	PE / Education Investor
	7.2	Acumen Fund - Education Fund	PE / Impact Investor
	7.3	Schole	PE / Education Investor
	7.4	Creadev	PE / Investor
	7.5	I&P	PE / Impact Investor
	7.6	HRSV	Family Office / Impact Investor
	7.7	MBU Capital	PE / Investor
	7.8	Anza Growth Fund	Seed Investor - Tanzania
	7.9	The Waterloo Foundation	Philanthopic Funders
	7.10'	T&J Meyer Foundation	Philanthopic Funders
	7.11	Segal Family Foundation	Philanthopic Funders

Stakeholder Category	#	Institution	Type
8. Government	8.1	Higher Education Students' Loans Board (HESLB)	Public Body

Annex 2: Five point framework




Finance Seekers
Business Friendliness
Burdensome Regulatory Requirements
SME Access to Finance
Financial Skills
Managerial Capacity
0
1
2
3
4
5


Finance Providers & Intermediaries
Product Diversity
Risk to Lenders
Financial Sector Maturity
Financial Market Regulation
Capital Markets
0
1
2
3
4
5

Annex 3: Education budget allocation

Financing of Education

Table 10.1: MoEST Budget allocation as % of Total Government Budget, Education Sector Budget and GDP, 2011/12- 2018/19

Year	Total Budget (in mill.shs)	GDP (at current prices in mill.shs)	Education Sector Budget (in mill.shs)	MoEVT Budget (in mill.shs)	Education Sector as % of Total Budget	Education Sector as % of GDP	MoEVT as % of Total Budget	MoEVT as % of Education Sector Budget	MoEVT as % of GDP
2011/12	13,525,895	56,846,833	2,283,000	659,297	16.9	4.0	4.9	28.9	1.2
2012/13	15,119,644	65,585,228	2,890,149	722,472	19.1	4.4	4.8	25.0	1.1
2013/14	18,248,983	74,778,620	3,171,631	689,681	17.4	4.2	3.8	21.7	0.9
2014/15	19,649,500	83,904,228	3,465,101	799,020	17.6	4.1	4.1	23.1	1.0
2015/16	22,495,500	93,725,581	3,870,178	947,963	17.2	4.1	4.2	24.5	1.0
*2016/17	29,500,000	105,747,227	4,768,358	1,396,930	16.2	4.5	4.7	29.3	1.3
*2017/18	31,711,986	120,866,799	4,706,362	1,336,685	14.8	3.9	4.2	28.4	1.1
*2018/19	32,475,950	144,055,003	4,641,498	1,406,470	14.3	3.2	4.3	30.3	1.0

Note: The Education Sector Budget has generally been decreasing in recent years from 17.6 % of Total Budget in 2014/15 to 14.3 % in 2018/2019. At the same time the Education Sector Budget has descreased from 4.5% of GDP in 2016/17 to 3.2% in 2018/19.

NB: GDP 2016/2017 has been Estimated

Annex 4: Education policies

National Policies:	N1 - Tanzania Development Vision (2025)
	N2 - National Strategy for Growth and Reduction of Poverty (NSGRP/MKUKUTA)
	N3 - Tanzania Five Year Development Plan of 2016/17 to 20120/21
ES1 - Education and Training Policy (ETP) 2014	The ETP provides statements that direct the transition to fee-free and compulsory basic education of 11 years. Policies supporting implementation of the ETP:
	-The Technical Education and Training Policy (1996), currently under review
	-The Higher Education Policy (1999)
	- Community Development Policy (1996), currently under review
	- The Child Development Policy (1996)

ES2 – Education Sector Development Plan	- Primary Education Development Programme (PEDP) whose first phase was from 2001 to 2006, revised for the second phase from 2007 to 2011 and again for the final phase from 2012 to 2017;
	- Secondary Education Development Programme (SEDP). The first phase was from 2004 to 2009 and the second phase 2010-2014 (extended to 2016
	- Teacher Development and Management Strategy (TDMS) 2007-2012, under review;
	-Folk Education Development Programme (FEDP) 2007-2012, under review;
	- Adult Education and Non-Formal Education Strategy; 2003/4-2007/8 which led to the development of the Adult and Non Formal Education Development Plan 2012-2017;
	- Higher Education Development Programme (HEDP) 2010-2015;
	- Technical and Vocational Education Development Programme (TVEDP) 2012-2017.

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ES2 – Education Sector Development Plan	- Primary Education Development Programme (PEDP) whose first phase was from 2001 to 2006, revised for the second phase from 2007 to 2011 and again for the final phase from 2012 to 2017;
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	- Teacher Development and Management Strategy (TDMS) 2007-2012, under review;
	-Folk Education Development Programme (FEDP) 2007-2012, under review;
	- Adult Education and Non-Formal Education Strategy; 2003/4-2007/8 which led to the development of the Adult and Non Formal Education Development Plan 2012-2017;
	- Higher Education Development Programme (HEDP) 2010-2015;

	- Technical and Vocational Education Development Programme (TVEDP) 2012-2017.

Annex 5: School facility requirements

PROPERTY REQUIREMENTS	
Zoning	Education
Size	Urban 3.5 acres Rural 7.5 acres
Title Deed	Detailing ownership
Architecture Plan	Current infrastructure layout

INFRASTRUCTURE REQUIREMENTS	
Classrooms	8 classrooms (Pre-Primary, Standards I-VII) Each classroom at least 30 x 30 feet in dimension
Administration Block	2 rooms (1 Head Teacher Office, 1 Teacher Planning Room)
Kitchen	Built in wood-burning stove and access to water
Dining	Must hold 300-500 students
Windows	2-3 on at least one side of classroom, 5 x 5 feet dimensions
Doors	Normal size and must open from the outside
Toilets	1 toilet per 25 boys, 1 toilet per 20 girls, separate staff toilets, and access to plumbing system
Playground	Leveled playing field. Preferably with football pitch and concreted netball pitch.

QUICK FACT: Having hygienic and an adequate number of **toilets** is **very important** to inspectors. National average is 1 toilet per 52 students, over double the regulatory standard.

Annex 9: Ed-tech fee management and school management system service provides

ShuleSoft	Private Company	ShuleSoft offers an extensive school management system that simplifies school operations and interconnects parents, teachers, students and other school stakeholders. Current schools served is 520+ clients across primary and secondary.
Biz Logic	Private Company	Be Smart Academy is the educational management system offered by multinational tech firm Biz Logic, who have also helped automate other government processes. Their school specific product is new in the market and is due to launch late Sept to non-state schools.
Voda Shule	Mobile Money	Vodacom Company has also just completed R&D for a new school information system, including a fee management system that will accept fee payments from all other mobile money providers.

Annex 6: Government approval levels associated with non-state school registration

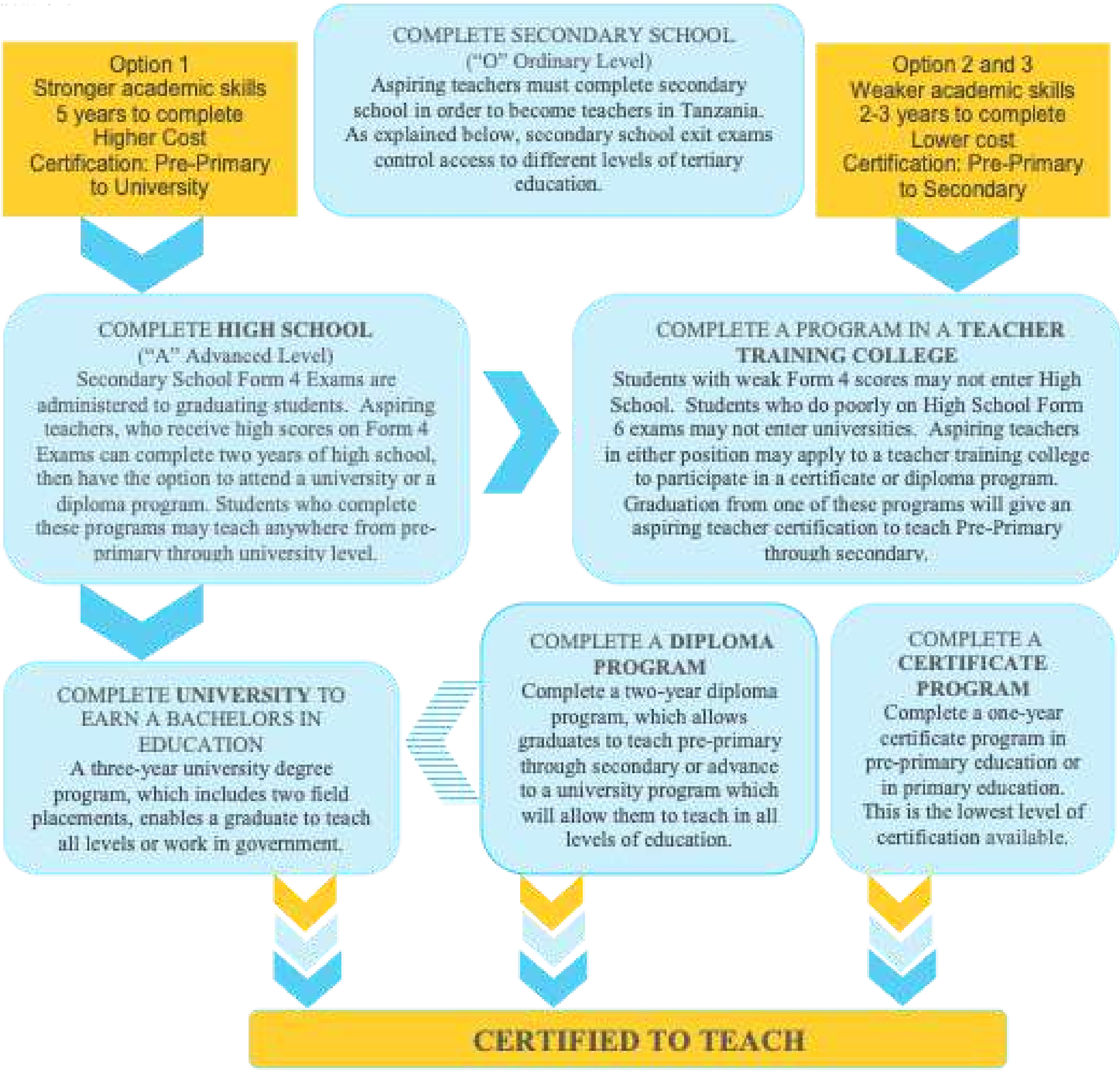
Educational Segment	Regulatory Body
Pre-primary/Primary/Secondary School	Ministry of Education, Science and Technology (MoEST)
Middle colleges	National Council for Technical Education (NACTE)
Tertiary (Universities)	Tanzania Commission for Universities (TCU)
TVET	Vocational Educational and Training Authority (VETA) both a provider and regulator

Annex 7: Quality assurance changes (old vs new)

Old System	New System
No guiding framework to work from (only inspectors working from school inspectors handbook)	An overarching framework which has been created through a consultative process
Known as School Inspectorate Department	School Quality Assurance Division
Using the term "inspection"	Using the term "Quality Assurance"
School performance checklist focusing on compliance - tick the box system	Evaluation Standards and Guidelines focusing on helping each school to improve
Inspection only involved school inspectors	SQA system involves all key education stakeholders at every level (school, community, ward, district, region and national)
Inspections infrequent with some remoter schools never getting inspected	Emphasis on continuous QA, with no schools left out
Reports were disseminated to a few key actors	Reports will be issued to all key education stakeholders in a timely way, including sharing information with parents and community
Secondary schools and Teacher Colleges were inspected from zonal levels	Moving to Regional level
Quality Assurance was a top down process	Bottom up approach, focusing on 'in-school' and 'close-to-school' QA

Annex 8: Teacher qualification type, characteristics and path to qualification

	DEGREE HOLDERS	DIPLOMA HOLDERS	CERTIFICATE
Level of Certification	Primary through University	Primary and Secondary	Pre-Primary and Primary
Language Skills	Trained in English Intermediate to Fluent level English Language Skills	Training varies- some taught in English/Some in Swahili Beginner to Intermediate English Language Skills	Trained in Swahili Beginning English Skills
Practical Field Experience	14-20 Weeks of field experience conducted in 2 different secondary schools or A-Level High School programs using mostly lecture method	5-15 Weeks of field experience conducted in 1 primary or secondary schools often Swahili or English medium using traditional teaching methods	5-15 weeks of field experience conducted in 1 preprimary or primary school often Swahili medium using traditional teaching methods
Salary Expectation	600,000-800,000	450,000-600,000	300,000-450,000
Critical Thinking & Technology Skills	Basic Technology Skills, Presentation Skills, Most exposure to critical thinking activities.	Low Level Technology Skills, some experience with critical thinking activities.	Little to no Technology Skills, very limited experience with critical thinking activities



Annex 10: School associations

Institution	Type	Description	Reach
TAPIE	School Association	Tanzania Association of Private Investors in Education.; Most organised association,	400+ school members
TAMONGSCO	School Association	Tanzania Association of Managers and Owners of Non Government Schools/Colleges. The most well known and referred to organisation, currently largely ineffective due to internal politics and leadership fragmentation.	500+ school members
TAHOSSA	Association	Tanzania Heads of Secondary Schools Association. Professional organization consisting of Head Teachers from State & Non-State Secondary Schools.	4,000 members
TPTU	Association	Tanzania Private Teachers Unions	100+ Teachers
MOFET	Service Provider	Morale Foundation for Education and Training. Capacity building, sales training, enrollment enhancement training and independant exams and scoring system	250+ private school clients
PESNO	Service Provider	Primary Education Services Networking Organisation. Independent examinations and ranking system for non state schools.	450+ School clients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