



BlueOrchard
Impact Investment Managers

Member of the
Schroders Group



REFFA Impact Report 2021

November 2022



BMZ



Bundesministerium für
wirtschaftliche Zusammenarbeit
und Entwicklung



**JACOB'S
FOUNDATION**
Our Promise to Youth





Regional Education Finance Fund for Africa (REFFA)

- Initiated by: KfW Development Bank and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ)
- Fund Manager: BlueOrchard Finance Ltd
- Technical Assistance Facility Manager: BlueOrchard Finance Ltd

About REFFA

Initiated by KfW Development Bank and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ), the Regional Education Finance Fund for Africa (“REFFA” or the “Fund”) is the first regional education finance facility for Africa. It aims to provide customised financial services for the education sector in a demand-oriented, financially sustainable, and socially responsible manner. As part of this innovative approach, the Fund and its Technical Assistance Facility partner with financial institutions by supporting them in the development of sustainable financial services for private education providers as well as learners and their families. In doing so, the Fund and the participating financial institutions help improve access to quality education and affordable education as well as contribute to the socially responsible economic development of African countries.

About BlueOrchard Finance Ltd

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. As a pioneering impact investor, the firm is dedicated to generating lasting positive impact for communities and the environment, while aiming at providing attractive returns to investors. BlueOrchard was founded in 2001, by initiative of the UN, as the first commercial manager of microfinance debt investments worldwide. Today, the firm offers impact investment solutions across asset classes, connecting millions of entrepreneurs in emerging and frontier markets with investors with the aim to make impact investment solutions accessible to all and to advance the conscious use of capital. Being a professional investment manager and expert in innovative blended finance mandates, BlueOrchard has a sophisticated international investor base and is a trusted partner of leading global development finance institutions. To date, BlueOrchard has invested over USD 9.8 billion across more than 105 countries. Over 255 million poor and vulnerable people in emerging and frontier markets received access to financial and related services with the support of BlueOrchard as of June 2022. For additional information, please visit: www.blueorchard.com.

Publication date: November 2022

About BII

The newly renamed British International Investment (BII), formerly CDC, helps solve the biggest global development challenges by investing patient, flexible capital to support private sector growth and innovation. It is the world's first impact investor with over 70 years of experience of successfully supporting the sustainable, long-term growth of businesses in Africa and South Asia. BII is a UK champion of the UN's Sustainable Development Goals – the global blueprint to achieve a better and more sustainable future for us all. The company has investments in over 1,200 businesses in emerging economies with total net assets of £ 6.5 bn and a portfolio of £ 4.7 bn.

For more information, please visit: www.bii.co.uk/en/

About KfW

KfW is one of the world's leading promotional banks. KfW has been committed to improving economic, social and environmental living conditions across the globe on behalf of the Federal Republic of Germany and the federal states since 1948. To do this, it provided funds totalling EUR 107 billion in 2021 alone. Of this amount, 33% was used for climate and environmental protection. Its financing and promotional services are aligned with the United Nations' Agenda 2030 and contribute to the achievement of the 17 Sustainable Development Goals (SDGs).

For more information, please visit: www.kfw.de/KfW-Group

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REFFA celebrates its 10th anniversary in 2022

Key achievements

USD 85 million

disbursed since inception

USD 65 million

disbursed in local currency since inception

Invested in

13 countries

since inception

23 investees

since inception

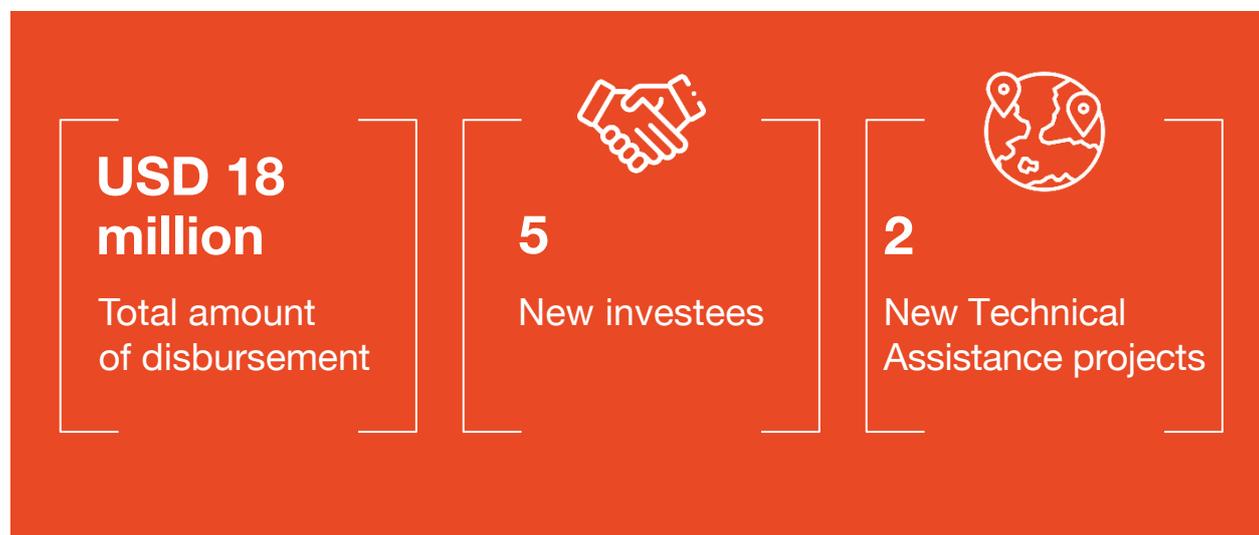
157,509

education finance loans

disbursed by investees since inception

We would like to particularly thank the past members of the REFFA Board of Directors as well as the donor representatives in REFFA's technical assistance facility. They have enriched the Fund with their deep expertise and their valuable propositions on how to further grow REFFA's education finance portfolio and foster its intended impact to bring high quality and affordable education to more students from lower income families across Africa.

2021 at a glance³



I. REFFA's impact

I.1 Capital mobilised

The initiators of the Regional Education Finance Fund for Africa (“REFFA” or the “Fund”), with their contribution of junior tranche capital and Technical Assistance (TA) Facility, have been catalytic in attracting financing from other like-minded investors. During the last six years, the Fund succeeded in adding close to USD 25 million investments from development finance institutions in the mezzanine tranche as well as attracting investments and commitments from private investors (e. g. foundations and family offices) in the senior tranche. By the end of 2021, REFFA had drawn and committed capital across all its tranches, amounting to a total of USD 51 million capital contributions.

In 2021, an amount of approximately USD 180,000 could be mobilized for the TA Facility thanks to the generous donation of some of the Fund investors’ complementary dividends. Jacobs Foundation, Bill, and BlueOrchard repurposed part of their shareholding income, donating it to the TA Facility to further support its work to generate impact. In addition, the Fund donated a share of its income waterfall to the TA Facility for the first time – with an outlook on further contributions over the next years. It is worthwhile noting that the blending of public and private capital in the TA Facility is an industry first.

Figure 1: Capital mobilisation to education finance (Dec 2021)

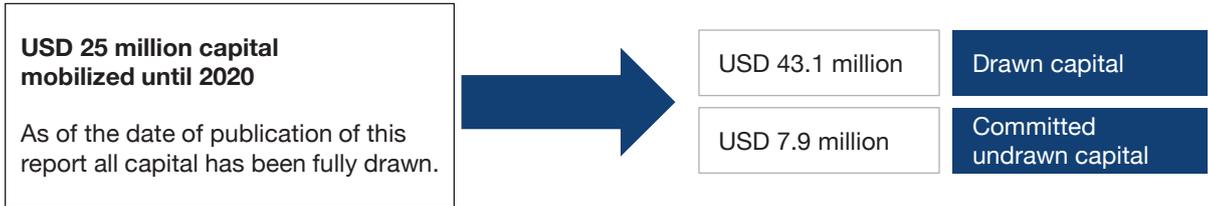


Figure 2: Capital mobilisation of REFFA Technical Assistance Facility (Dec 2021)



I.2 Additionality

a. Investment Side

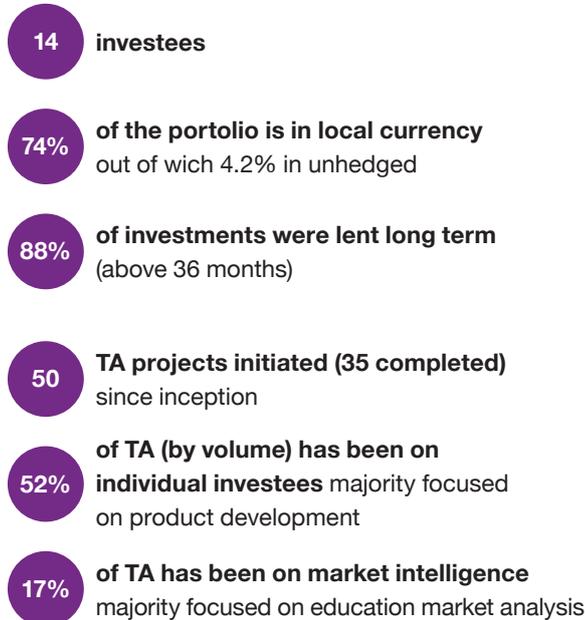
An important and unique contribution of REFFA is the investment of the vast majority of its portfolio in local currency. While a large portion of the Fund is hedged to protect it from the historic volatility of local currencies in target countries, REFFA has fully taken the currency risk of 4% of the portfolio, demonstrating its unique contribution and additionality to its investees. Moreover, 88% of the loans were long term loans.

b. Technical Assistance

To accelerate the Fund's impact, the TA Facility mainly uses the available funds to support the Fund's investees in creating, designing, and growing their education portfolio. Investees receive tailored advisory service to help adapt their products to the specifics of education lending, such as putting in place repayment schedules that meet the seasonal cash flow of private education providers.

In 2021, the main activities of the TA facility comprised the following: A capacity building project in Burkina Faso was started, including a specific target market assessment on education providers in order to tailor the lending services better to client's needs. Under another project, materials for a self-learning course on financial wellbeing for the clients of several REFFA investees⁴ were improved. With the same REFFA clients, a cross-country client research project was implemented in six African markets to better understand loan use and client's decision making when taking out a loan (for education loans, among others). One important confirmation of this study was that parents who take out a loan to finance school fees for primary and secondary⁵ mainly do so because of the superior education quality they see in private education, and secondly, to ensure higher levels of child safety.

In addition to these regular TA activities, the newly developed "EduFinance Tracker", i. e. the data collection and monitoring framework for education quality and affordability, has started to be rolled out to four investees. In 2022, further onboarding and first data inflows are expected. The lessons learned from these onboarding activities show that clear top management buy-in for this shift towards increased data collection and reporting is necessary to facilitate respective amendment to the current reporting on financial figures only. As per the end of 2021, the onboarding was still ongoing and data flows are expected to come in during 2022.



⁴ A group where REFFA has outstanding loans to several subsidiaries.

⁵ Secondary: 23% on average, primary 15% on average – the rest of the loans are taken out by professionals to pursue their own (tertiary) education which are typically courses to further professionalize or pursue studies alongside their regular jobs.

MEET REFFA'S INVESTEEES

Sharp Education Centre, Kayole

The Sharp Education Centre in Kayole, a densely populated suburb in Nairobi, Kenya was opened in 2011 by Paul Kariuki and his wife Agnes Kariuki. The couple has a great passion for teaching, with Paul having taught in classrooms for more than 15 years and Agnes running schools as administrator for about the same time. The school follows the 8-4-4 primary curriculum⁶ from baby class, nursery, pre-unit and primary classes one to eight, starting with eleven pupils initially. Today the school counts more than 700 pupils, and the couple are currently constructing a second campus to house classes nine to twelve, in line with the Kenyan government's new law of combining primary and secondary education within one school to improve transition rates.

Paul is not only the CEO of the school, but also teaches and examines in Mathematics and Sciences. Similarly, Agnes also teaches Sciences besides her role as director of Finance and Operations. All key staff are well-trained and have experience working at reputable schools previously. This is reflected in a good Kenya Certificate of Primary Education (KCPE) performance of the school's pupils in 2021, with a mean score of 310 out of 500. To put this in context, only 1% of pupils nationwide scored above 400 in that year.⁷



Paul accessed a loan facility of Kshs. 500,000⁸ to equip the classroom with furniture, mainly desks and chairs. Over time, the client has been seeking financial support from Family Bank Limited which has been utilized for infrastructure development, asset finance (school buses for transport), and bridging finance to support the school whenever schools are closed.

The new curriculum under Competency Based Curriculum (CBC) requires expansions mainly in infrastructure development to meet the minimum requirement by the ministry of Education, hence forcing most urban schools to acquire land out of urban areas for sustainability purposes.

Mr. Kariuki is very enthusiastic and positive about the future – with additional loans he plans to further expand his campus and reach additional 1,150 pupils by FYE 2023.



⁶ The 8-4-4 system consists of 8 years of primary education, 4 years of secondary education, and 4 years of university education that is attended by students who have completed two years of pre-school education.

⁷ KCPE Results 2021/2022 Release: How to Download KCPE Result Slip Online (kenyanlife.com).

⁸ About USD 4,400.

I.3 Outreach

2021 was again impacted by the Covid-19 pandemic, but we observed resilience in REFFA's portfolio and for the investees' education portfolio. Notably, the Fund had a record amount of disbursements with USD 17.6 million disbursed to eight investees in 2021, adding five new investees, which allowed it to widen the positive impact of REFFA on students and schools. At the end of 2021, REFFA was financing an education portfolio amounting to nearly USD 125 million, providing loans to more than 3,202 private schools, 128,000 learners, and about 13,000 students. The Fund comprised a total of 14 financial institutions, welcoming five new investees: Advans Nigeria, Family Bank Limited and Sumac Microfinance Bank with operations in Kenya, and both Letshego Ghana and Kenya.

Over the last six years, REFFA's portfolio volume has grown 94%, reaching USD 34.3 million by December 2021.

REFFA investees have reached 2,147 education providers as of December 2021. These loans are mostly used to increase fixed assets (school buildings and equipment) that result in an improved learning environment for pupils. This represents a 57% growth compared to December 2020. This is the result of the investment in Family Bank Limited, a financial institution with a large loan portfolio to 1,300 education providers.

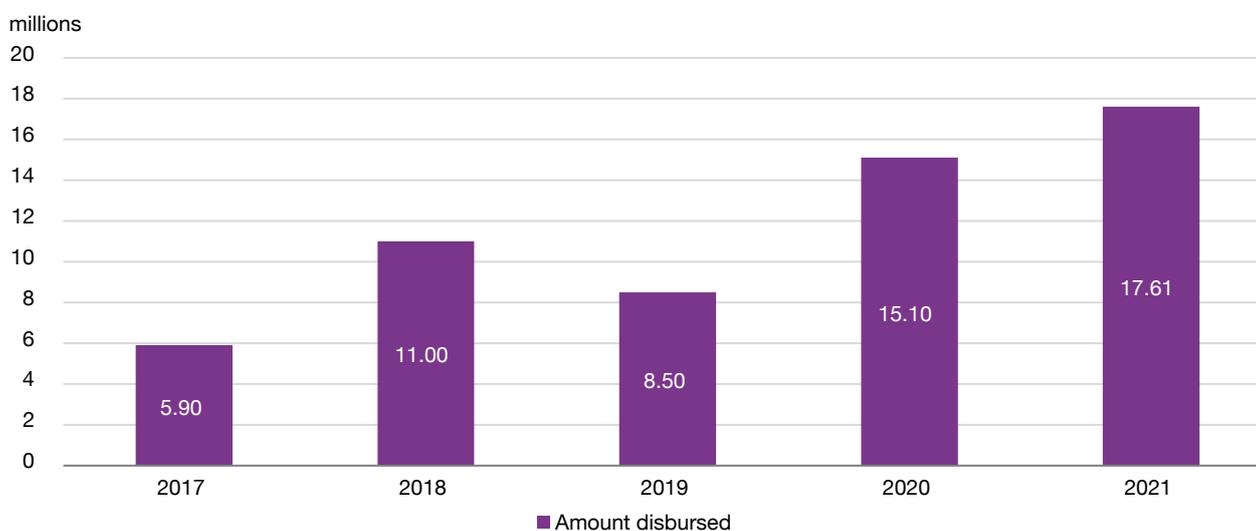
The Fund's investees have also doubled their education finance loans disbursement in 2021 to 51,655 loans with a total loan volume of USD 50.5 million, almost doubling the number and dollar amount disbursed of the previous years.

The majority of loans from the total education finance loan portfolio of REFFA in number of amounts disbursed comes from loans to learners from families with a salary income. Loan portfolios of REFFA's investees had 86,055 of these loans by end of 2021. Additionally, the loan portfolio comprised 26,410 loans to learners from families with MSME income, resulting in a total loan portfolio of more than 112,000 loans to learners by end of 2021.

2021 was also a positive year for new loans disbursements to learners, with 41,082 loans disbursed to learners, up 44% compared to the REFFA portfolio of 2020, and 56% to pre-Covid-19 levels when comparing with the 2019 portfolio.

Loans to students have reached more than 13,000 individuals in 2021. These loans tend to reach adult individuals who have taken out a salary-backed loan to invest into their further professional development. This category shows a valuable contribution of REFFA to the professionalization of the labour market force. There was a drop in the number of students (-36% or -7,308 students). Comparable to the decrease in loans to learners from families with a salary income mentioned above, this drop is explained by the maturity in August 2021 of a loan to a Zambian investee.

Figure 3: Investment disbursed in USD 2017 – 2021



⁹ See Impact approach section.

Private education providers served by REFFA's investees constitute an integral part of the solution to improve access to quality and affordable education in Africa. Aligned with REFFA's mandate, the Fund continues to put significant efforts into impact evaluation tools to better observe the achievements of the Fund along its Theory of Change⁹. The Quality and Affordability of Education project has taken significant steps towards a distinct on-the-ground monitoring at the Fund's impact level.

Figure 4: REFFA investees – number of beneficiaries by segment

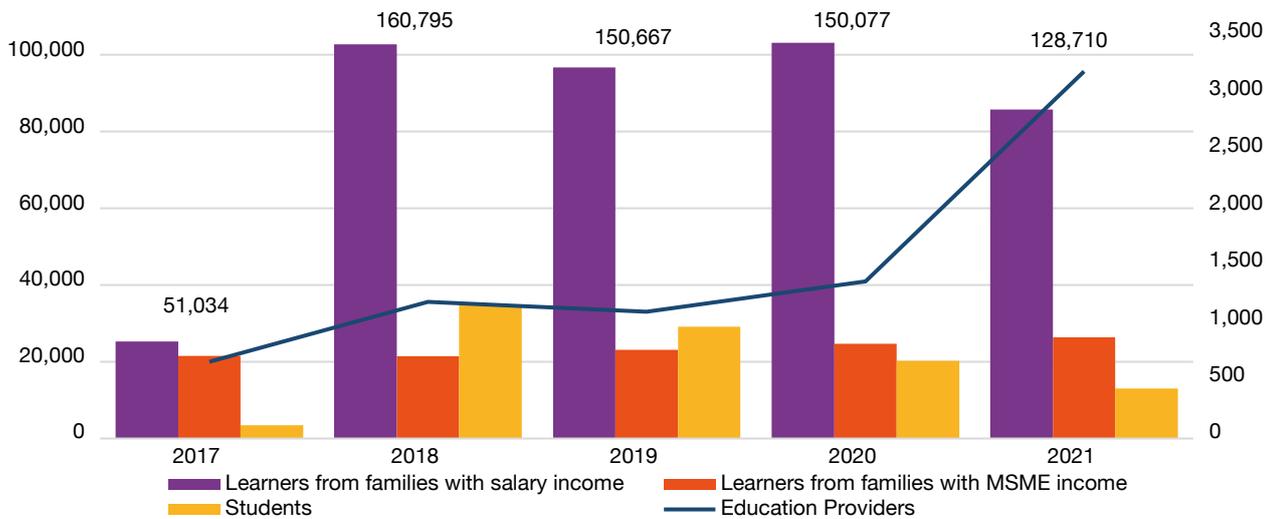
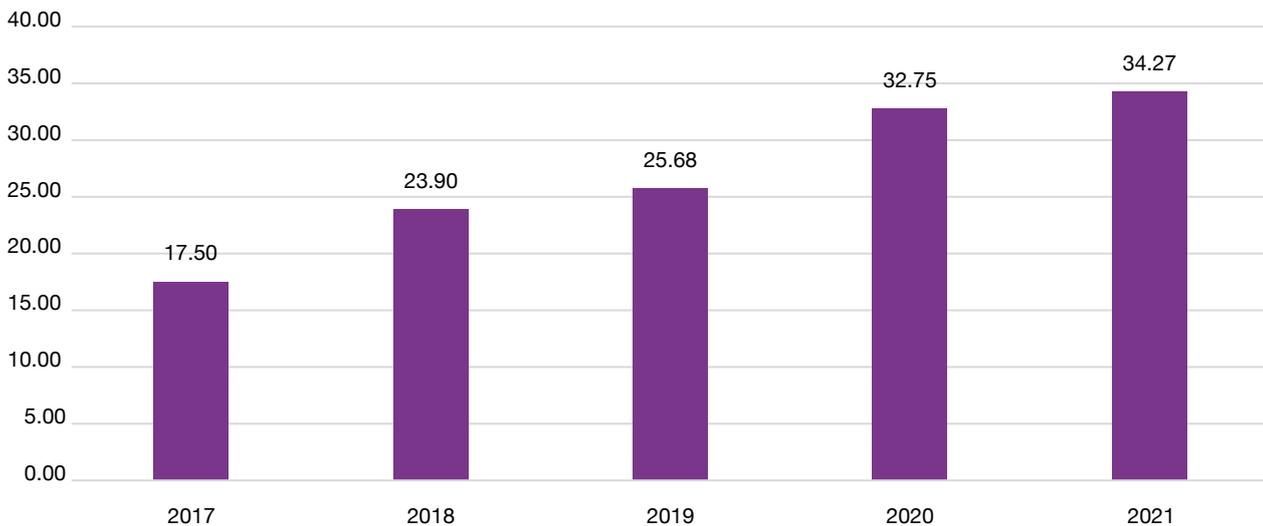
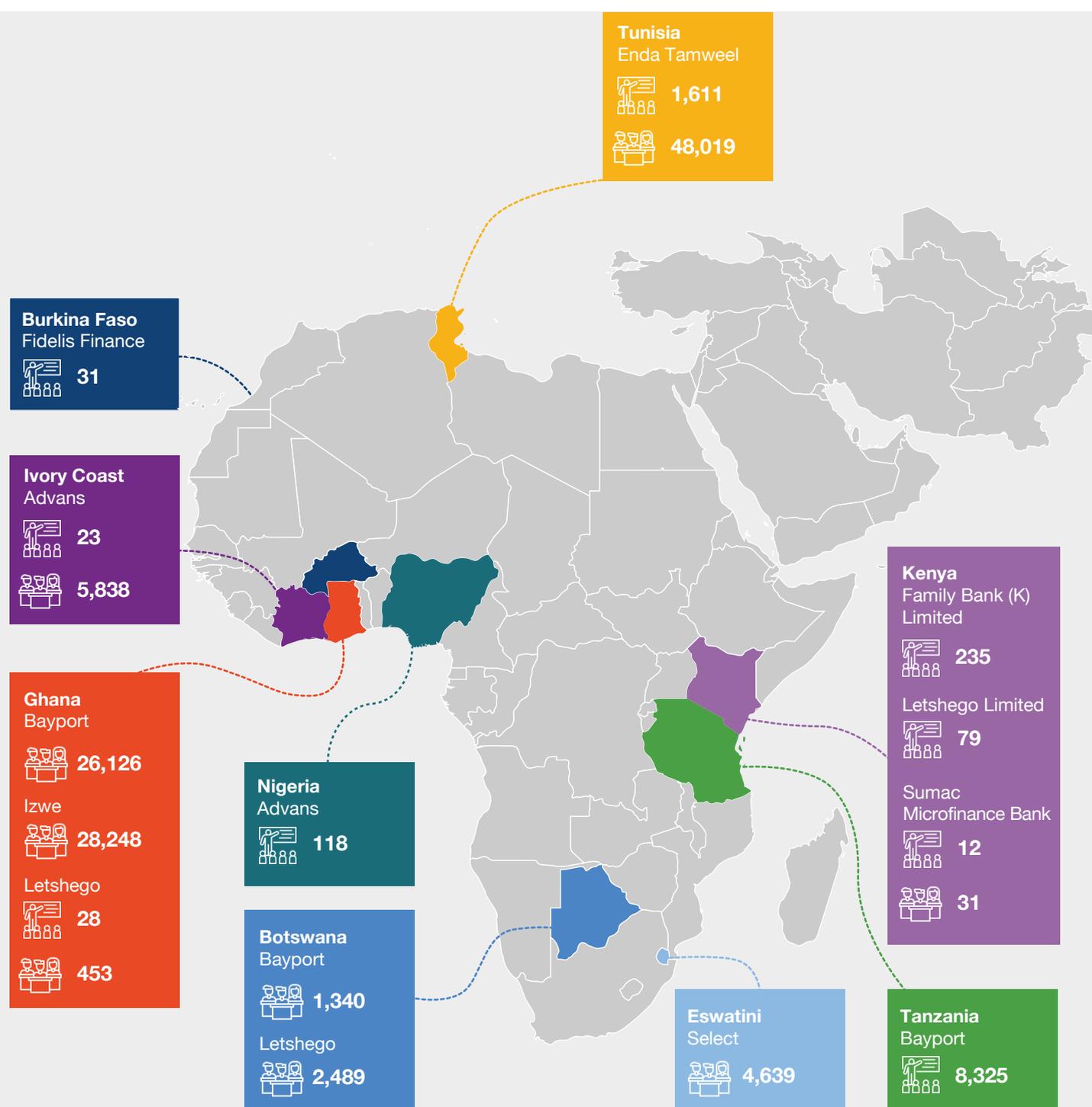


Figure 5: Outstanding volume of investments - in USD millions



I.4 REFFA's investees



 Number of schools

 Number of learners

MEET REFFA'S INVESTEEES

Uthiru Genesis School

Uthiru Genesis School is a mixed day school that offers the Competency Based Curriculum (CBC) system of education, the new education system in Kenya that is currently set to replace the 8-4-4 education system. The school was established in 1992 with only two pupils and two teachers and has grown by leaps and bounds over the years. Uthiru Genesis school has three learning centres, each has been classified to suit the new CBC system. The learning centres are in Uthiru, Kinoo, and Kagondo. The founder of the school is Mr. Samuel Gitau Kimani who is also the managing director of the Kinoo branch centre.

The Uthiru branch and Kagondo branch learning centres are mixed day learning centres that focus primarily on the pupil's early year education. This level caters for pupils in pre-primary and lower primary levels. The school takes pride in providing an interactive learning environment that encourages children to learn through play and activity. The school has designed a learning program that makes transition from preschool to primary school seamless.



The Kinoo branch learning centre is a mixed preschool and primary school that offers both the 8-4-4 system and the CBC. The learning centre offers both day and boarding facilities. All learning centres have spacious classrooms and admission is limited; this is to allow the teachers to provide the pupils with a personalized learning experience. It also ensures that the student-teacher ratio is acceptable and that the teaching faculty focuses on quality education per pupil. In addition to the Ministry of Education Curriculum, the school offers additional curricula such as French, Karate, and computer studies. Extra-curricular activities are also provided to nurture different talents.

The school has a beautiful layout with well-equipped facilities, featuring spacious classrooms, a well-resourced library, an Information & Communication Technology laboratory, and a modern dining hall/auditorium. There are plans to build another learning centre in Ndeiya.

The school has a student population of 1,400 students, with average school fees per student charged at Kes 25,000, the equivalent of USD 220. This puts the estimated cashflow per term to be USD 308'000.

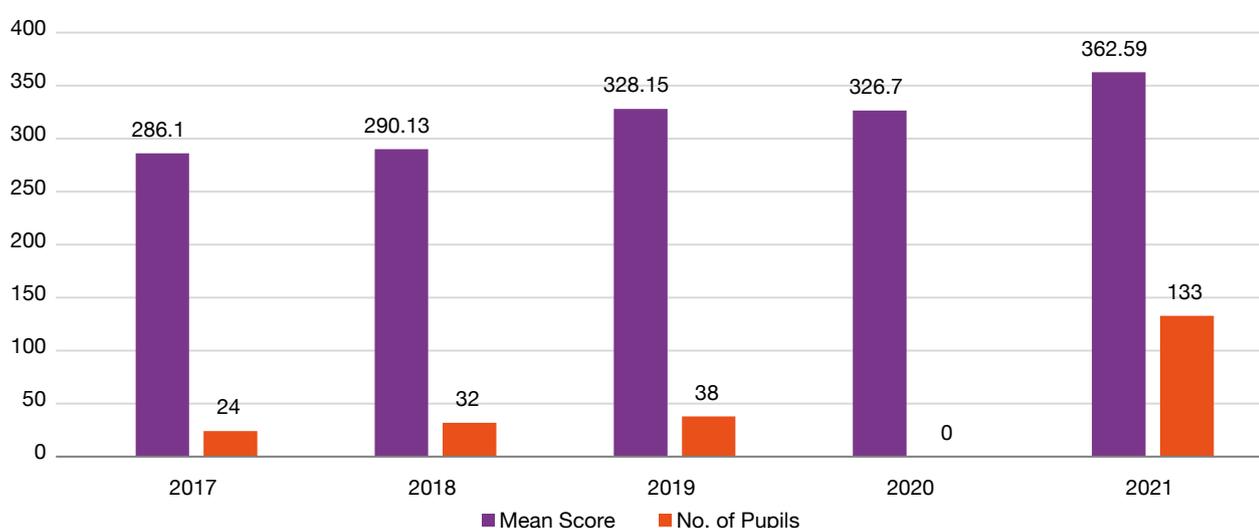
The school has been performing well in recent years and has shown a steady improvement in national examinations every year. In the just concluded national examinations in which 133 students took part, the school managed to garner a mean score of 362.59. The top candidate managed to score a 420 mark.



A performance analysis of the past five years has been performed and is presented below. In 2017, the mean score was 286.1 with 24 candidates having sat for the exam. In 2018, the mean score for the school was 290.13 with 32 candidates sitting the examination. In 2019, the school improved with a mean score of 328.15 with 38 students having sat for the examinations. In 2020, the mean score was 326.7.

In comparison, we can see that not only is the school improving at the academic front, but it is also attracting more students every year.

Figure 6: Uthiru Genesis School KCPE Performance Analysis



Bayport Tanzania

Country: Tanzania

About: Bayport's mission is to provide financial solutions suited to the needs of an inclusive and broad customer base, embracing technology, product leadership, and innovation and thus becoming the leading developing market financial solutions provider.

Since REFFA started partnering with the Bayport Group with its first loan to Bayport Tanzania in 2017, various areas to support the Bayport Group with capacity building had been identified. The theme was to build a partnership whereby education lending would be positioned as a core part in Bayport's aim towards a stronger impact orientation. Since early 2019, Bayport has been undergoing a strategic shift towards a more socially oriented business model with a multitude of activities around this, including the issuing of a social bond, corresponding social reporting needs, as well as research on loan effects on clients.

Student loan portfolio: USD 10,741,958.63

Gross loan portfolio for education: USD 10,741,958.63



For the first time ever, REFFA has conducted a survey and interviewed a significant sample of its investees to outline the events and characteristics of the past year.¹⁰ The investees were asked to provide their feedback on multiple subjects to capture the overall sentiment of REFFA’s portfolio regarding their education lending activities. Therefore, this chapter will dive more deeply into the respondent’s answers, first discussing how investees managed the impact of the Covid-19 pandemic. Second, the survey also reveals how investees manage their portfolio, related risks, and discuss main assessment criteria, before finally directing their thoughts towards the future and identifying potential growth opportunities for financial institutions in the field of education finance. Additionally, this chapter also outlines answers the participants have provided regarding the collaboration with the Fund, overall satisfaction, and impact REFFA and its non-financial support delivered.

Challenges and Status Quo

The year 2021 was strongly impacted by the Covid-19 pandemic, causing uncertainty and globally disrupting the education system. Nevertheless, 43% of respondents saw a growth in their education portfolio level in 2021. Yet, the pandemic has still negatively affected the vast majority of school children across the world, cutting education budgets in lower-income countries. The survey has further confirmed this statement, as still two out of seven respondents recorded a decrease in portfolio size, while two other investees noted a resilient and relatively stable portfolio (Figure 7). Investees have confirmed that the Covid-19 pandemic impact and in particular its restrictions and consequences have caused the absence of expected portfolio growth. Schools have been shut down by governments which only hesitantly and slowly returned to reopening schooling activities later in the year.

Portfolio and Risk Management

In a second part, the survey then turned towards the different investees and the services they provide to inquire about the topics of their portfolio and risk management. Turning towards investees providing education finance products, three out of seven respondents stated that they have observed a link between financing high quality low-cost private education and low credit risk in their portfolios, whereas two could neither confirm nor deny this statement.

Closely aligned with REFFA’s overall goals and objectives, investees who provide financing for education providers confirm that their clients mostly target low- and middle-income groups. Low- and middle-income groups are typically defined as the bottom three quintiles of the income distribution. Depending on the GINI index of the countries in question, the fourth quintile is sometimes added to the low- and middle-income group.

Figure 7: Education Portfolio Evolution 2021

How did your education portfolio level evolve in 2021?

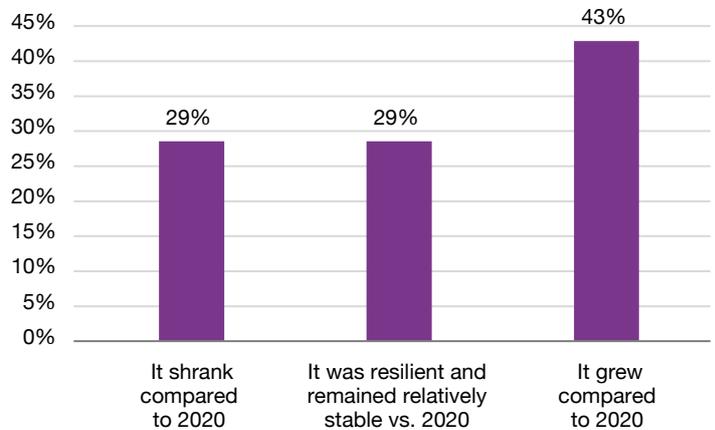
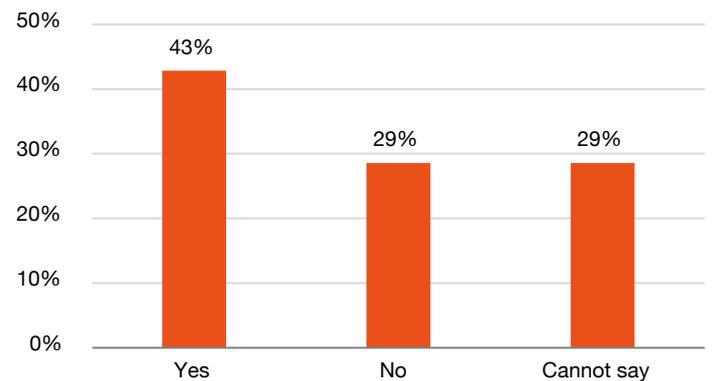


Figure 8: Link between high quality low-cost private education and low credit risk

If you finance School Investment Loans:
Do you observe a link between financing high quality low-cost private education and low credit risk in your portfolio?



¹⁰ Out of 14 investees, 7 responded to the survey questions

On the other hand, respondents who finance education providers were able to reveal further details in their loan selection process. The most crucial criteria when assessing loan applications and worthiness named in the survey were: (1) safety (such as safe school buildings, secure school boundaries, or the availability of clean drinking water),

(2) equity (e. g., separate bathrooms for boys and girls), and (3) child protection, where schools promote non-violent behaviour towards children and value gender and safety issues. Figure 9 documents that most investees see safety as an important criterion.

Future Opportunities

REFFA's investees have furthermore been asked to turn their vision towards the future and share their opinion and thoughts about the biggest investment opportunities in the education sector in the short (1 year) to medium-term (2–5 years) future. It is evident that digitisation has been recognised as the most impactful opportunity, as all respondents have confirmed. Figure 10 further records how working capital needs has been marked as second most important, as 86% of those surveyed see potential in this sector for future growth and scaling efforts. Further, both green energy and land purchase and construction have been indicated by three out of the seven respondents as possibly interesting investment opportunities. Lastly, one of the respondents further added financing of further equipment, such as school buses, furnishing computer labs, and stationaries.

In terms of the future, a large majority of investees jointly confirmed plans to ramp up and expand their portfolio in 2022 (Figure 11). Most scaling is planned through the respondents' existing products, as 71% plan to focus on products, either through re-engineering existing products, scaling up on current product, or creating new unique product offerings with a security mix that would accommodate to new customers. Four of the respondents also stated their plans to focus on customer growth, either through loans to education providers or through new product offerings. To identify more possibilities and opportunities for REFFA and its investees, the survey also asked participants whether they already have an education loan product. Five out of seven respondents confirmed to already own an education loan product in their portfolio. Of the remaining 29% which do not yet have an education loan product, all respondents have confirmed that they would be interested in developing one. Two of the respondents that already have education loan products also stated their interest in developing new education products.

Figure 9: Main assessment criteria

Do you assess the following criteria as part of your loan selection process?

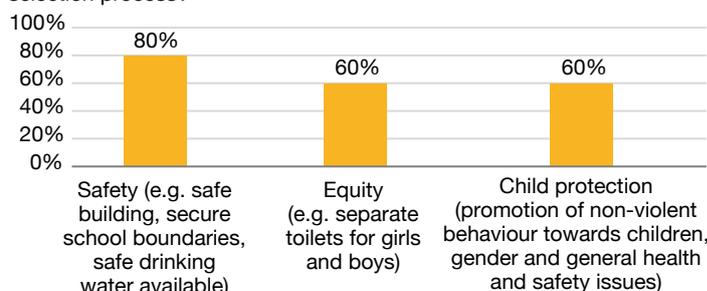


Figure 10: Future investment opportunities

Where do you see the biggest opportunities for investment in the education sector in the future?

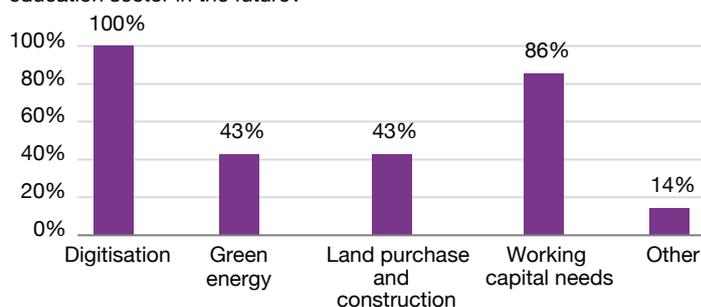
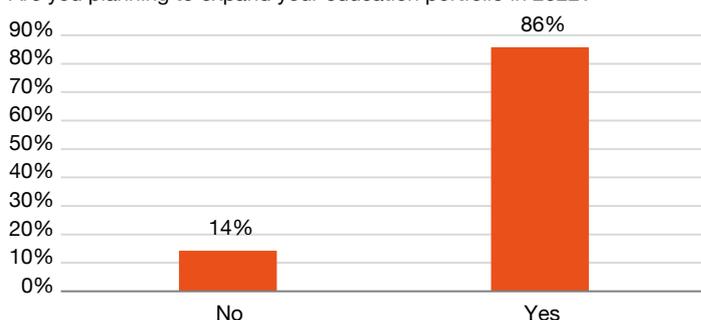


Figure 11: Education Portfolio Expansion in 2022

Are you planning to expand your education portfolio in 2022?



Collaboration with REFFA

Lastly, participants were asked about their opinion and general satisfaction regarding their collaboration with REFFA, in both financial and non-financial-related support.

As Figure 12 shows, overall satisfaction is generally positive, as respondents were mainly satisfied with REFFA’s financial support in 2021. A majority of the respondents were either neutral or positive about REFFA’s non-financial support in 2021.

Asking investees how REFFA specifically helped them in 2021, 57% stated how the Fund helped them increase their education portfolio or reach a new client base. The other 43% stated how REFFA particularly supported them in maintaining the same client base. One investee has further particularly highlighted the “very good TA support” from REFFA, and another one mentioned being interested in receiving more statistics on education portfolios that REFFA finances to evaluate where they stand.

Figure 13: REFFA’s concrete impact in 2021

How did REFFA concretely help you in 2021?

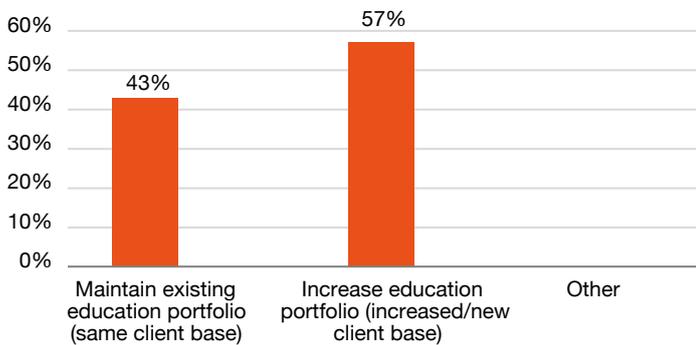
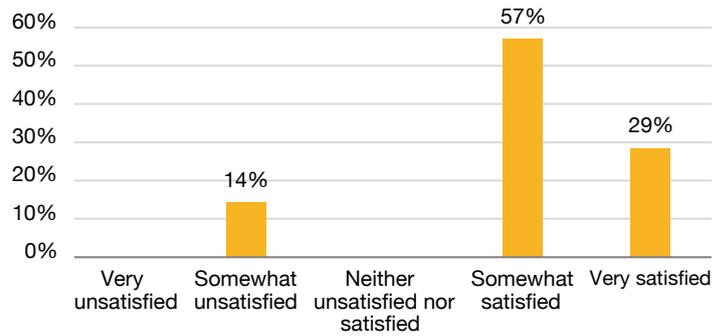
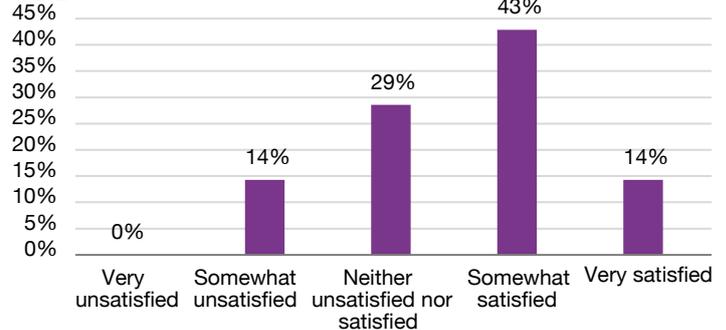


Figure 12: Investee sentiment regarding REFFA support in 2021

How would you rate the financial support you received from REFFA in 2021?



How would you rate the non-financial support you received from REFFA in 2021?



Enda Tamweel

Country: Tunisia

About: The mission of Enda Tamweel is to contribute to the improvement of living conditions for low-income Tunisians through a leading institution that is socially responsible and committed to the environment.

The MFI has a large existing education loan portfolio and is committed to the development of its education loan products in order to increase its outreach. Enda has been the country’s largest microfinance institution for the last 25 years.

Student loan portfolio: USD 12,942,459.22

Education provider loan portfolio: USD 1,517,488.26

Gross loan portfolio for education: USD 14,459,947.48



1.6 Education market update and outlook

In 2021, the education system around the globe was again disrupted by the Covid-19 pandemic. The pandemic has negatively affected around 95% of school children across the world,¹¹ and Education Finance Watch mentions that two-thirds of low- and lower-middle-income countries have cut their education budgets since the onset of the Covid-19 pandemic. In addition, the overall GDP decline has led to less tax revenue to be spend on education in % of GDP, thus further exacerbating the gap between public spending and needs. Since last year, the effects of Covid-19 increased the annual financing gap to reach the United Nation’s Sustainable Development Goal (SDG) 4 (“Quality Education”) by 35%, from \$ 148 billion up to almost \$ 200 billion.¹²

In 2021, a part of the resilience solutions for education came from non-state actors. The UNESCO 2021 Global Education Monitoring Report states that without non-state actors, the education of 350 million more children would fall to the responsibility of the state. In countries like Kenya, private education providers’ use of technology and digitization allowed for less disruption in education programs, and these institutions proved to be a strong partner in the access to education for the country. According to the Kenyan Ministry of Education, Salome N. Wenyaa, private institutions were able to continue supporting learners more effectively during the pandemic compared to learners in public institutions, because technology gave them easier access ([read full interview here](#)). Partnering with private institutions during the pandemic proved to be important because private education providers more were more resilient and able to continue their activities mainly due to their increased digitisation and use of technology. Quality control remains an important topic. In Kenya, private schools as well as public schools are assessed through the same measures, and a reassessment is made if significant changes happen at a school or if there is a curriculum change.

Outlook

Given the post-Covid-19 challenges of keeping schools open and ensuring continuity of learning, the 2022 outlook for the African education market is positive. We have seen a growing demand for education financing across the region as institutions have had to expand their infrastructure and invest in information and communication technologies. This is also complemented by an increasing demand for school fee loans as household income slowly recovers from the pandemic.

Despite increased government spending on the education sector in recent years, a financing gap still exists for achieving quality and affordable education in African countries.

Therefore, there is an increasing need and opportunity to invest in private education. There is an opportunity created for the REFFA education portfolio to grow beyond pre-Covid-19 levels with more weight towards education providers.



¹¹ [COVID-19 Learning Recovery and the need for Impact@Scale \(globalschoolsforum.org\)](#)

¹² [Domestic financing | Global Partnership for Education](#)

II. About REFFA

II.1 Introduction

Education is a key success factor in enabling people to escape poverty by providing them with the necessary knowledge and skills to improve their lives. Based on this premise, the United Nation's Sustainable Development Goal (SDG) 4 aims to ensure universal pre-primary, primary, and secondary education in low and lower middle-income countries by 2030.

The Regional Education Finance Fund for Africa ("REFFA" or the "Fund") was initiated in 2012 with the main objective of increasing equal access to primary, secondary, vocational, and higher education in Africa, while also contributing to increase education quality. REFFA was initiated by KfW German Development Bank and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). In fact, REFFA is the first fund created to exclusively support the development of the education finance sector on the continent.

REFFA aims at achieving its objective by providing funds to financial intermediaries across Africa for on-lending and expanding their education loan portfolios. Financial intermediaries include banks, microfinance institutions, credit co-operatives, and other finance companies.

Since the Fund's inception, the Fund uses its two instruments, namely private debt funding and technical assistance to financial institutions in the pursuit to help grow responsible lending to non-state education providers as well as students and their families.

The Fund yearly publishes an Impact Report to

- Provide a high-level overview of REFFA and its core objectives
- Illustrate how REFFA measures and monitors its results and impact
- Present the estimated results and impact that have been achieved to date
- Present main conclusions and remaining challenges for the years to come

The data and results presented in the report are collected and analysed by BlueOrchard Finance Ltd, the Investment and Technical Assistance Facility Manager. The data are a combination of ongoing monitoring of investment and technical assistance activities as well as data reported by the Fund's investees on a quarterly basis plus information collected as part of market assessments undertaken.

Family Bank (K) Limited

Country: Kenya



About: The mission of Family Bank is to be the financial institution that leads in the positive transformation of people's lives in Africa. The Bank has identified education as one of the key sectors for growth under its strategy and is in the process of setting up a dedicated business unit to focus on this sector. The unit is currently headed by an education sector lead who is supported by the general MSME loan officers with the intention to create a dedicated team in the short term. The Bank has signed a Memorandum of Understanding (MOU) with the Kenya Private Schools Association (KPSA) and intends to work with its 7,000 education institutions through transaction services and credit facilities. This presents further growth opportunities for the Bank in the education segment.

Education provider loan portfolio: USD 14,156,419.80

Gross loan portfolio for education: USD 14,156,419.80



II.2 Education finance needs across Africa

Despite the significant progress that has been achieved in the last 20 years, universal access to primary, secondary, and technical and vocational education (TVET) continues to be a significant challenge across most African countries. Already before the pandemic, the World Bank estimated that around 100 million children were out of school in Sub-Saharan Africa, and due to Covid-19 further millions of students are at risk of permanent drop-out.¹³ Moreover, the quality of education received is not sufficient, as students do not obtain necessary standard skills.¹⁴

45%

of the global “out of school” children statistic live in Africa, it is estimated they may never attend school¹⁴

75%

of second grade pupils in several Sub-Saharan African countries could not count beyond 80¹⁴

40%

of second grade pupils in several Sub-Saharan African countries could not do a one-digit addition problem¹⁴

50 – 80%

of second grade pupils in several Sub-Saharan African countries couldn't answer 1 question of a read passage¹⁴

Private education plays an important complementary role in African countries, as private schools supplement the public offer. In many countries, the private sector is becoming essential. In Burkina Faso, 20% of primary schools are private, and in Abidjan (Cote d'Ivoire) they make up 48%.¹⁵ Demand for private schools is also higher, as quality of education is commonly perceived as better in the private sector in this region.

Private schools in Africa are targeting the poor and vulnerable, with many “low-fee private schools” having appeared, particularly in the Sub-Saharan Africa region.¹⁶ However, for poor families, even a “low-fee” may induce consumption sacrifices in other areas of life as private school fees can still represent a large percentage of their income. In this context, education finance can be useful to

- ease cash flow constraints in families, helping them pay fees and any additional costs for learning materials, equipment, transport, etc. as well as
- support private education providers to deal with short-term funding gaps (due to tuition fee collection and seasonality) and pay teachers' salary on time, among others. It can also fund more investments in school infrastructure, teaching equipment, school buses, etc.

¹³ “COVID-19: A Catastrophe for Children in Sub-Saharan Africa”, UNICEF. 2020.

¹⁴ “Facing Forward: Schooling for Learning in Africa”, Sajitha Bashir, Marlene Lockheed, Elizabeth Ninan, and Jee-Peng Tan, World Bank. 2018.

¹⁵ “Supporting Education in Africa: Challenges and Opportunities for the Impact Investor”, Francesca Marchetta, Tom Dilly, Foundation for Studies and Research on International Development (FERDI). July, 2019.

¹⁶ “Facing Forward: Schooling for Learning in Africa”, Sajitha Bashir, Marlene Lockheed, Elizabeth Ninan, and Jee-Peng Tan, World Bank. 2018.

II.3 REFFA's structure

Based on the significant education needs in Africa, REFFA was initiated by KfW and funded by BMZ in 2012. As of 2017, the Fund was also sponsored by the UK British International Investment (BII). The OPEC Fund for International Development (OFID) and private investors also joined the Fund in 2017.

In 2015, REFFA started to be managed externally, and BlueOrchard Finance was selected as the Investment Manager. In its new set-up, REFFA has been operating for six years. During this time, important milestones and results have been achieved to strengthen education finance across Africa.



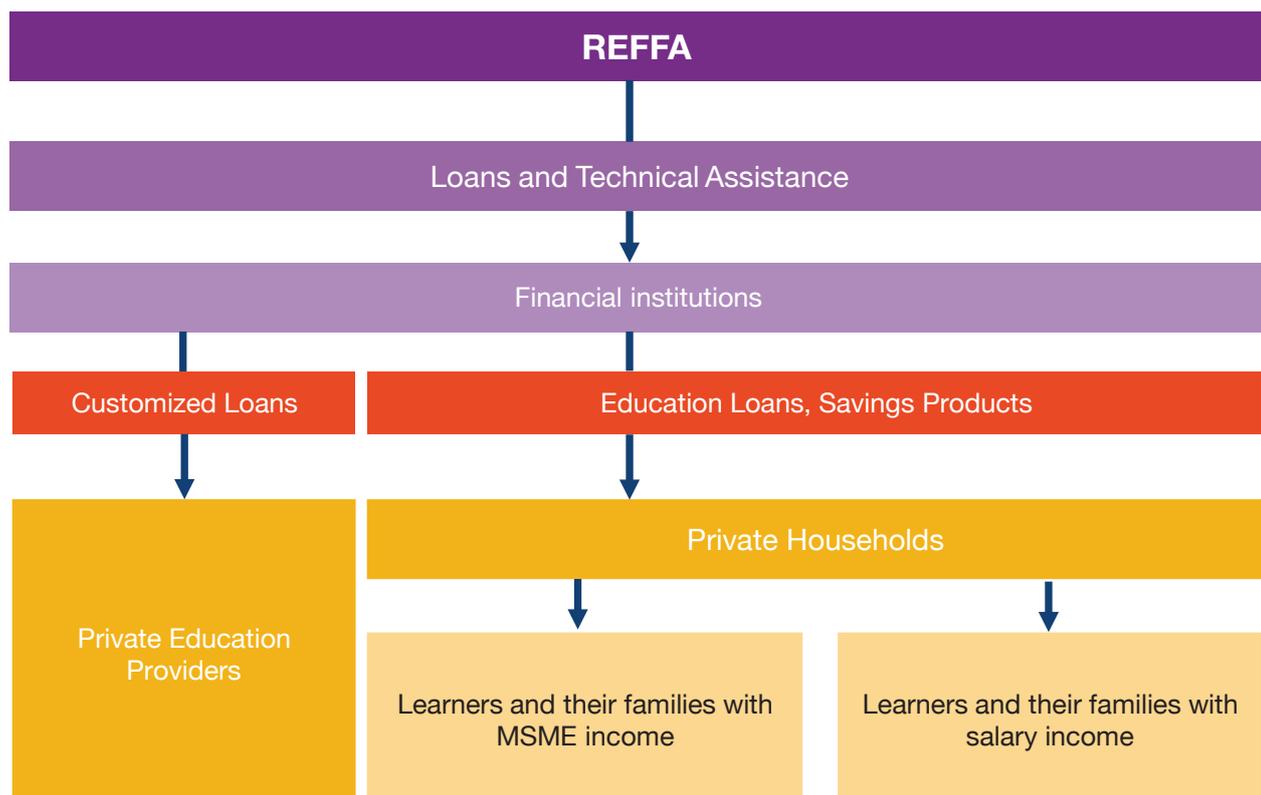
REFFA's mission statement:

“The Fund aims at increasing the **ACCESS** of lower income households in target countries to **AFFORDABLE** education, as well as improving the **QUALITY** of education by increasing the availability of education finance products.”

**CLEAR
IMPACT**

In order to accelerate the achievement of its mission and impact intent, REFFA was created as a unique Public Private Partnership (PPP) structured fund, where funds from Development Finance Institutions (DFIs) and private investors are blended in one legal structure based in Luxembourg. By providing first loss capital, BMZ funds have been catalytic in attracting financing from development finance institutions and private sector investors that share the objectives of the Fund and can benefit from the credit enhancement provided by the junior tranche. As a PPP Fund, REFFA attracts different types of investor profiles.

Figure 14: REFFA in a nutshell



a) REFFA Private Debt Fund

REFFA debt investments are made in banks, MFIs, credit co-operatives, and other financial institutions. The main characteristics are:

- Loan sizes: USD 0.5–5 million, in local currency.
- Loan tenors can go up to 7 years, while amortisation schedules are tailor-made.
- Overall, debt investments are provided to financial intermediaries at market rates to ensure the long-term sustainability of the Fund's operations and of the financial institutions' education portfolios.

b) REFFA Technical Assistance Facility

To maximise the intended development impact, REFFA has a Technical Assistance (TA) Facility which is endowed with USD 5.3 million¹⁷ public and private grant funds to

- enhance institutional capacity of REFFA's investees for education lending,
- source market information, and
- foster innovation.

Typical TA projects include the development of education finance products tailored to the financial needs of (private) education providers as well as those of learners and their families. The use of the TA grant funds is overseen by a TA committee where the main donors are represented to steer the allocation of funds. Financial institutions benefiting from TA services participate to the costs via a cost sharing contribution.

Letshego Botswana

Country: Botswana

About: The mission of Letshego Botswana consists in improving life through financial inclusive services

The MFI has an existing school fees product for its borrowers and is committed to growing the education portfolio. Letshego group's impact framework is aligned with the United Nations Social Development Goals (UN SDGs) and highlights education as one of the targeted areas. The group had already successfully launched its education strategy in Tanzania, Kenya, and Ghana.

Student loan portfolio: USD 19,267,213.07

Gross loan portfolio for education: USD 19,267,213.07



II.4 Impact approach

a. Objectives

Increase **ACCESS** to educate for lower income families in Africa.

Improve **QUALITY** to education in primary, secondary, and higher education (including technical vocational education and training, or TVET).

Enhance **AFFORDABILITY** to education in primary, secondary, and higher education (including technical vocational education and training, or TVET).



b. Approach

REFFA applies the Theory of Change model to illustrate the rationale of the impact framework, its assumptions, linkages, and final expected outcomes and impact. (e. g. number of loans, type of clients, type of education promoted),



c. Impact measurement

For the founders, sponsors, and investors of the Fund, it is crucial to be able to monitor how well REFFA is performing in terms of achieving its mission. To do so, the Fund Manager performs

- a regular assessment of fund allocation, building a pipeline for investments and TA that fit REFFA's objectives,
- a quarterly reporting of the education loan portfolio of REFFA investees (e. g. number of loans, type of clients, type of education promoted),
- focused impact studies, and
- continued improvements on data collection and education impact assessment, particularly around impact of REFFA on quality and affordability of education.

d. Final beneficiaries

The Fund aims to reach lower- and lower-middle-income households in those African countries that are eligible to receive official development assistance (ODA). The Fund addresses four main target groups:

Learners from families with salary income	Learners from families with MSME income	Students	Private education providers
Refers to any loan service provided to employees with a regular salary to finance their family's education (e. g. payment of tuition fees or education related costs).	Refers to any loan service provided to MSME owners who want to finance their family members' education (e. g. payment of tuition fees or education related costs).	Refers to any loan service provided to people who want to finance their own education (e. g. payment of tuition fees or education related costs), in most cases professional training or Technical and Vocational Education and Training (TVET).	Refers to any loan service to an education provider (whereas the borrower can be the legal entity or the business owner as physical person). Such educational institutions are privately owned and operate on a (partly) commercial basis.





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Any questions regarding this report may be directed to blendedfinance@blueorchard.com

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