Case Brief

Financing SOS Ghana's Schools for the Vulnerable:

A Case Brief on an Impact-Linked Loan

Authors

Archana Mehendale, Nisha Ramachandran, Arushi Terway

Introduction

The Government of Ghana launched a reform agenda under its Education Strategic Plan (ESP 2018-2030) with the aim of transforming the education system through improved learning outcomes and enhanced accountability and equity at all educational levels (Ministry of Education, n.d.-a). With 11 million school-aged children, there is a continued demand for quality education. Gross enrolment rates at the basic education level (preschool to Grade 9) have substantially increased from 2012 to 2019, with enrolment in preschool increasing from 99% to 114%, primary (Grade 1–6) from 97% to 105%, and junior high school from 81% to 86% (Grade 6–9; Ministry of Education, 2019).

The Education Strategic Plan (2018-2030) reported that by 2017, approximately one-third of basic education schools (from preschool to Grade 9) were private, accounting for 20% of the total student enrollment. The plan stated that the growth in the number of schools from 2011 to 2017 has come from the private sector (Ministry of Education (n.d.-b). The private sector provision has grown further with recent reports showing that, by 2020, private schools represented 49% of the total number of schools at the basic education level and 30% of enrolment at the primary level (Ghana Investment Promotion Centre, 2022).

However, poor retention of students and persistent risks of dropping out remain a challenge in both public and private schools, along with issues of overcrowded classrooms and a lack of water and sanitation facilities. The Education Sector Report of Ghana indicates that 'there are still children that attend school under duress today due to insufficient classroom blocks to accommodate the students' (Ghana Investment Promotion Centre, 2022). Thus, effective provisioning of education, in both public and private schools, is critical to achieving Sustainable Development Goal 4.

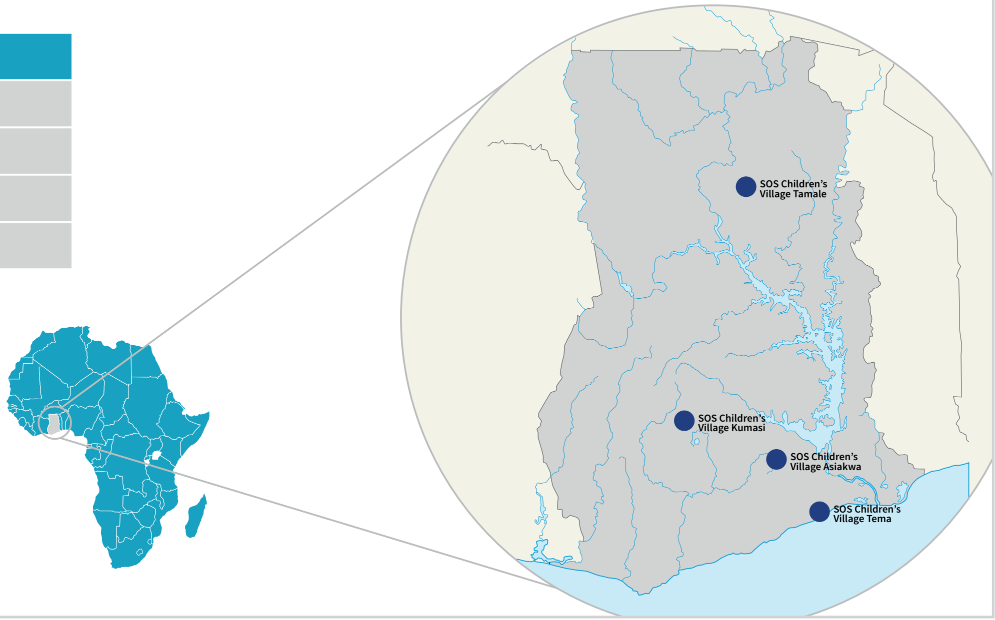
Since 1974, SOS Children's Villages Ghana (SOS Ghana) has been supporting children and young people in Ghana. It has been operating schools at the basic education level (preschool to Grade 9). These are private, nonprofit schools that are mainly for children from vulnerable backgrounds who are in SOS Ghana's other programmes and from the surrounding communities. The schools currently cater to both non-fee-paying students and fee-paying students. SOS Ghana uses revenue from fee-paying students to subsidise school operational costs for non-fee-paying students. Despite the high demand for schools, SOS Ghana has been unable to expand without the infusion of additional capital.

In 2023, SOS Ghana secured an Impact-Linked Loan (ILL) of USD 400,000 from the Impact-Linked Finance Fund (ILFF). The ILFF is a Dutch Foundation established by Roots of Impact and iGravity that acts as a capital provider with funds committed by the Jacobs Foundation (JF) and the Swiss Agency for Development and Cooperation (SDC). This ILL will support SOS Ghana with the expansion of school infrastructure, allowing it to build a new 11-classroom block in its Kumasi School Complex in addition to investing in education material and teacher training across its four other schools (Tema, Asiakwa, Tamale, and Kumasi; see Figure 1).

Although SOS Ghana will need to repay the principal amount in full, the ILFF will reduce the interest payments as an incentive, provided SOS Ghana achieves predefined, improved educational outcomes. The two incentivised outcomes are increasing the proportion of vulnerable children in the schools and decreasing

Figure 1: Geographical Spread of SOS Ghana Schools Benefiting from the Impact-Linked Loan

Region	Region
Greater Accra	Tema
Northern Region	Tamale
Ashanti	Kumasi
Eastern Region	Asiakwa



Source: Google Map

the learning gap between high-performing and low-performing students. The maximum incentive amount (calculated as the total interest rate reduction over the four years) is capped at USD 37,334. The loan is expected to allow SOS Ghana to increase its student enrolment and include more vulnerable students within the low-income communities where the schools are located.

Access and Quality Challenge in Basic Education in Ghana

With over one-third of its population below the age of 14 and another one-third between the ages of 15 and 35 years (Ghana Statistical Service, 2021), Ghana aims to reap its demographic dividend by transforming its education sector. Basic education, comprising two years of preschool, six years of primary school, and three years of junior high school, is free and compulsory for all children in Ghana. Despite the gross enrolment rates exceeding 100% for the preschool and primary levels, delayed enrolment and grade repetition have led to a large proportion of children not being in their age-appropriate grades. Moreover, there are over 450,000 out-of-school children, most of whom come from poor households.

The Education Strategic Plan (ESP 2018-2030) indicates that one of the main factors for children remaining out of school is the shortage of classrooms. School completion rates are lower among students from low-income families, girls, and those studying in rural areas (Ministry of Education, n.d.-b). The poor quality of education, as measured by the learning outcomes on the Basic Education Certificate Examination and international standardised assessments, highlights educational inequities. Thus, improving equitable access to and participation in inclusive quality education is one of the critical priorities of Ghana's Ministry of Education.

The private schools in Ghana are operated by for-profit, not-for-profit, faith-based, or community organisations. Although private schools are viewed as one avenue to enhance the capacity of the Ghanaian education system (World Bank Group, 2015), the quality and reach of education provision in these schools depend on the availability of funds to cover the capital and operational expenditure. One of the significant sources of funding for many private schools is the fees collected from the students, which limits the schools' ability to serve vulnerable and low-income households that are unable to pay. Despite the increase in the number of private schools, loans available to private schools are generally short term, which does not allow schools to invest in capital-intensive infrastructure development (International Finance Corporation, 2015). Evidence shows that low-fee-paying schools in Ghana have poor infrastructure because of their lack of access to financing and low or insufficient revenue to pay for school improvement projects (Results for Development Institute, Consumer Insight Consult Africa, IDP Foundation, Inc., n.d.).

In this context, SOS Ghana sought financial support to improve its school infrastructure in four underserved areas across the country. Since its establishment in 1974 as a nonprofit, SOS Ghana has worked toward supporting children and young people without parental care or at risk of losing it (SOS Children's Villages, n.d.) and provides three services:

1. Family strengthening and placements for orphans and vulnerable children,
2. Teacher training programmes for public schools, and
3. Private schooling for children between 3 and 14 years old.

Although existing grants and donations to SOS Ghana fund the family strengthening and teacher training programmes, it generates revenue mainly through fees paid by middle-income students. SOS Ghana decided to apply for funding through the ILFF because it needed financing to cover its capital expenditures, specifically to build its school infrastructure and invest in additional educational material and teaching training.

Tapping into Innovative Financing to Expand Schooling for the Vulnerable

In 2023, SOS Ghana received an ILL from the ILFF to expand its reach to children from vulnerable, low-income households. Between 2023 and 2026, the loan will be used to build additional classrooms in the school in Kumasi and improve teacher capacity and access to teaching resources in all four regions of its operation in Ghana (Tema, Asiakwa, Tamale, and Kumasi).

Funding

The ILFF aims to finance high-impact enterprises and incentivise them to achieve social outcomes while pursuing business activities. To catalyse private investment in high-impact, market-based organisations, the ILFF offers a range of financial instruments, both repayable and nonrepayable. Specifically, the ILFF employs three innovative financing instruments focused on incentivising organisations to improve their educational impact: Social Impact Incentives (SIINC), Impact-Linked Payments (ILP), and ILL.

The Impact-Linked Fund for Education (ILF for Education) is set up under the ILFF to finance enterprises seeking to achieve Sustainable Development Goal 4 on access, participation, inclusion, and quality in education. The ILF for Education raised financial commitments of CHF 6 million (~USD 6.94 million) to finance high-impact enterprises working with vulnerable populations in the Middle East and North Africa (MENA) and West Africa, where public spending on education is limited and where the private sector requires investment for growth. The ILFF also focuses on second-priority countries, including East Africa.[1]

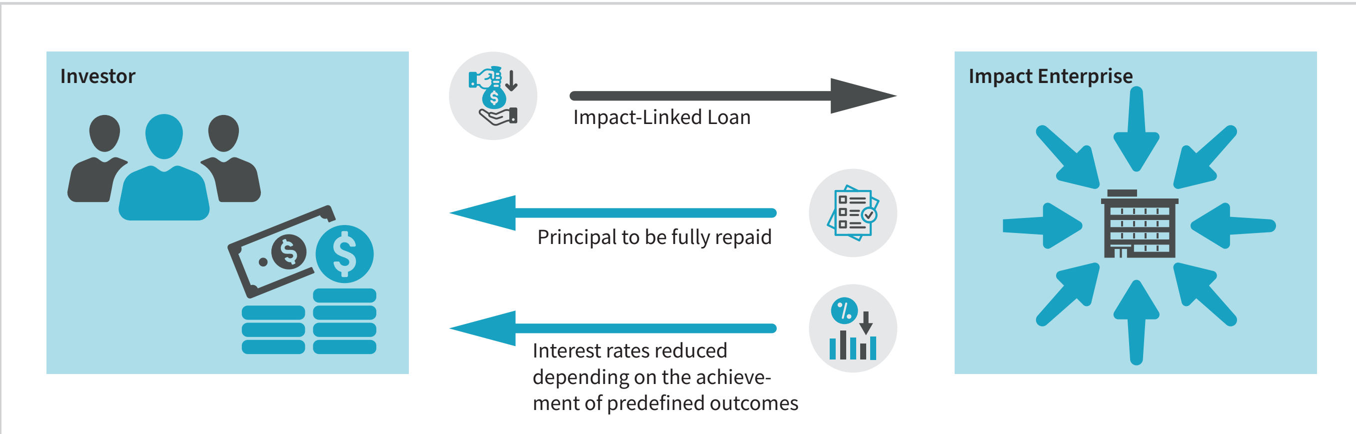
The SOS Ghana applied to the open call issued by the ILF for Education and successfully secured an ILL. An ILL is similar to a traditional loan, except that the interest rate is linked to impact: The greater an impact is created, the lower the interest rate will be based on a pre-agreed schedule (see Figure 2). In other words, the lender implements a variable interest rate linked to the impact goals they want to achieve. The borrower pays the entire loan principal amount back at a lower interest if they reach the predefined results during the loan term.

In this case, the ILFF extended a loan of USD 400,000 to SOS Ghana, which needs to be fully repaid. The loan has a tenure of four years, and SOS Ghana is expected to start repaying the principal to ILFF in Year 2. The interest rate bracket is between 0% and 5%. ILFF and SOS Ghana have established specific targets for the results associated with the given interest rate. The higher the result achieved by SOS Ghana, the lower the interest it would have to pay on the loan amount. In the best-case scenario, that is, if all the results are achieved, SOS Ghana would be required to repay only the principal loan amount of USD 400,000. This means that, if SOS Ghana achieves all its results, they would not pay any of the potential interest (USD 37,334), which the ILFF calls the maximum 'incentive' amount. The ILFF considers that, even if the incentive for the interest repayment may appear small, it has the potential to provide psychological encouragement to the enterprise to achieve the outcomes.

The principal loan amount is expected to be repaid from its primary revenue source, tuition fees charged to fee-paying students, and other minor revenues generated from sales of uniforms and textbooks. Although SOS Ghana currently faces a risk of nonpayment of fee invoices and could be affected by inflation in Ghana, its predicted revenue after school expansion is expected to cover the loan repayments.

SOS Ghana's parental body, SOS Children's Villages International, has previous experience with private investment and could support SOS Ghana with managing the loan. SOS Children's Villages International piloted a blended finance partnership with Novulis, a Certified B Corp, in 2022 to provide affordable dental care to underserved communities in Ecuador (SOS Children's Villages,

Figure 2: Impact-Linked Loans



Source: Authors

1. Their second priority countries are the following: Afghanistan, Albania, Algeria, Armenia, Azerbaijan, Bangladesh, Bolivia, Bosnia and Herzegovina, Burundi, Central African Republic, Colombia, the Democratic Republic of the Congo, Eritrea, Ethiopia, Georgia, Honduras, Iraq, Kenya, Kosovo, Kyrgyzstan, Libya, Mekong region (Cambodia and Lao People's Democratic Republic), Moldova, Mozambique, Myanmar, Nepal, Nicaragua, North Macedonia, Rwanda, Serbia, Somalia, South Sudan, Sudan, Syria, Tajikistan, Tanzania, Ukraine, Uzbekistan, and Yemen.

2023). The international federation is also interested in accessing impact-linked financing to scale its work in different countries.

Intervention

SOS Ghana aims to use the loan to finance the expansion of the school infrastructure, particularly building a new 11-classroom block in its Kumasi School Complex and to provide educational materials and teacher training in the four SOS schools located in four different regions across Ghana (see Figure 3). The total intervention period is four years. Because the loan was received after the academic year had commenced, the first year was shorter than the full academic year. Years 2, 3, and 4 would coincide with the full academic years. Infrastructure expansion is expected to increase enrolment, particularly of vulnerable children. Teacher training and providing educational material are expected to improve learning disparities across all grades.

Predetermined Outcomes

The reductions on interest repayment (loan incentives) are contingent on achieving the following predetermined outcomes.

Metric 1: Increase the proportion of vulnerable children from the overall number of students in SOS schools over the assessment period.

This metric is meant to incentivise SOS Ghana to increase the number of vulnerable children enrolled in their schools using the ILL. The definition of vulnerable children is children eligible for a full scholarship (i.e., who do not pay fees) and those covered under alternative care or family strengthening projects of SOS Ghana. These include orphans, children without adequate care, and children with disabilities. The formula for measuring this metric is the number of vulnerable children at the end of the school year divided by the total number of children at the end of the school year to arrive at the proportion of the target population. In the baseline year 2022, SOS Ghana had 375 vulnerable students, representing 15% of the total 2,501 students. At the end of the loan period, it intends to increase its overall student population to 3,010 students, with 602 vulnerable students, moving the percentage up to 20%.

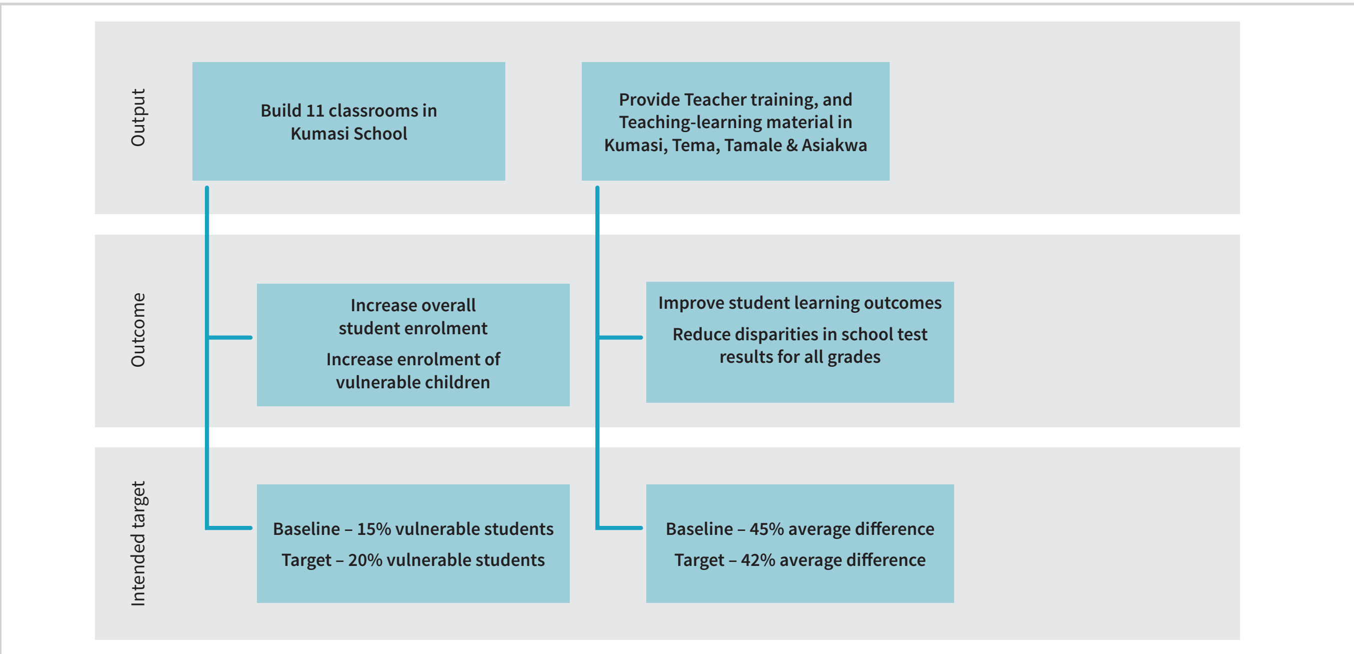
Metric 2: Decrease in the learning gap between higher-ranked students and low-performing students.

This metric is intended to measure the improvement of learning outcomes of low-performing students in the entire school population. Metric 2 will calculate the average percentage difference, across all grades, between the average score of the top 10% of students and the average score of the bottom 10% of students in each grade over the course of the academic year (three terms). SOS Ghana expects to reduce the average percentage difference in scores from an estimated 45% to 42% over the four years. The scores will be based on the internal tests conducted by the schools.

Performance on Metric 1, here in terms of the percentage of vulnerable students, carries a higher weight than performance on Metric 2 (Table 1). This means that SOS Ghana will pay USD 26,667 less interest on the loan if it successfully achieves 20% enrolment of vulnerable children (Metric 1) and USD 10,667 less interest on the loan if it achieves a 3% decrease in average difference in scores (Metric 2). The ILFF managers will verify these results once a year based on raw data and calculations submitted by SOS Ghana. In addition, ILFF may audit the results to check the accuracy of the data provided.

During the first year, Metric 1 will not be tied to any incentive amount because the school year would have commenced before the loan funds could be used to build additional classrooms to accommodate additional students. The interventions of school infrastructure

Figure 3: Linking Intervention with Outcome Metrics and Targets



Source: Authors

Table 1: Relative weight of metrics and the incentive amounts

Metric	Weighting (%)	Reduction in Interest rate	Incentive amount (USD
Metric 1: % of vulnerable children	71%	4% reduction in terms of interest rate	Up to 26,667
Metric 2: improvement in learning outcomes	29%	1% reduction in terms of interest rate	Up to 10,667
Total			Up to 37,334

development, teacher training, and provision of teaching-learning materials would contribute to achieving both the outcome metrics and targets it intends to achieve (see Figure 4). Even though the percentage increase of 5% in the enrolment of vulnerable children may appear to be minor, it must be noted that the overall student population is also expected to increase by 500 students.

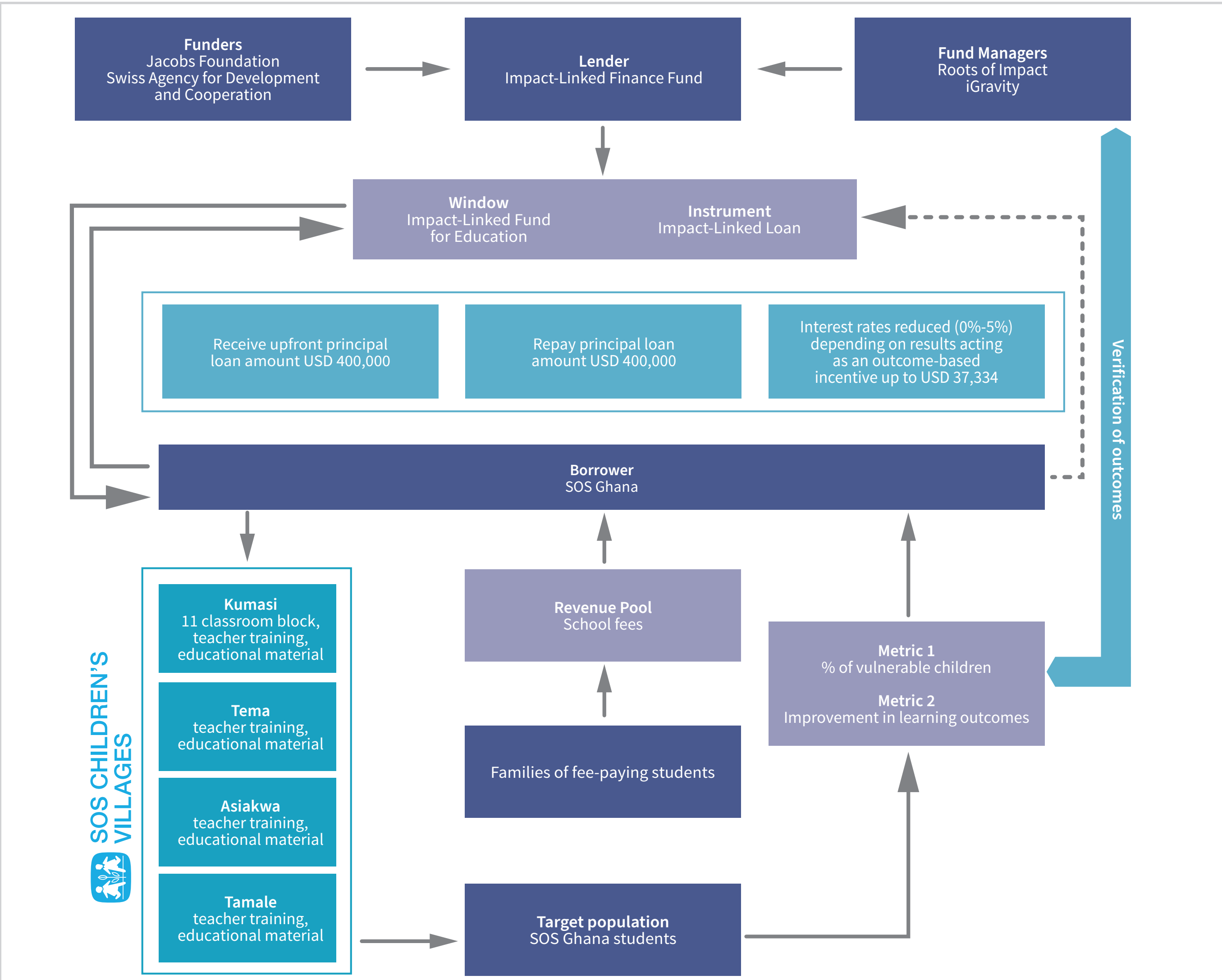
Key Stakeholders and the Flow of Funds

A range of stakeholders are involved in this project. Figure 4 shows their different roles and flow of funds.

An ILL aims to offer 'better terms for better impact' by reducing the loan interest rate if the provider reaches pre-agreed results. However, what are the main motivations and risks for the primary stakeholders? Based on secondary material, the following can be identified by the authors of this case brief:

Lender: The ILFF, as the lender, uses the funds committed by the JF, a private foundation working for children's education, and the SDC, Switzerland's international cooperation agency. The key motivation for the funders to extend the loan is to enable a social enterprise like SOS Ghana to provide quality education to vulnerable populations and contribute to achieving SDG goals. The funders can reinvest the funds into other initiatives if the social enterprise successfully repays the loan. The funders meet their goal of improving educational impact if the social enterprise meets the targeted results. The lenders risk losing their capital if SOS Ghana defaults on the loan. It also risks not achieving its impact mission if SOS Ghana does not achieve the intended results.

Figure 4: Stakeholders and Fund Flow



Source: Authors

Borrower: As the borrower, SOS Ghana is primarily motivated by receiving upfront capital to expand its operation to increase its future revenue. The school infrastructure development and improvements in the quality of education through educational material and teacher training would help attract more students, including those who belong to vulnerable and low-income populations. The increase in student numbers should increase its future revenue to repay the loan. The infrastructure financed through this loan is foreseen as having a lifespan of over 20 years, during which SOS Ghana can continue to operate and generate revenue from fees. SOS Ghana may face challenges in paying back the loan in case of a lower-than-expected enrolment rate, low fee collection rate, or inflation in the Ghanaian currency. The overall revenue for SOS Ghana may be negatively impacted by the increased proportion of vulnerable students because their costs will need to be subsidised by the reduced proportion of fee-paying students, potentially lowering the average revenue per student.

Target population: The loan benefits students and teachers by potentially improving the learning environment at the SOS Ghana schools—through additional classrooms, teacher training, and teaching materials. Vulnerable (non-fee-paying) students may benefit from access to SOS Ghana schools. Low-performing students may benefit from the school's efforts to improve their learning outcomes. Improvements in school infrastructure may also attract new student enrolment. However, a potential risk that fee-paying students may face is having to pay higher fees to cross-subsidise the additional enrolment of non-fee-paying students, depending on the financial outlook of the schools during and after the loan period.

Conclusion

The ILL is SOS Ghana's first repayable funding through this innovative financing instrument. SOS Ghana and the ILFF's partnership is based on the shared commitment to two main objectives: first, to provide education to children in Ghana, particularly those from vulnerable and low-income backgrounds, and, second, to reduce learning disparities by improving the quality of education for all students. Although the entire principal loan amount of USD 400,000 is to be repaid, it would provide SOS Ghana with the required finances to undertake capital expenditure for its infrastructural growth. The incentive offered to SOS Ghana aims at keeping a focus on carrying out the intended interventions and achieving the results.

As the intervention rolls out, it would be important to capture how the ILL contributes to SOS Ghana's implementation of its plans to increase the enrolment of vulnerable populations and improve the learning of low performers. Further research should be conducted into the potential and challenges of utilising ILLs in financing education social enterprises. Specifically, future studies should explore whether and how this financing mechanism contributes to measurable educational impacts and under what conditions the intended outcomes can be achieved. Key research questions remain regarding whether and how impact-linked financing approaches like ILLs influence financial management approaches, data and results monitoring systems, intervention design, and implementation by the social enterprise. To understand the larger education ecosystem impact, additional research could also examine how this financing mechanism could enable additional private investments into the social enterprise, generate additional funding flows to education, and, most importantly, enhance equity by reaching marginalised populations. A deeper understanding of these factors is crucial for determining this financing approach's broader applicability and long-term utility in the education sector.

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About the Project

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Disclaimer

This case brief is primarily based on publicly available secondary data sources and funding application material submitted to the Impact-Linked Finance Fund by the enterprise. The aim of the publication is to synthesise existing information about the financing mechanism and its specific application in the education sector, much of which may be produced by the organisation that has developed or is managing the financing mechanism. It does not preclude the necessity of conducting additional research to obtain a deeper understanding of the evolving design and implementation of the mechanism, as well as its benefits and challenges, especially regarding its contribution to access, quality and equity in education.

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GENEVA GRADUATE INSTITUTE

NORRAG GLOBAL EDUCATION CENTRE

Chemin Eugène-Rigot, 2
1202 Geneva, Switzerland
+41 (0) 22 908 45 47
norrag@graduateinstitute.ch

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