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POLICY BRIEF

EXPANDING ACCESS TO FINANCE FOR LOW-FEE PRIVATE SCHOOLS

Khyber Pakhtunkhwa

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Expanding Access to Finance for Low-Fee Private Schools in Khyber Pakhtunkhwa

Foreign, Commonwealth and Development Office (FCDO) – B-TAG

Context and Rationale

Khyber Pakhtunkhwa (KP) presents a distinct but equally urgent case for strengthening access to finance for low-fee private schools. The province has a growing private education sector, with approximately 2.6 million students enrolled in private institutions. LFPS play a particularly important role in rural districts and the Merged Areas, where public infrastructure gaps remain significant.

KP's demographic profile, geographic dispersion, lower average fee levels, and post-merger administrative context create additional financing constraints as well as urgency and opportunity for structured LFPS financing reform. This policy brief outlines a province-specific A2F strategy that combines blended finance, microenterprise lending expansion, and performance-linked incentives to stabilize and strengthen LFPS across the province. It argues that LFPS should be recognized not only as education providers but as micro, small, and medium enterprises (MSMEs) embedded in the province's economic fabric.

Limited Public Budgets, Growing Private Burden: Why Khyber Pakhtunkhwa Must Unlock Finance for Low-Fee Private Schools

Education financing in KP is constrained by structural budgetary pressures, leaving limited fiscal space for supporting private sector provision. Provincial education spending is heavily concentrated in recurrent expenditures, particularly salaries and administrative costs, which absorb the majority of available resources. While KP has expanded its education budget in recent years, especially following the integration of the Merged Areas, this expansion has largely been directed toward maintaining system functionality rather than enabling new forms of investment. Development spending remains relatively limited and is often prioritized toward public infrastructure and system rehabilitation, leaving little room for targeted financial support to private schools beyond existing per-student subsidy programs.

In this context, LFPS in KP operate within an environment where public financing mechanisms are not designed to meet their enterprise-level capital needs. Given the province's geographic dispersion, lower fee levels, and higher perceived risk in certain districts, the gap between financing demand and supply is even more pronounced than in larger provinces such as Sindh and Punjab. With limited scope for the government to expand direct financial support to private providers, there is a clear need to mobilize alternative financing channels. Expanding access to finance through tailored lending products, blended finance structures, and risk-sharing mechanisms is therefore essential. Such an approach would enable LFPS to invest in infrastructure and quality improvements while complementing constrained public resources, ensuring that access gains are sustained over time, particularly in rural and Merged Areas.

The Importance of LFPS in KP

Private schools in KP have expanded steadily, particularly in areas where proximity and safety influence parental choices. In many rural communities, LFPS provide the only accessible alternative to distant public schools. These institutions often operate in modest facilities, with limited infrastructure and thin margins. Their financial vulnerability is heightened by lower fee bases and higher perceived risk in certain districts. Nevertheless, LFPS are essential to maintaining enrollment levels and supporting girls' access in conservative or remote communities.

Financing LFPS as a system sustainability tool will lead to reducing public capital expenditure pressure, absorbing enrolment growth without new school construction, supporting girls' access to education, and sustaining low-cost schools as a critical part of the education delivery system across the province.

Financing Challenges in KP

LFPS in KP face the same structural barriers observed nationally, lack of collateral, weak financial documentation, and limited banking relationships. However, these challenges are compounded by geographic and economic factors such as :

- Higher rural dispersion.
- Smaller school sizes.
- Lower fee levels in many districts.
- Greater infrastructure deficits.
- Limited banking penetration in remote areas.

Banking penetration is lower in remote districts. Loan transaction costs are higher relative to small ticket sizes. Risk perceptions among financial institutions are elevated in certain areas.

The Merged Areas present additional complexity, as new schools have been established through PPP initiatives but lack long-term capital financing pathways.

LFPS in KP often require:

- Basic infrastructure upgrades.
- Multi-grade classroom improvements.
- Sanitation and boundary walls.
- ICT access.

Core constraint is not merely the design of financial products but the structural non-bankability of a large share of LFPS. Informal legal status, weak or non-existent financial statements, cash-based fee collection, low or volatile enrolment, and regulatory uncertainty all combine to make many schools unsuitable for debt, regardless of instrument design.

Without structured access to finance, many LFPS risk stagnation or closure, undermining access gains achieved in recent years.

A2F Ladder: 3-Tier Segmentation of LFPS to Design Financing Instruments

Access to finance can be anchored in a selective, tiered approach with realistic segmentation that lenders, policymakers and development partners can consider for targeted interventions. This also separates education quality goals from financial intermediation goals and acknowledges structural non-bankability of a typical LFPS in consideration of the mentioned risks. A sustainable A2F strategy for KP should rest on four pillars: segmentation, risk mitigation, product alignment, and enterprise strengthening.

LFPS Segmentation for A2F

Segment	Profile	Rationale	Appropriate Financial Response	Objective
Tier 1: Non-Bankable Schools	• Informal/semi-formal operations. • Cash-based fee collection. • Weak or nonexistent financial records. • Single-owner dependence. • Highly volatile enrolment and fee recovery.	• No reliable cash-flow visibility. • No enforceable security. • High mortality risk. • Debt would increase fragility, not growth.	• Focus on capability-building and risk reduction rather than commercial debt. • Formalisation support. • Basic compliance support. • Grants or vouchers, small conditional grants tied to enrolment or retention.	To stabilise schools and selectively graduate a minority to Tier 2
Tier 2: Near-Bankable Schools	• Registered entities with 5–10 years operating history. • Stable enrolment base. • Basic financial records. • Fee collection predictable yet seasonal. • Limited or movable assets.	• Weak collateral coverage. • Irregular cash flows. • Academic calendar misalignment with monthly payments of principal and interest (Equated Monthly Instalments - EMI structures).	• Asset-based finance. • Academic calendar–aligned and revenue-linked repayment.	To improve quality and capacity without balance-sheet stress and create a pipeline of future bankable schools.
Tier 3: Bankable Schools	• Clear legal structure. • Documented cash flows. • Stable or growing enrolment. • Multi-branch or replicable model. • Partial land/building ownership or long-term leases.	• Predictable fee income. • Management depth beyond owner. • Track record of surplus generation. • Capacity to absorb financial shocks.	Commercial lending, guarantees or risk-sharing mechanisms: 1. Term loans. 2. Portfolio / programmatic lending. 3. Working capital lines.	To enable scaling and consolidation of quality providers by targeting this tier as low-hanging fruits.

A Structured Financing Framework for KP

Strategic Policy Goals for KP

1. Strengthen education access in underserved districts.
2. Support stabilization of LFPS in Merged Areas.
3. Expand microenterprise lending into education sector.
4. Use financing to enhance quality and compliance.

KP's approach should emphasize stabilization, inclusion, and risk-sharing. First, the province can leverage the Bank of Khyber (BoK) as an anchor lending partner, establishing a dedicated LFPS financing window. Concessional interest rates and partial guarantees would encourage portfolio expansion. Second, blended finance is particularly appropriate in KP's higher-risk districts. By combining donor capital with provincial risk-sharing, the government can attract commercial lenders while protecting public resources. Third, microfinance institutions should be encouraged to expand education enterprise lending. Adjusting loan ceilings and aligning repayment structures with academic calendars would make products more suitable for schools.

Institutional pathways

Effective implementation requires coordination among the Elementary & Secondary Education Department (E&SED), Elementary & Secondary Education Foundation (ESEF), Merged Areas Education Foundation (MAEF), Private Schools Regulatory Authority (PSRA), and financial institutions.

Data-sharing agreements can improve lender confidence by verifying enrollment and operational status. Regulatory clarity reduces uncertainty and enhances repayment predictability.

Actor	Role
Elementary & Secondary Education Department	Policy oversight
Private Schools Regulatory Authority	Regulatory compliance
Elementary and Secondary School Foundation Merged Areas Education Foundation	Data sharing, eligibility validation and partner schools portfolio
Bank of Khyber	Anchor lender
State Bank of Pakistan	Regulatory flexibility
Development partners	Risk-sharing & TA
School associations	Outreach & awareness

Financing Mechanisms and Instruments Options

Interventions should be designed to recognize that structural non-bankability of a large share of LFPS exist in KP such as informality in the sector, capacity to maintain financial records and statements, cashflows do not go through banking channels, among others.

1. *Bank of Khyber Education Financing Window*

Commercial banks act as crucial financial intermediaries that can support Microfinance Banks (MFBs) and Microfinance Institutions (MFIs) primarily by providing wholesale funding (credit lines and term loans). Commercial banks, in this case Bank of Khyber, can channel funds to microfinance banks and microfinance institutions for on-lending to LFPS.

Establish a dedicated LFPS financing window within BoK:

- Concessional interest rates.
- Partial provincial guarantee.
- Loan sizes aligned with LFPS needs.
- Academic-year linked repayment cycles.

This:

- Ensures resource mobilization as commercial banks bring scale, capital, and technology.
- Leverages MFB local presence hence trust, reach, and community knowledge
- Reduces transaction costs.
- Builds sector-specific lending expertise.

2. *Blended Finance for Merged Areas*

Given higher risk perceptions:

- Combine donor capital with provincial guarantees/funds to provide for concessional loans.
- Use first-loss capital structures.
- Target infrastructure upgrades.

Merged Areas Education Foundation (MAEF) can serve as verification and monitoring partner.

3. *Microfinance-Led Expansion*

Low-interest, collateral free and/or guaranteed loans for LFPS in KP along with capacity building grants/technical assistance would be possible if donor or government directly subsidizes the loans through selected MFBs/MFIs such as Akhuwat as it has one of the largest reach within Khyber Pakhtunkhwa. The guarantee by donor or government to be aligned with SBP directives to encourage public sector bank such as BoK to move from conventional banking and lending towards sector specific lending.

Encourage:
- MFBs to expand microenterprise loans to LFPS.
- Asset-based financing (solar, furniture, ICT labs).

4. *Technical Assistance Facility for Enterprise Strengthening and Formalization*

Finance alone is insufficient. A parallel technical assistance facility should support schools in bookkeeping, digital fee management, and governance improvements. Improved documentation enhances bankability and reduces perceived risk. Formalization also aligns with regulatory objectives, strengthening transparency and accountability.

A parallel Technical Assistance (TA) window should provide:
- Business management training.
- Financial record-keeping systems.
- Governance strengthening.
- Education quality improvement advisory.

TA support reduces enterprise risk and improves repayment performance.

Conclusion - Unlocking Private Capital to Sustain Access, Quality, and Resilience

Khyber Pakhtunkhwa's private education sector is a vital component of provincial service delivery, particularly in rural and newly integrated districts. Strengthening access to finance is not merely a financial sector reform, it is an education systems reform.

By adopting a tailored, risk-sensitive, and structured financing framework, KP can unlock investment into low-fee private schools, safeguard access gains, and support long-term quality improvement across the province.

A structured A2F strategy would enhance infrastructure quality, reduce school closures, and strengthen private provision in underserved areas. It would also expand financial inclusion among education enterprises, fostering a more resilient and accountable sector.

A coordinated and tiered, risk-mitigated financing strategy, combining guarantees, blended finance, microenterprise lending, and technical assistance offers a practical pathway to unlock private capital while advancing provincial education goals.

This policy briefs provide a roadmap for operationalizing Access to Finance reforms tailored to Khyber Pakhtunkhwa's institutional realities and market structure.

Expected Impact in KP:

- Strengthened private education supply in rural districts.
- Improved infrastructure standards.
- Reduced school closures due to financial stress.
- Enhanced female access to nearby schools.
- Improved quality through reinvestment.

In the Merged Areas particularly, blended finance could stabilize newly established schools and prevent service disruption.