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Policy Brief

Unlocking Sustainable Finance for Low-Fee Private Schools in Punjab

POLICY BRIEF

Unlocking Sustainable Finance for Low-Fee Private Schools in Punjab

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

Background and Context

Punjab hosts the largest private education ecosystem in Pakistan. With nearly half of all students enrolled in private institutions, and a significant majority of those in low-fee private schools (LFPS), the province's education outcomes are closely tied to the sustainability and quality of low-cost private schooling segment. Yet, despite their scale and importance, LFPS remain financially constrained, operating as informal micro-enterprises with limited access to capital for infrastructure improvement, expansion, and quality enhancement.

This policy brief outlines the structural financing gap affecting LFPS in Punjab and proposes a coherent provincial strategy to unlock sustainable access to finance (A2F). 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. By combining credit guarantees, tiered lending instruments, blended finance mechanisms, and enterprise formalization support, Punjab can catalyze responsible private investment while strengthening quality and access across the education system.

The Nature of Financing Gap in Punjab Education Sector

While aggregate education spending has increased over time in Punjab, the composition of that spending leaves very limited fiscal room for supporting private sector provision. Public education budget is heavily dominated by recurrent expenditures, primarily salaries, pensions, and administrative costs, leaving only a small proportion available for development spending, capital investments, or innovative financing mechanisms. Even within existing public–private partnership programs, funding is largely tied to per-student subsidies aimed at access rather than enterprise sustainability. As a result, there is little scope within current fiscal envelopes to extend meaningful capital support to LFPS, despite their large and growing role in service delivery.

This structural constraint implies that relying on public financing alone to support the expansion and quality improvement of LFPS is neither feasible nor sustainable. With millions of students already enrolled in private schools and significant unmet needs for infrastructure upgrades and reinvestment, the financing gap cannot be bridged through budget reallocations. Instead, there is a clear need to unlock access to external finance for LFPS through market-based mechanisms. Expanding access to appropriately designed financial products, supported by risk-sharing instruments and policy alignment, offers a more viable pathway to mobilize capital at scale. In this context, access to finance is not simply an adjunct policy tool but a necessary complement to public funding, enabling Punjab's education system to meet demand without overburdening constrained fiscal resources.

Why should the government prioritise financing LFPS

Punjab’s education landscape has undergone profound transformation over the past two decades. The growth of private schooling has been driven by parental demand for perceived quality, English-medium instruction, and greater accountability. LFPS have expanded rapidly, particularly in peri-urban and rural settings, where they fill gaps in public provision.

These schools are typically small, family-owned enterprises charging modest monthly fees. They rely almost entirely on tuition income, operate with thin margins, and employ locally recruited teachers. Despite limited resources, they play a vital role in absorbing enrollment demand and reducing pressure on the public sector’s capital budget.

However, the financial model under which most LFPS operate constrains long-term sustainability. Schools struggle to upgrade classrooms, invest in science and computer labs, adopt digital systems, or expand into higher grades. Without access to structured finance, improvements remain incremental and dependent on retained earnings.

Punjab’s education reform agenda increasingly emphasizes quality, learning outcomes, and compliance with infrastructure standards. Achieving these objectives requires a financing ecosystem that enables LFPS to invest in upgrading their operations rather than merely surviving year to year. 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 in semi-urban and rural areas, and sustaining low-cost schools as a critical part of the education delivery system across the province.

Barriers to A2F in Punjab

The private education market in Pakistan represents a substantial economic sector, generating hundreds of billions of rupees annually[1]. Punjab accounts for the largest share of this activity. Yet this significant revenue base masks structural underinvestment.

At school level, LFPS face:

- Working capital constraints.
- Inability to invest in infrastructure upgrades.
- Reliance on cash-based operations.
- Lack of collateral for formal loans.

The financing gap is twofold. First, there is a large one-time capital upgrade requirement across the private sector, including classroom expansion, sanitation facilities, boundary walls, and safety compliance. Second, there is a recurring reinvestment need for teacher training, technology integration, and pedagogical improvements.

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[1] Mid case: 27,123,951 students in private schools × PKR 36,000 = PKR 976 billion. This assumes that an average of monthly PKR 3,000 fee per student.

Commercial banks have limited appetite for small-ticket, unsecured lending. Microfinance institutions do provide loans to school owners in some cases, but these are typically short-term, consumption-oriented products not designed for education enterprise investment. Repayment schedules often fail to align with academic fee cycles, increasing stress on borrowers. The result is a persistent mismatch between the demand for modest, medium-term capital and the supply of suitable financial instruments.

The multiple barriers to accessing formal bank credit by LFPS include:

Enterprise-Level Barriers:
- Informality and weak financial documentation.
- Limited business planning and budgeting.
- Cash-based transactions.
- Small average loan requirements.

Financial Sector Barriers:
- High collateral requirements.
- High interest rates across microfinance and SME lending.
- Limited risk appetite for early-stage enterprises.
- High transaction cost relative to small loan sizes.
- Regulatory uncertainty regarding fee caps.

Policy and System Constraints:
- Fragmentation of private providers.
- Limited structured engagement between education authorities and financial institutions.
- Absence of education-focused credit guarantee schemes.

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 Punjab 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:	• Informal/semi-formal operations.	• No reliable cash-flow visibility.	• Focus on capability-building and risk reduction rather	To stabilise schools and selectively

Non-Bankable Schools	• Cash-based fee collection. • Weak or nonexistent financial records. • Single-owner dependence. • Highly volatile enrolment and fee recovery.	• No enforceable security. • High mortality risk. • Debt would increase fragility, not growth.	than commercial debt. • Formalisation support. • Basic compliance support. • Grants or vouchers, small conditional grants tied to enrolment or retention.	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 Punjab

Punjab's education reforms increasingly emphasize quality, learning outcomes, and accountability. However, these objectives cannot be fully realized without enabling sustainable financing pathways for LFPS.

Punjab's A2F strategy for LFPS should aim to:

1. Improve infrastructure and quality through sustainable financing.
2. Formalize and strengthen LFPS as MSMEs.
3. Mobilize private capital through risk-sharing mechanisms.
4. Align financial products with education sector realities.
5. Reduce reliance on ad hoc or informal borrowing.

Institutional pathways

Actor	Role
School Education Department	Policy alignment & regulatory stability
Punjab Education Foundation/ PEIMA	Data sharing, eligibility validation and partner schools portfolio
Bank of Punjab/ other banks	Anchor lending partner
State Bank of Pakistan	Regulatory support & refinancing lines
Government/ Development partners	Blended finance & guarantees
School associations	Outreach & awareness

Financing Mechanisms and Instruments Options

1. *Portfolio-Based Lending Through MFBs*

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 can channel funds to microfinance banks for on-lending to LFPS.

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. *Digitally Enabled Credit Products*

Greater emphasis on asset-based and service-linked models rather than pure cash-flow lending and easy access through digitalization of services would align financing options with the current market trends. Asset-backed finance for solar installations, transport, or ICT infrastructure, along with repayment structures aligned with academic calendars, may be better suited to both school cash flows and lender risk preferences.

Encourage development of:

- Cash-flow based lending.
- Digital fee-collection linked credit scoring.
- Repayment schedules aligned to academic terms.

Integration with digital payment systems improves transparency and bankability.

3. *Market Based Credit Guarantee Facility*

An education credit guarantee facility could play a catalytic role. By partially covering default risk, the facility would encourage commercial banks and microfinance institutions to expand lending portfolios to LFPS. Such a mechanism would not replace market discipline but would share risk during the early scaling phase. Over time, improved repayment performance and data accumulation would reduce reliance on guarantees.

The facility would:
- Partially guarantee loans to LFPS.
- Reduce collateral requirements.
- De-risk lending for commercial and microfinance banks.
- Encourage medium-term capital lending.

This could mirror successful SME guarantee models but tailored to education enterprises. It helps banks grow profitable SME lending by covering defined credit risk and supplying primary data to enable banks to lend more.

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 - Why Punjab Is Well Positioned to Act

Despite their scale and social importance, LFPS remain under-capitalized and structurally excluded from formal financial markets. Limited access to affordable credit constrains infrastructure upgrades, teacher training investments, digital adoption, and expansion beyond primary grades. Punjab possesses several institutional advantages that make it uniquely positioned to pioneer structured LFPS financing reform. The School Education Department (SED), Punjab Education Foundation (PEF), and Punjab Education Initiatives Management Authority (PEIMA) have developed robust PPP frameworks that engage private schools in service delivery. These institutions maintain data systems and regulatory oversight that can help identify eligible and compliant schools.

Additionally, Punjab has relatively strong banking infrastructure and provincial financial institutions capable of serving as anchor partners. With appropriate risk-sharing mechanisms, these institutions could expand lending to LFPS at scale. Importantly, Punjab has demonstrated policy leadership in education reform and results-based accountability. Integrating financial inclusion into this reform trajectory represents a natural next step.

LFPS are not peripheral actors in Punjab's education system, they are central to its functioning. Yet their continued contribution depends on sustainable access to capital. By adopting a structured, risk-mitigated financing strategy, Punjab can unlock private investment, strengthen enterprise resilience, and advance its education reform agenda in a fiscally responsible manner.

A well-designed A2F strategy would produce systemic benefits. Schools would upgrade facilities, expand grade offerings, and invest in quality improvements. Financial institutions would develop expertise in education enterprise lending, opening a new and sizable market segment. The provincial government would reduce pressure on public capital expenditure while enhancing oversight through greater formalization. Ultimately, children and families would benefit from improved infrastructure, safer learning environments, and enhanced educational quality.