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ACCESS TO FINANCE FOR LOW-FEE PRIVATE SCHOOLS

in Punjab and Khyber Pakhtunkhwa

Analytical Report and Sector Mapping
on
LFPS ecosystem, identifying financing gaps, and presenting policy options and feasible instruments to improve access to finance

January 2026

Abbreviations

A2F	Access to Finance
ADP	Annual Developmental Programs
AEO	Assistant Education Officer
ASC	Annual School Census
BoK	Bank of Khyber
BoP	Bank of Punjab
CAPEX	Capital Expenditure
CSR	Corporate Social Responsibility
DRA	District Registering Authorities
E&SED	Elementary and Secondary Education Department
ESEF	Elementary & Secondary Education Foundation, Khyber Pakhtunkhwa
ESS	Education Support Scheme, Khyber Pakhtunkhwa
EVS	Education Voucher Scheme, Punjab
FAS	Foundation Assisted Schools, Punjab
GoPb	Government of Punjab
IFC	International Finance Corporation
LFPS	Low-Fee Private Schools
LG	Local Government
MFB	Microfinance Banks
MFI	Microfinance Institutions
MSME	Micro-Small-Medium Enterprise
NCGCL	National Credit Guarantee Company Limited
NSI	New School Initiative, Khyber Pakhtunkhwa
NSP	New School Programme, Punjab
OBF	Outcomes-Based Financing
OPEX	Operating Expenses
PEF	Punjab Education Foundation
PEIMA	Punjab Education Initiatives Management Authority
PEPRIS	Private Education Provider Registration & Information System
PES	Pakistan Education Statistics
PITB	Punjab Information Technology Board
PMIC	Pakistan Microfinance Investment Company
PPP	Public-Private Partnership
PR	Prudential Regulations
PSSP	Public Schools Support Programme
PSRA	Private Schools Regulatory Authority, Khyber Pakhtunkhwa
RBF	Results-Based Financing
SBP	State Bank of Pakistan's
SDG	Sustainable Development Goal
SED	School Education Department, Punjab
SME	Small and Medium Sized Enterprises
MAEF	Merged Areas Education Foundation, Khyber Pakhtunkhwa
SECP	Securities & Exchange Commission of Pakistan

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Executive Summary

Where access and quality of education is a significant challenge on demand side as many children do not have even grade-appropriate skills of reading and numeracy in Pakistan, supply has been an equally significant issue with considerable gaps on financing and availability of resources in the public education sector. While public sector in Pakistan plays a central role by allocating annual budgets at both federal and provincial levels, these funds often fall short of international benchmarks for education spending as a percentage of GDP, and even a smaller share dedicated to development projects in education sector. Following global and regional trends, private sector education in Pakistan has moved from a peripheral role to a central pillar of education delivery with over 46% of children enrolled in more than 135,000 private schools. For Khyber Pakhtunkhwa and Punjab, this means approximately 2.6 million and 8.5 million children, respectively, are studying in private schools from pre-primary to higher secondary levels. Parental willingness to pay for better learning opportunities for their children, even amongst lower socio-economic segments of society, is one of the key factors for the growth in this segment.

In terms of market size, based on fee revenue, total private schooling market is estimated at PKR 976 billion/USD 3.5 billion and has almost doubled since 2015. Financing needs of private schools in Pakistan is estimated to be PKR 542 billion – PKR 425 billion one-off capital expenditure (CAPEX) and PKR 117 billion in annual reinvestments. The private-sector schooling ecosystem is diverse and fragmented with Low-Fee Private Schools (LFPS) being the largest segment serving low-income families. Although there is not a universal definition of LFPS and it differs in varied contexts, LFPS typically are the schools that charge under PKR 2,000 per month. The LFPS enterprises are for-profit in nature, resemble other typical informal enterprises, and can be categorized as part of the Micro-Small-Medium Enterprise (MSME) segment.

The low-cost private education sector is largely fragmented and under-capitalized with access to finance being one of the major constraints for growth. LFPS have thin margins, limited infrastructure, and high sensitivity to fee regulation and inflation. Barriers to access external financing limit expansion options for this segment as almost all LFPS rely heavily on own resources and informal souces of funding. In this report, we study the LFPS financing ecosystem that comprises of edupreneurs, financial institutions such as commercial banks and mcrofinance lending institutions, other investors including education specific financing wiondows, development partners role as well as government institutions as regulators and subsidy providers for the private schooling landscape in Pakistan and more specifically Punjab and Khyber Pakhtunkhwa provinces.

In order to design and develop prototype financial instruments, this report has made assessment on business model of LFPS in general and specifcally in Punjab and Khyber Pakhtunkhwa, as well as conducted comprehensive research on barriers and risk factor for lenders when offering credit to LFPS. Recommendations have been provided for both provinces, Punjab and Khyber Pakhtunkhwa, on policy options, institutional interventions, and financial products. The recommendations largely focus on lending options and innovative mechanisms for formal credit products. There are many other aspects in innovative financing models for education sector outside of loans, guarantees and risk sharing options that can be explored. Specifcally, lending and related credit products proposed include low-interest, collateral free and/or guaranteed loans by commercial banks and MFBs/MFIs; portfolio lending by commercial banks through MFBs/MFIs; digitally enabled uncollateralized credit; government and/or donor guaranteed loans; market-based credit guarantee facility; donor supported blended finance/risk-sharing facility and RBF.

This mapping exercise leads to development of a policy briefs for Punjab and Khyber Pakhtunkhwa providing a road map for comprehensive design, development and operationalisation of selected financial products and mechanisms as well as governments' role in order to address barries and promote access to finance for LFPS. The objective is to support low-cost, commercially sustainable private schools that make a large part of private schooling system in Pakistan and whose ultimate beneficiaries are the low-income, bottom of the income pyramid population.

Section-A: Education Financing in Pakistan

Chapter 1: Contextual Overview

Introduction and Background

Pakistan has demonstrated good progress on several education indicators in the last decade. Despite this, considerable challenges remain towards internal and external commitments such as Article 25-A, the provincial Free and Compulsory Education Acts and SDGs. There is also a sharp decline in participation rates specifcally at middle and matric levels. An estimated 20.2 million (77% of 26.2 million OOSC in Pakistan)[1] children pertaining to school going age[2] are out of school. In addition to access, quality of education poses a significant challenge as many children do not have grade-appropriate skills of reading and numeracy. Where supply has been an issue, there have also been siginificant gaps on the demand side with financing and availability of resources has been one of the major contsraints. Pakistan's education system is financed through a mix of public spending, private funding, and donor contributions. Despite improvements, the country still faces a significant financing gap. A key contributor in the education landscape is the Low-fee private schools (LFPS) that educate a large and growing share of children in Pakistan, particularly in low-income and urban, peri-urban and rural areas.

This study is commissioned under FCDO funded the Girls and Out of School Children: Action for Learning (GOAL) programme – Bridging Technical Assistance for Governments (B-TAG), implemented by Institute of Social and Policy Sciences (I-SAPS) to support the Governments of Punjab and Khyber Pakhtunkhwa. This study examines financing barriers and opportunities for LFPS in both provinces. The assignment encompasses mapping of ecosystem for access to finance for LFPS in both provinces leading to actionable, system-aligned proposed financing and relevant policy options that can enhance financial sustainability and quality within the provincial education frameworks. It aligns with existing governance and regulatory frameworks and provide a menu of policy choices, regulatory, institutional, and financial, to improve sustainable access to finance within provincial education systems.

The mapping exercise on access to finance (A2F) for LFPS sector entails analysing available and existing financing sources and identifying key constraints whilst preparing a provincial analytical reports on both provinces highlighting financing gaps, institutional barriers, and opportunity areas for improved A2F for LFPS. The overall objective is to help develop a market for investments in micro, small and medium-size private schooling businesses across the education sector in Punjab and Khyber Pakhtunkhwa in order to provide greater access to affordable and quality private schooling to economically-disadvantaged children in urban, peri-urban and rural areas. The study will lead to two province-specific policy briefs providing a road map for operationalising instrument/s for adoption, institutional pathways, and next steps for

[1] https://pncu.gov.pk/SiteImage/Downloads/P.F%20Report.pdf
[2] Children ppertaining to Pre-Primary, Primary, Middle and High Schools (5-14 years)

government consideration to address barries and promote A2F for LFPS. These investments will support low-cost, commercially sustainable private schools with the view that a large part of the ultimate beneficiaries of such investments will be the bottom of the pyramid population.

Methodology and Approach

The analysis presented in this report is subject to findings/datasets from the field and the external research studies used to contextualize the findings. The primary dataset consists mainly of fee charts and school information, without accompanying quantitative data on enrolment, staffing levels, infrastructure inventories, financial accounts, or operational metrics. As a result, several indicators—such as average teacher numbers, school size, operating costs, and financing behaviour—could only be interpreted through broader sector-level research rather than directly inferred from the data. Additionally, variations in research methodologies across studies—differences in sampling frames, geographic focus, and definitions of "low-fee" or "private school"—introduce further variability that should be acknowledged when generalizing conclusions. Together, these factors mean that the results should be interpreted as evidence-informed but not determinative, reflecting a blend of observed data, established sector knowledge, and reasonable inference rather than a comprehensive, statistically representative survey.

On demand side, primary source of information for Punjab and Khyber Pakhtunkhwa also included Focus Group Discussions with LFPS owners and private schools associations, while supply side method for primary data collection included interviews and comprehensive discussions with key financial institutions/banks and MFIs in Punjab and Khyber Pakhtunkhwa.

LFPS has common features across provinces in Pakistan. Similarly, financing landscape for LFPS across Pakistan are applicable to all provinces, especially for banks and MFBs/MFIs. To avoid repetition, analysis and references are made in Section B on Punjab are also applicable to a large extent for Section C on Khyber Pakhtunkhwa.

Education Financing in Pakistan

Education financing in Pakistan is a multifaceted system that draws from both public and private sectors. The government plays a central role by allocating annual budgets at both federal and provincial levels, yet these funds often fall short of international benchmarks for education spending as a percentage of GDP. Public funding is a combination of federal and provincial budgets with public investments primarily covering operational/recurrent costs such as salaries, maintenance, and administrative expenses, while a smaller share is dedicated to development projects like infrastructure and curriculum enhancements. There are notable variations in how provinces allocate and utilize their education budgets in the public sector, with regions like Khyber Pakhtunkhwa and Punjab displaying different spending patterns and efficiency levels. Additionally, it is common for a portion of allocated funds to remain underutilized or redirected to other priorities, especially during emergencies.

On private sector, education financing encompasses largely student level financing options such as student loans, scholarships, and support from families, and to some extent financing at institutional level under private sector initiatives aimed at expanding access to quality education. Beyond traditional banking, microfinance institutions, impact investors, corporate social responsibility (CSR) initiatives; philanthropic contributions, and public-private partnership (PPP) channels also play vital roles in supplementing educational finance. Despite these efforts, significant barriers remain, especially for LFPS, which often face challenges in accessing affordable credit and sustaining their operations. Addressing these constraints is critical to bridging the funding gap and ensuring broader educational access across Pakistan.

Public Financing

Government budgets: The federal and provincial governments both contribute to the education budget, with a combined allocation of PKR 1,500 billion in 2024-25 compared to 1,345 billion in 2022-23, a significant increase from previous years driven by substantial increases in provincial allocations. Punjab's education budget increased to PKR 811.8 billion in 2025-26 compared to PKR 673 billion in 2024-25, and Khyber Pakhtunkhwa's budget increased by 11% in 2025-26 at PKR 417 billion from PKR 349 billion in 2024-25[3]. The majority of the budget is typically allocated to recurrent expenditure, with a smaller portion for development projects. More than 80% of education spending is recurrent expenditure, with a much smaller share for development and capital investment.

Education is a provincial responsibility after the 18th Amendment. Budgetary allocations and expenditures vary by province, with some showing larger increases or higher utilization rates than others. Punjab's 2025-26 budget shows a significant allocation for construction of classrooms, IT labs, missing facilities and public–private investment/outsourcing in schools.

- Underutilization of budget allocation: Although the total outlay of federal and provincial education budgets has increased by 37% in the past five years, underspend remains a recurrent and significant issue. A portion of allocated budget often remains unspent, and in some cases, funds have been diverted to other sectors due to emergencies. Key reasons for underutilization also include the fact that a portion of the budget is either released too late in the fiscal year when planning any meaningful spend is not possible or is not released at all due to re-appropriation or other reasons[4].
- Low GDP share: Pakistan historically allocated around 1.5–2% of GDP to education, relatively low compared with even several smaller South Asian countries (Bhutan, Maldives) and is below UNESCO's recommended 4–6% level — this constrains investments in classrooms, learning materials, and remedial programs. Spending on education as a share of GDP remains low compared to international targets, indicating a significant funding gap. Cumulative education spending by federal and provinces is currently only 0.8% of GDP, marking a new low, with 29.4% decrease in spending during the first three quarters of the fiscal

[3] Education budget documents and other government publications.
[4] https://pie.gov.pk/SiteImage/Downloads/Policy%20Note%20-%20Education%20Finance%20-%20PIEv2.pdf

year compared to the same period in the previous year[5]. This decline occurred despite the government having declared education a national emergency.

Challenges in public financing includes low overall investment and widening funding gap despite increased allocations and spending as a percentage of GDP remains lower than the international target; underutilization of allocated funds as a significant portion of allocated funds remains unspent in some provinces indicating challenges with the implementation and utilization of the education budget; inefficiency and leakages; fund diversion in times of emergencies e.g. budgetary allocations for education have been diverted to other sectors during emergencies like floods and the COVID-19 pandemic; political instability affecting continuity of reforms; and huge urban–rural disparities in demand supply equilibrium.

Public-Private Partnership Financial Support Mechanism

Considering the significant funding and supply gaps, it becomes evident that conventional methods of service delivery must be complemented. Education Private Public Partnerships (ePPP) are increasingly perceived as an innovative approach to filling the gaps in provision of education for all, especially to the most vulnerable and marginalised. The existing ePPP arrangements cover a broad range of policy options and follow diverse rationales in terms of education reform agendas. As enhancing resource allocation is imperative to address and bridge the investment gaps effectively, ePPPs leverage private sector efficiency, innovation, and investment offering a collaborative and sustainable solution to the complex challenges in service provision.

Not all ePPP options are equally appropriate to achieve the expected goals in all types of educational settings. Risk and responsibility-sharing are important features of PPP schemes. However, balanced risk and responsibility-sharing are constrained by the fact that the state always remains the ultimate provider of certain social goods and services such as education for which it has the obligation to fulfill. In Pakistan, the rationale for ePPP adoption is to supplement government schools' limited capacity and expand educational access by incorporating private providers into the public sector, while administrative capacity issues and pressure on government budgets usually makes contracting-out schemes preferred over more balanced, long-term and accountable forms of ePPPs that include part private financing.

In Pakistan, existing ePPP structures include privately managed state schools, subsidised private schools, voucher programmes and some collaboration on capacity building programmes as outlined in the table below.

Table 1: ePPP Models in Pakistan

PPP Structures	Key Features
Privately managed government schools	● Public schools managed by private sector / adopters ● Largely philanthropic motives by the private sector including foundations, individuals and corporates under corporate social responsibility activities

[5] Economic Survey 2024-25

PPP Structures	Key Features
	• Generally, partnerships in three areas: infrastructure; teaching / pedagogy; and management • Private sector financing and expertise invested in infrastructure, teaching resources, management and decision making at the school level • Variations in this model at the provincial-level and within provinces including private operators receiving per child subsidy (PSSP in Punjab), total budget for operations (EMO in Sindh), or no financial contribution by the government (Adopt-a-School (AAS) programmes) for running a public school.
Purchase of educational services from private schools	• Government sponsors students to attend private institutions • It pays a subsidy for each student enrolled in eligible private schools • Through education foundations
Voucher programmes	• Government gives vouchers to schools to pay for a space at the private school under education voucher schemes by education foundations
Capacity building programmes/ Education service providers	• Teacher training by government to private sector and private teachers' placement at public schools • E.g. private schools engaged in teacher training. Teach for Pakistan placed graduates at public schools.

Private partners operating outsourced public schools and private schools serving low-income families are entitled to receive uniform monthly financial assistance per child and the monthly subsidy for students enrolled in provincial programmes under government supported education foundations such as PEF, SEF and ESEF. The financial assistance varies by class and increase with the advancement of grade levels. These schemes finance per-student subsidies; teachers training, textbooks, quality assurance; and school establishment in poor rural/peri urban areas.

Table 2: Expected effects of relevant PPP models on four main education objectives

Contract	Effect on increasing enrolment	Effect on improving education outcomes	Effect on reducing education inequality	Effect on reducing costs
Vouchers	Strong: number of students who receive the voucher	Strong: school choice	Strong when targeted	Strong when private sector is more efficient
Subsidies	Strong: use of already built private infrastructure	Moderate: limited by available places and quality of service delivered in the private sector	Strong when targeted	Moderate
Private management of public schools	Moderate: limited by the supply of private school operators	Moderate: limited by available places in the private sector	Strong when targeted	Moderate

Non-Government Sources of financing

Corporate Social Responsibility (CSR) Funds: Corporate Social Responsibility (CSR) is a concept that suggests that it is the responsibility of large private sector businesses operating within the society to contribute towards economic, social and environmental development that creates positive impact on society at large. Engagement with private sector companies offering financial support and strategic guidance through CSR activities reduces the financial burden on the government and creates an efficient blend of PPP and CSR elements. CSR initiatives, through partnerships between public, private and the government, particularly at the local level, and not-for-profit sector, can play a vital role in enabling increased access to education through both demand - side (e.g. provision of scholarships, general awareness programmes) and supply - side measures (e.g. provision of endowments, making corporate staff available as resource persons, funding research and by contributing to infrastructure).

Significant CSR programs have explored and implemented Adopt-A-School model across Pakistan such as Engro and Telenor supported programmes. Progressive Education Network (PEN) is a not-for-profit organization engaged in PPP in education with around 300 adopted schools, and over 70,000 students enrolled. One of the notable features of growth in CSR activities is the increase in number of corporate foundations. These Corporate Foundations are usually not-for-profit bodies set up to conduct CSR activities. This structure enables them to partner with other organisations engaged in research and implementation activities. They also work with government departments to seek alignment with social, environmental, or economic development priorities.

Collaborative endeavors with private enterprises and technology companies can also provide services and products focusing on seamless integration of technology solutions embracing elements such as computer labs, digital learning platforms, educational software, internet connectivity, virtual classrooms, and mobile learning. Common CSR contributors in Pakistan include banking sector, telecoms (Jazz, Telenor, Ufone), Oil & gas (PSO, OGDCL, Shell), FMCGs (Nestlé, Unilever, P&G). Funding has historically contributed towards construction of classrooms, ICT labs, scholarships, and teacher training.

Donations & Philanthropy: Many non-profit or low-fee schools rely on domestic philanthropy that also includes Zakat, Sadaqah, and other individual donors.

NGOs & Foundations: NGOs and charitable trusts also operate free or low-cost schools. Large organizations running private or semi-private schools include TCF (The Citizens Foundation), CARE Foundation, Zindagi Trust, Hunar Foundation (technical), Akhuwat Education Services and they fund school construction, teacher salaries, student scholarships, meals/transportation. NGOs, both local and international like Save the Children and Malala Fund also contribute by funding specific programs, scholarships, and initiatives to improve educational access and quality.

Major Foreign Aid Agencies and Donors Financed Education Projects: Development funding from donors has historically been an important source of funding for social sectors, especially the education sector receiving foreign aid through multiple programmes and projects. International funding agencies, bilateral and multilateral organizations, such as the World Bank, FCDO, and ADB, provide grants and loans for projects on strengthening primary education and specifically focused on girls' education, out-of-school children, teacher professional developemnt, early childhood education, STEM & digital learning. Other significant sources of donor support include European Commission, UNICEF, and JICA.

Performance-Based Financing and Result Based Financing have been the most used framework for large donor funded projects based on enrollment increase, school attendance and learning outcomes.

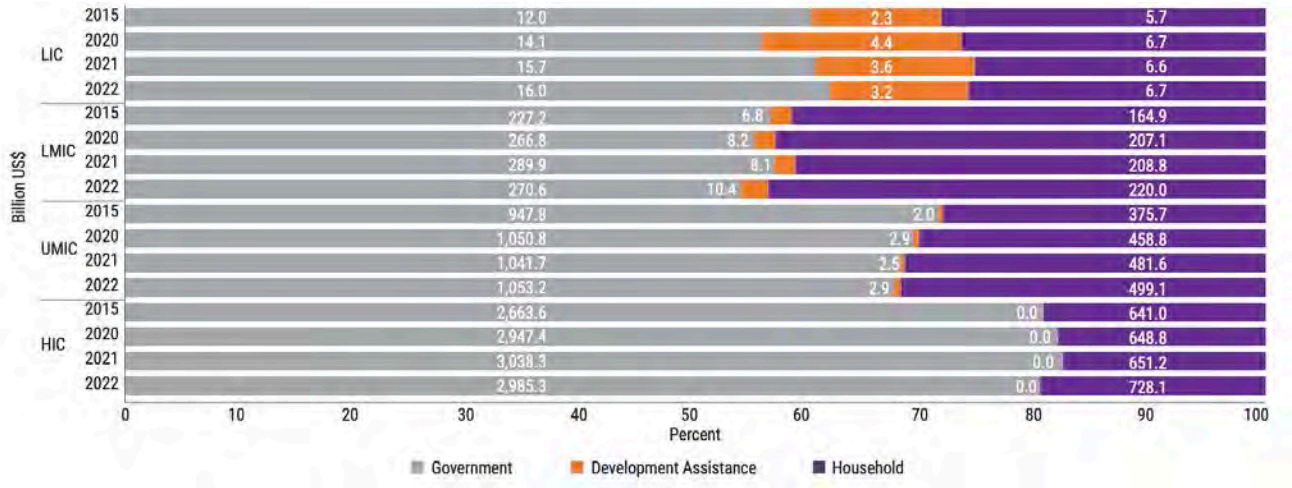
Bank Loans & Financial Institutions: Large national and provincial banks have products such as subsidized loans for financing of solar solutions for public and private schools and other infrastructure improvements. Some private schools access formal financing/commercial bank loans for construction, expansion, transport (vans), renovation and technology (smart boards, labs). In the past, low-cost schools have borrowed from Microfinance Institutions (MFIs) such as Kashf Foundation, Khushhali Microfinance, Akhuwat (interest-free loans), FINCA and NRSP Microfinance with loans ranging between PKR 50,000 –1,000,000. However, there has been limited traction on these interventions.

State of the Market & Trends – Global and Regional Trends in Education Financing

Global Context

Over the past decade, education financing has undergone a structural shift driven by demographic pressures, economic uncertainty, and unprecedented technological change. Globally, the demand for education resources continues to rise sharply, while public budgets remain constrained, particularly in low- and lower-middle-income countries. This widening financing gap has accelerated the search for new financing models and diversified funding partners that extend beyond government spending. As a result, education financing today is defined not only by traditional public investment but increasingly by blended approaches, performance-based mechanisms, private capital, and strategic philanthropy. Private-sector education has moved from a peripheral role to a central pillar of education delivery across many developing regions. Today, private education, whether in the form of low-cost schools, investment-backed school chains, EdTech platforms, or skills academies, plays an essential role in expanding access, improving quality, and diversifying learning options for families.

Figure 1: Distribution of global education spending by source



Source: Education Finance Watch 2024, World Bank

Governments funded nearly three-quarters of all education expenditure in 2022. The global landscape for education financing is marked by two parallel realities. On one hand, governments continue to be the primary funders of education, allocating between 3–5% of GDP in most OECD and emerging economies. On the other hand, the scale of need, particularly for early childhood, foundational learning, digital readiness, and workforce development, far exceeds available public resources. International organizations such as UNESCO, the World Bank, UNICEF, and the Global Partnership for Education (GPE) repeatedly highlight that public spending alone cannot meet the Sustainable Development Goal 4 (SDG-4) targets. Global aid to education fell sharply in 2024 and is projected to decline further (UNESCO estimates aid could drop >25% by 2027), while there remains an annual global education finance gap on the order of US$100 billion for meeting SDG education targets, making resource mobilization & efficiency both critical[6].

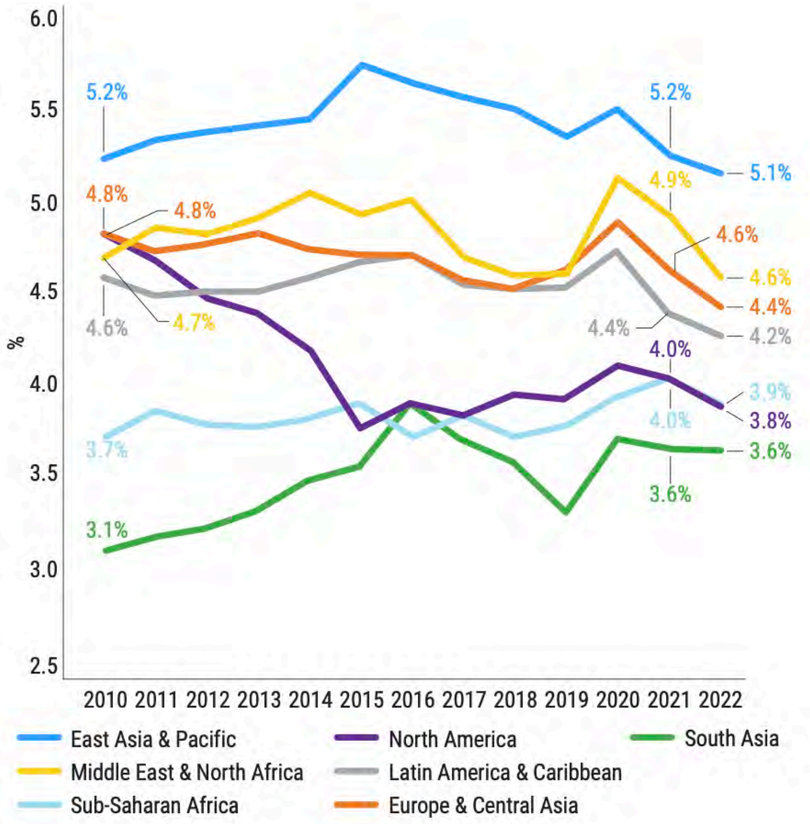
Globally, total education spending per child has either decreased or stagnated[7]. Financing models have become more varied, more commercially oriented, and more integrated with public-sector objectives, marking a significant shift in how education systems are funded and managed. This recognition has driven three major global trends. First is the rise of private education and private EdTech, tutoring, and supplemental education. Second is the expansion of private and philanthropic capital, including corporate social responsibility (CSR), impact investing, education-focused venture capital, and other forms of A2F. Private investors are increasingly interested in education technology (EdTech), workforce development, low-cost schooling models, and skills training, viewing them as both commercially viable and socially impactful. Third is the mainstreaming of blended finance, where grants, loans, guarantees, and private capital are strategically combined to reduce investment risk and increase long-term sustainability. Blended finance has become a critical tool in low-income markets where purely commercial investment is considered too risky.

6 https://www.unesco.org/gem-report/en/education-finance
7 https://www.worldbank.org/en/topic/education/publication/education-finance-watch

Regional Trends

Government education spending as a percentage of national income has gradually converged across regions. In 2010, the largest gap observed was between East Asia and the Pacific (at 5.2%) and South Asia (at 3.1%). The difference between the highest and the lowest shares of education expenditures became narrower in 2022 between these two regions (5.1% versus 3.6 % respectively).

Figure 2: Government education spending by region, 2010-2022



Source: Education Finance Watch 2024, World Bank

South Asia is home to one of the world's youngest populations and the largest number of out-of-school children. Public expenditure remains below global benchmarks in several countries, leading to heavy reliance on households and private institutions. In Bangladesh and Nepal, private schools now educate a significant share of the population, particularly in urban and peri-urban areas, reflecting the growing role of private actors in addressing government capacity gaps. The growth is driven primarily by low-cost private schools, which fill gaps left by public systems and respond to parental demand for English-medium instruction, perceived accountability, and more consistent teacher attendance.

A key regional trend is the rise of organized school networks and franchise models, allowing operators to leverage economies of scale, standardized curricula, shared teacher training, and centralized administration. Pakistan, India, and Bangladesh have all witnessed rapid expansion of chains such as Beaconhouse-affiliated networks in

Pakistan, GEMS in India, and BRAC schools in Bangladesh. These models attract both commercial and impact investors because they combine scalability with predictable fee structures.

Another major trend is the regional growth of public–private partnerships (PPPs) in both school education and skills development. Governments increasingly outsource school management to non-state partners, contract private providers to deliver services, or co-invest in infrastructure through viability gap funding. These models aim to improve governance, increase accountability, and leverage the operational efficiency of the private sector.

Digital learning has also reshaped South Asian markets with accelerated adoption of digital learning and EdTech solutions, driven in part by pandemic-era disruptions. Governments and donors now emphasize digital inclusion, device access, teacher training, and connectivity as core components of education reform. Development partners are expanding their financing portfolios to support digital transformation, foundational learning programs, and gender-focused interventions. This shift aligns with a global understanding that quality learning increasingly depends not just on enrollment but on pedagogy, assessment, and technology integration.

Market Dynamics and Funding Patterns

Globally, education funding patterns reflect both demand-side and supply-side pressures. Demand for foundational literacy and numeracy remains high, while employers increasingly require digital, technical, and socio-emotional skills. On the supply side, chronic underinvestment, particularly in low- and lower-middle-income countries, has resulted in infrastructure deficits, teacher shortages, and low learning outcomes. Financing is moving toward diversification and performance orientation. Four major trends stand out:

1. **Blended and catalytic finance**: Grants and concessional funding combined with private capital enable investments in low-fee schools, EdTech pilots, and school improvement projects that would otherwise be too risky.
2. **Impact investment and ESG-focused capital:** Private equity and venture investors increasingly consider social outcomes, opening pathways for education businesses that demonstrate inclusion, gender impact, or affordability.
3. **Performance-based contracts:** Governments and donors are linking disbursement to enrollment increases, learning improvements, or service-quality benchmarks. This trend is particularly strong in PPP environments.
4. **Microfinance and small-enterprise lending to schools:** A rapidly expanding segment in South Asia. MFIs, impact lenders, and SME banks provide working-capital loans to low-cost schools for classroom upgrades, teacher training, and digitization.

These instruments collectively broaden the financial landscape, enabling providers to innovate, expand, and improve quality. South Asia’s experience shows that private-sector education can expand access and innovation but requires financing mechanisms that support scale, quality, and affordability.

Implications for Pakistan

Pakistan's education financing environment mirrors many of these global and regional trends but with unique contextual challenges. Despite ongoing reforms, public spending on education remains below the international benchmark, limiting investment in quality improvement, infrastructure, and teacher training. As a result, the private sector, ranging from low-cost schools to EdTech enterprises, plays an outsized role in service delivery. Donor agencies continue to invest in large-scale, province-led reforms focused on foundational learning, girls' education, and system strengthening.

Private schools educate over 40% of children in Pakistan, with even higher enrollments in urban and peri-urban areas. Low-fee private schools remain the dominant segment, though mid-fee chains and hybrid learning models are expanding rapidly. The future of education financing in Pakistan will depend on the country's ability to leverage blended finance, performance-based models, and strategic public–private partnerships**.** However, the market's long-term potential depends on regulatory coherence, improved school governance, transparent quality assurance, and access to affordable finance.

Private-sector education has become a defining feature of schooling systems across South Asia, and Pakistan stands out as one of the most privatized education ecosystems in the region. With over two in five children attending private schools, the sector plays a central role in delivering foundational learning and expanding access. As demand grows and public budgets remain strained, financing the private education system, particularly low-cost schools, has become a critical development priority.

In short, the centre of gravity moves from public to private market dynamics, with governments appearing mostly as regulators, PPP-enablers, or purchasers of services (e.g., vouchers).

Chapter 2: Market Sizing Private Education & Financing Needs in Pakistan

Market Structure

Education sector in Pakistan has expanded dramatically in the last two decades. Such expansion is in part a response to an increasing demand for provision of education from a rapidly expanding school-age population, as well as the public sector's inability to attract and provide education to all of these potential students. Pakistan's private-sector schooling landscape is one of the largest in the region, educating an estimated over 46% of all children. The market is characterized by a large base of low-fee private schools, a growing low-mid tier segment, and a smaller but rapidly expanding premium and international school market.

Pakistan's private-sector schooling ecosystem is diverse and fragmented, comprising more than 135,000 private schools. The market can be broadly categorized into three tiers:

1. **Low-Fee Private Schools (LFPS)[8]:** Serving low-income families, these schools have thin margins, limited infrastructure, and high sensitivity to fee regulation and inflation. Research provides evidence that a majority of schools in Pakistan fall in low fee bound and can be categorized as LFPS[9][10].
   - Fee range: PKR. 500–2,500 per month.
   - Often family-run, community-based institutions.
   - Serve low- and lower-middle-income families seeking English-medium instruction.
   - Teacher salaries make up 60–75% of costs.

2. **Mid-Tier and Upper-Mid-Tier Schools:** Operated by chains and franchise networks, they are more scalable due to standardized curricula, centralized administration, and brand recognition.
   - Fee range: PKR 3,000–15,000 per month.
   - Operated by well-known chains (Allied, Educators, KIPS, Dar-e-Arqam).
   - Centralized quality assurance, curriculum, branding, and teacher training.
   - More scalable and financially stable.

3. **Premium and International Schools:** A smaller segment with high fees, often offering Cambridge or IB programs.
   - Fee range: PKR 20,000–60,000+ per month.
   - Cambridge and IB curriculum providers.
   - Concentrated in major cities and expatriate communities.

[8] https://file.pide.org.pk/uploads/pa-02-schools-in-pakistan-types-and-fees-monthly.pdf
[9] https://openknowledge.worldbank.org/server/api/core/bitstreams/5cc895d1-963a-551e-9cc8-2990ddd30697/content
[10] https://www.cerp.org.pk/wp-content/uploads/2023/06/LEAPS-Brochure.pdf

There is a parallel private education sector as well that includes Madrassas offering free education to low-income families; private tutoring, test prep, and EdTech services; and skills academies and TVET-focused institutions.

Market Size

Base population & school counts:

- Total Enrolment – 58,331,078[11]
- Private enrolment – 46.5%[12] of total students and at 27,123,951
- Private schools – 137,234[13]

Annual fee per student: There is no single authoritative up-to-date national number for average annual private school fees that captures LFPS, mid teir and premium schools. Sector reviews (as mentioned above in market structure) show very low median fees for low-cost providers but large variation across provinces and school tiers. For the prupose of this study, we take 3 plausible scenarios based on the market structure above and taking the lowest end of the range to have a conservative estimate:

- **Low**: **PKR 6,000 per year** (PKR 500/month) reflects low median fees based on field data across Punjab and Khyber Pakhtunkhwa provinces and as considered by public sector subsidy providers (SEF, PEF etc) for provate LFPS.
- **Mid**: **PKR 36,000 per year** reflects an urban/aggregate mid-market (roughly PKR 3,000/month), observed mixed portfolios (mid market schools and network of schools/chains).
- **High**: **PKR 240,000 per year** reflects a scenario in higher-fee private schools (PKR 20,000/month) as an upper bound.

Table 3: Market size based on fee revenue

Scenario	Avg annual fee (PKR)	Annual fee market (PKR)
Low	6,000	162,743,706,000
Mid	36,000	976,462,236,000
High	240,000	6,509,748,240,000

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

Financing Needs

Capital investment (one-off "upgrade all schools"): We take total private school count (137,234) and a tiered CAPEX cost per school assumption, plus a plausible school-

[11] PES 2023-24
[12] PES 2021-22
[13] PES 2021-22

type mix at 70% LFPS, 25% mid-tier, and 5% premium. Based on previous studies[14][15] showing a range of 40%-89% in private enrolment in LFPS, we take a conservative estimate of 70%. School count on 70/25/5 mix basis:

- LFPS count (70%): 96,063
- Mid count (25%): 34,308
- Premium count (5%): 6,862

Assumed CAPEX per school (PKR):

- LFPS upgrade (basic classroom repairs, toilets, boundary, modest furniture, simple ICT kit): PKR 500,000.
- Mid-tier upgrade (new classroom blocks, labs, improved sanitation, mid-spec ICT): PKR 5,000,000.
- Premium school build/upgrade (large investment): PKR 30,000,000.

Table 4: Tiered Capital investment (one-off "upgrade all schools")

Tier	School Count	One-off CAPEX	Total CAPEX Est.
Low	96,064	500,000	48,031,900,000
Mid	34,309	5,000,000	171,542,500,000
Premium	6,862	30,000,000	205,851,000,000
Total	**137,234**	-	**425,425,400,000**

Multiplying school counts × CAPEX per tier yields total one-off CAPEX of PKR 425 billion for upgrading the whole private school stock.

Annual reinvestment (sustainability) need: A simple rule-of-thumb is that private providers may need to reinvest 10–15% of annual fee revenue into school improvements, teacher training, materials and technology to maintain/raise quality. Using a 12% reinvestment rule of thumb (percentage of annual fee market devoted to reinvestment), mid-scenario yields PKR 117 billion/year to sustain quality improvements at scale.

Table 5: Annual reinvestment (sustainability) need

Scenario	Annual fee market (PKR)	Annual reinvestment @12% (PKR)
Low	162,743,706,000	19,529,244,720
Mid	976,462,236,000	117,175,468,320*
High	6,509,748,240,000	781,169,788,800

Analysis and summary:

- **Market size (fee revenue)** is *material*: even the mid scenario **PKR 976 billion/ USD 3.5 billion annually** represents a sizeable market for commercial/intermediate financing structures (working capital loans, school improvement credit lines, impact investments). The education industry in Pakistan was valued at PKR 527

[14] https://riseprogramme.org/blog/busting-myth-private-schools-elite-pakistan.html
[15] https://riseprogramme.org/sites/default/files/2022-09/Missing_Link_Low-Fee_Private_Tuition_PAKISTAN.pdf

billion in 2015 in an independent PE report[16]. The market size is doubled in the last decade as per these numbers.

- **One-off upgrade needs – PKR 425 billion/USD 1.5 bn –** are significant and comparable to the scale of a single large public-sector program. It is a realistic headline for donor and blended finance conversations if the objective is to lift infrastructure standards across the private stock.
- **Annual reinvestment needs – PKR 117 billion/USD417 million in mid case –** indicate recurring financing demand for teacher training, learning materials, and light capital, which are appropriate for revolving credit lines and blended grants.
- In a study financed by UKaid, the total estimated demand for external finance for the private sector was estimated at PKR 77.1 billion[17]. The estimated demand for financing (CAPEX + reinvestment) currently has increased many fold as the number of schools and student population has incresed significantly over the last decade in private sector.

Table 6: Summary Market Size and Financing Needs

	Low scenario	Mid scenario	High scenario
Avg annual fee (PKR)	6,000	36,000	240,000
Private students		27,123,951	
Annual fee market (PKR Bn)	163	976	6,510
Annual reinvestment @12% (PKR Bn)	20	117	781
One-off CAPEX to "upgrade all schools" on mixed model (PKR Bn)	-	425	-

Key limitations & sensitivity of the market sizing exercise:

1. **Fee heterogeneity is huge.** A single average masks large provincial, urban/rural and tier differences. The mid scenario is a pragmatic central estimate, not a precise measured mean. Provincial/urban/rural mixes can change the mean substantially.
2. **School counts vary by publication year.** PES counts change year-to-year (closures, new schools). We have used the most explicit PES tables available; swapping to PES 2023-24 values would shift CAPEX totals.
3. **CAPEX per school assumptions are illustrative.** Actual upgrade costs will vary by region, land/rent costs, local construction prices, and scope (basic repairs vs full rebuild/modernization).
4. **This analysis excludes informal spending (tuitions, private tutoring, other education related expenditures by parents) borne by households** which can be very large; only fees paid to schools was counted. Informal private tutoring market is sizeable and would add to the broader private-education financing market.

[16] Cyan Capital Annual Report 2015
[17] Access to Finance for Low Cost Private Schools in Pakistan 2014. UK Department for International Development (DFID).

Chapter 3: A2F for Low Fee Private Schools Segment

Contextualizing Low Fee Private Schools for Financing

Private schools operate at different levels and offer services to all layers of socio-economic segments and areas in Pakistan. The sector features a highly varied range of fee structures and diverse operating models ranging from single elite schools and large networks of schools catering to the upper and middle-income segments of the population to LFPS that cater to lower-middle and low-income households. Parental willingness to pay for better learning opportunities for their children, evident in the growth of private school enrolment even amongst lower socio-economic segments of society, is one of the key factors for the growth in this segment.

Why should government prioritise financing LFPS: Private enrolment now account for 46.5% of total enrolment compared to an estimated 30% a decade ago. For Khyber Pakhtunkhwa and Punjab, this means approximately 2.6 million and 8.5 million children, respectively, are studying in private schools from pre-primary to higher secondary levels.[18] The private schooling sector and within private education, LFPS segment provide education delivery to majority of low-income strata of the society. Supporting growth in LFPS segment can reduce public capital expenditure pressure, absorb enrolment growth without new school construction, support girls' access in semi-urban and rural areas, and sustain low-cost schools as a critical part of the education delivery system across the country. It is important to recognize LFPS finance as a system stability tool, that it will play an important role to augment low cost supply and suplement public sector in meeting its education objectives.

Definition

While the term LFPS was popularized only in early 2000s, academics and policymakers are yet to reach a consensus on the definition and parameters to identify such institutions. This is a peculiar situation, particularly when considering countries such as Pakistan, where private schools, including LFPS, are at around 140,000. Although there is not a universal definition of LFPS and it differs in varied contexts, LFPS typically are the schools that charge under PKR 2,000 per month. The LFPS enterprises are for-profit in nature, resemble other typical informal enterprises, and can be categorized as part of the Micro-Small-Medium Enterprise (MSME) segment. Taken together, the low-fee structures, low asset base, cash-based recurring revenue model, and labour-intensive operations justify categorising LFPS as micro to small enterprises within Pakistan's MSME sector.

Though, traditionally, LFPS have been standalone schools, a number of chains and franchises have rapidly expanded over the last few years. Owners of private schools

[18] Pakistan Education Statistics (PES) 2020-21.

and any other for-profit education institution or education service providers are generally termed as “Edupreneurs”.

Demand Drivers

- Parental perception of quality gaps in government schools.
- Urbanization and rise of middle class. Proximity and accessibility in semi-urban areas.
- Teachers preferring private sector employment.
- Innovation in curriculum and digital tools.
- Parental preference for English-medium instruction.
- Lower pupil–teacher ratios compared to public schools.
- Cultural preference for private over public schooling in urban Pakistan.

Box 1: Medium to large scale LFPS franchises in Pakistan

Educators is Beaconhouse School System LFPS franchise established in 2002. Over 1,000 campuses have been opened across all provinces with over 225,000 students. in more than 275 cities. Offer multiple franchise models with two franchise products that have been in existence since beginning: a) Pre-school to primary (K-5), and b) Pre-school to comprehensive (K-10). Fee structure ranges between PKR 2,200-4,600/month depending on level of education. Academic support is provided through standardized curriculum, books, standardized and detailed daily lesson plans, teacher trainings and rules of business and operating manual on accounting, HR and health and safety, student-teacher ratio, appointment of head teacher etc are also provided to entrepreneurs.

Allied is Punjab Group of Colleges LFPS franchise established in 2010. Allied has opened over 1,000 campuses in Khyber Pakhtunkhwa, Punjab, AJK and Sindh providing education to 260,000 children in 0ver 200 cities. Allied provides academic support including books, curriculum, lesson plans and evaluation of teachers to entrepreneurs. Although, its fee range is PKR 3,000-3,700/month, a K-12 low fee private schooling franchise project “Education for All’ was launched in 2015 with a monthly tuition fee of PKR 1000.

Business Model of LFPS

The low-cost private education sector is largely fragmented and under-capitalized with A2F being one of the major constraints for growth. Educational institutions are typically financed by a combination of market resources (e.g. the sale of goods and services), non-market resources (e.g. government subsidies and private donations or investments), and non-monetary resources (e.g. volunteer work). LFPS are generally sub-scale yet operationally sustainable with a potential to significantly benefit from quality and infrastructure improvements. Low operating costs also mean that any increase in enrolment would add to the profitability of the school and expansion can potentially make the school more sustainable.

Overtime, in response to the widespread demand for education, the sector has evolved in character with a somewhat sustainable small scale business model albeit maintaining a low-cost structure (lower salaries to teachers) largely due to the revenue model based on low fee structure. Since revenue from fees is not enough to cover the cost of expansion of infrastructure, enhancement of school facilities or innovation pedagogy for better learning outcomes and at the same time increasing the fees is not an option as these schools will no longer be affordable; external financing (direct and indirect both) can help LFPS achieve scale that can potentially result in increased enrolment numbers and improved quality of education.

It is important to understand the economic model of LFPS in order to determine if LFPS are credit constrained, need and want credit, can service credit, and can benefit from access to financing opportunities.

Box 2: Key Highlights of the Business Model

As part of a study conducted on Access to Finance for LFPS included a survey on a purposive sample of 305 primary, middle and secondary private schools (fees across the surveyed schools ranged between PKR 300 per student per month to PKR 2,000) selected from the Punjab, Sindh and Khyber Pakhtunkhwa. Key findings from the survey have been highlighted below that give us insights into economic model of LFPS:

Competitive Advantages of LFPS

- Proximity is a key determinant – close proximity to the communities they serve ensure a safer commute to school for children. Long distances from schools, particularly at the middle and high school level, become the foremost reason for parents to keep girls at home.
- Conducive environment for female students – LFPS sector is able to increase equity and access to education especially for female students due to its more tailored relationship with communities and female staff.
- Client-focused business approach – Edupreneurs respond to parental demand and recognise that it leads to increased student retention and boost enrolment.

Business and Operating Model

- LFPS are profitable business ventures and sustain their operations independently, at a low cost, especially the larger and better-managed schools can make substantial profits.
- Around two third of LFPS were unregistered sole proprietorships, a quarter of them registered as NGOs and partnerships and very few registered companies or registered sole proprietorships.
- The edupreneur, typically a small or medium enterprise owner, is the main manager.
- Male edupreneurs owned almost four out of five schools surveyed, a trend that is representative of the ownership of small businesses across Pakistan.
- LFPS management structure, business planning and budgeting is limited and lacks documented financial records.
- The predominance of cash transactions for LFPS indicates the low utilization and low access to formal financial services and the largely informal nature of the LFPS business at all levels of education.
- LFPS generally operate in rented residential buildings. Edupreneurs use rented residential property at all levels of education, most likely because the required start-up capital is substantially lower than that needed to invest in purpose built facilities.
- Around 15% of LFPS surveyed had more than one branches.
- Student fees account for 97% of total revenue; remaining 3% constituted of donations, commission on books and uniforms, and earnings on sales of snacks, admission, and examination fees.

- Bulk of LFPS expenditures comprise salaries (60%-70%), followed by rent and utilities. The major advantage of LFPS, in terms of being able to provide education at a low cost, is the low salaries paid to teachers.
- Common challenges in a typical LFPS include working capital, fee recovery, and teacher turnover.
- Upgradation of existing facilities is usually using internal financing as the main resource.
- Edupreneurs are interested in investing to build permanent and better physical structures for the schools including including computer laboratories. This is an indication of the edupreneur's confidence in the market potential and long-term viability of the operating model.
- Edupreneurs were conscious of losing students after the primary level and many wanted to upgrade the school to ensure the transition of primary level pupils to higher levels of education in the same school if external finance could be secured.

Key Reasons for not Accessing External Financing, such as Bank Loans

- A low percentage of LFPS expressed confidence in their ability to secure finance from banks and it is likely due to varied factors such as the absence of a tailor-made financial product, lack of awareness about loan options and requirements by formal financial institutions, high interest cost of credit and a perception that bank credit is un-Islamic.
- Absence of collateral or the promise to invest in assets that may be taken as collateral or future collateral is another reason LFPS might not be attractive for financial institutions as a lending opportunity.
- Informal MSMEs are far less likely than formal businesses to have existing deposit relationships with financial institutions, and are also far more difficult to serve, especially for commercial banks.

Source: Access to Finance for Low Cost Private Schools in Pakistan. 2014. UKaid, Ilm Ideas Project.

Key issues in the sector

- 22+ million out-of-school children
- Poor quality of learning despite enrollment
- Infrastructure gaps (classrooms, sanitation)
- Low teacher quality & training deficits
- Weak financial governance

Market Constraints

- **Affordability pressures**: Inflation and stagnating income levels constrain fee increases.
- **Regulatory uncertainty**: Fee caps, registration requirements, and compliance burdens.
- **Limited enterprise financial resources:** There are limits to how far and how fast a LFPS can expand, given that school-fees are the main, if not the only source of revenue for most edupreneurs. Thus, their ability to expand capacity is limited by the resources available to them.
- **Limited access to finance**: Small schools struggle with working capital and asset financing.
- **Quality assurance**: Weak governance, limited teacher training, and inconsistent learning outcomes.
- **Fragmentation**: Limited economies of scale for small schools.

- **Lack of investment in quality factors:** Edupreneurs direct insufficient attention to (and inadequate investments in) substantial improvements in the quality of education provided in their institutions, mainly because they believe that these investments are more risky, require more capital and may have a delayed payback period. A strong case emerges for developing mechanisms that can address these concerns, and A2F can be a useful response.

Barriers for lenders

- High collateral requirements
- High mark-up
- Limited creditworthiness of small schools
- Uncertainity in regulatory framework for fees is a binding constraint, which lenders may treat as material risk to predictable enterprise cashflows.

These constraints affect different segments differently. LFPS struggle with capital and training, while mid-tier networks face compliance burdens and inflationary cost structures. However, a recent[19] multi-year study of private schools in Punjab shows a sample of over 3,800 private schools considered for financing support that indicated substantial interest and uptake in loans/finance products among private-school operators[20]. While there are many thousands of low-cost private schools, few are structured as enterprises, having been started out of a recognized opportunity to make a quick commercial return in a relatively unregulated industry. Given the lack of regulations which are now being strengthened across provinces, many of these schools are of low quality and not necessarily established with the long-term scale in mind. A strong investor interest can be developed in exploring the opportunities to develop some higher-quality, larger-scale, sustainable and affordable private schools out of this landscape.

The current common practice of seeking financing from friends and family, and using personal savings could be replaced by formal financing for the stable and profitable LFPS, given that there is a significant requirement for financing as expressed by edupreneurs. Comprehensive approaches to move LFPS enterprises into the formal sector may facilitate A2F. Reaching informal LFPS will have to build on microfinance approaches, including up-scaling existing microfinance institutions to serve small businesses.

The State Bank of Pakistan takes this policy direction in the form of enterprise financing. Such an approach needs to be combined with enhancements to the enabling environment for MSME lending. Significant initiatives to improve the financial infrastructure of credit reporting and collateral registries are in progress. There is also recognition across the financial services industry that lending driven by fully collateralised and undifferentiated products and service levels are insufficient if enterprise lending objectives are to be achieved. There is opportunity with respect to LFPS to develop non-collateralised lending models, and a practical and implementable

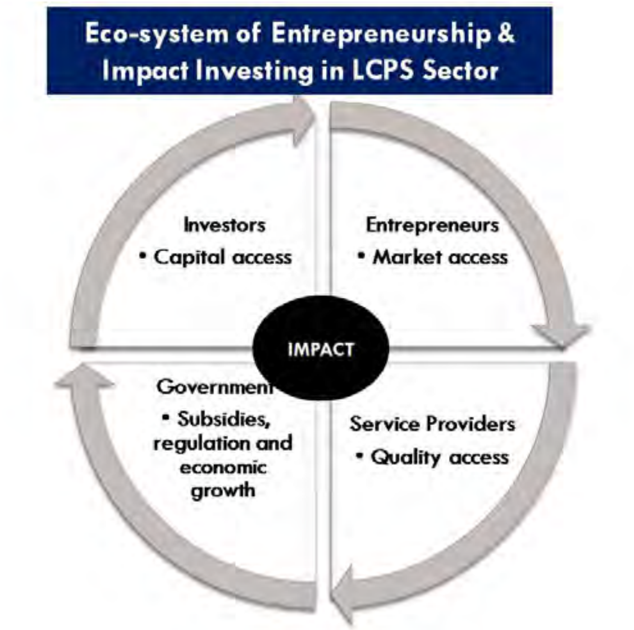
[19] LEAPS (Learning and Educational Achievement in Pakistan Schools), initiated in 2014 and ended in 2020.
[20] leaps.hks.harvard.edu

programme-based lending approach based upon free cash flows as opposed to securitised lending.

Investment Landscape for LFPS

Low-Cost Private Education Sector Financing Ecosystem

Figure 3: LFPS Financing Ecosystem



Edupreneurs' Capital: Many schools are owned by individuals, families, or education entrepreneurs who finance initial setup (building, furniture, materials), marketing and expansion, and teacher recruitment and training. Sources of owner capital largely include personal savings, family loans, rotating savings groups ("committees") and private investors (silent partners).

Large private school networks/chains (e.g., Allied, Educators, Dar-e-Arqam) expand with franchise models, use hybrid financing and have centralized marketing and shared curriculum and training. Franchisees pay:

- Upfront fee/franchise fee
- Royalty / revenue share
- Investment in brand guidelines

Commercial Banks: Despite of being highly liquid and well capitalized with advances to deposit ratio traditionally above 50% commercial banks have almost no appetite for capital investments that have no operational or financial track record. They have typically taken a conservative approach to financial products and markets. Commercial banks target medium to large size mature and profitable companies and individuals with a stable income generation activity. The target loan size is above PKR 5 million with exposure to Small and Medium Sized Enterprises (SME) at of 6-7% in advances to SMEs as a percentage of total bank lending[21]. This leaves very little interest by comemrcial banks to take exposure on LFPS sector, especially lending to individual LFPS. An approach where commercial banks would be able to chanelize funds and use networks of MFBs/MFIs for recovery could be a plausible option for LFPS. This could be an education facility targetted towards A2F for low cost private schooling sector.

Microfinance Banks and Institutions: Microfinance Banks and Institutions target lower end of the market. While Microfinance Banks (MFB) are regulated by State Bank of Pakistan's (SBP) Prudential Regulations (PR), Microfinance Institutions (MFI) are not regulated by the SBP and are not subject to PR. MFBs are well regulated, while the single obligor exposure of MFIs is limited due to their funding constraints as MFIs are not allowed deposit taking. Financing that is available either from banks or donor funded programmes can provide impetus for MFIs to start looking at education sector favorably.

The average loan size for the microfinance sector is PKR 55,081[22]. Most MFBs and MFIs offer short term financing for less than a year with repayment in equal monthly instalments. The target market for the loans is small with no focused lending for start-ups. In Pakistan, a microenterprise is a small business focused on livelihood improvement, typically with few employees (under 10, excluding seasonal) and minimal capital, though recent policy (Aug 2025) expanded the definition under the SME framework to include firms with up to PKR 30 million in annual revenue. [23][24] The maximum size for microenterprise loans as per SBP PR is PKR 5,000,000/- to a single project or business. MFBs can extend the microenterprise loans only in the name of micro entrepreneurs to ensure traceability and reduce the incidence of multiple borrowing. While a PKR 500,000 limit was applicable to some loan types in older regulations (around 2011), SBP has since increased limits, particularly for microenterprise loans, to promote growth in the sector. Most LFPS fall in micro enterprise category while the slightly larger schools can be categorized as small eneterprises.

Khushali Bank and The First Micro Finance Bank Ltd initiated lending to low cost private schools following the Ukaid-Ilm Ideas funded project on development of lending methodology and financial products, while Kashf Foundation's "School Sarmaya" initiative with financing and technical assistance to LFPS and other microfinance effort show that MFIs have been used to finance low-cost private schools in Pakistan.

Impact/VC investors: Some impact investing has been wintessed in the education space, especially in EdTech e.g., SABAQ, Taleemabad, however venture capital interest areas are tutoring, assessments, and skilling. Large private-sector engagement in education e.g. by International Finance Corporation (IFC) documents

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21 https://www.sbp.org.pk/sme/PDF/DFG/2025/Jun.pdf
22 https://www.pacra.com/sector_research/PACRA%20Research%20-%20Microfinance%20-%20Sep%2723_1696081309.pdf
23 https://www.sbp.org.pk/publications/prudential/SME-PRs-Updated.pdf
24 https://www.sbp.org.pk/publications/prudential/PRs-Microfinance-Banks-2025.pdf

investments, commercial capital inflows, and the role of private funding (equity, loans) for K–12 private schools in many regions[25] but limited in Pakistan.

Donor-supported school improvement funds: In Pakistan, donor funds primarily flow through major NGOs like The Citizens Foundation (TCF) and Zindagi Trust, which build schools, train teachers, and enhance quality for underprivileged kids, often receiving international grants and local donations. Malala Fund focuses on girls' education, with funding for infrastructure, resources, and teacher development to meet national education goals. Funding sources are a mix of international foundations, corporations, overseas Pakistanis, and individual donors.

Government: It is important to realize what private capital expects from government as enabler for the larger LFPS financing ecosystem. Government's role should primarily be to provide a conducive regulatory evnironment that ensures predictability, access to credible data, and enforceability of frameworks. In terms of underwriting financial obligation to spur growth in financing of SMEs, government backed lending to SMEs in Punjab and Khyber Pakhtunkhwa through provincial governments banks, Bank of Punjab and Bank of Khyber, have been rolled out in the past and recently. Loan schemes, backed by government guarantee funds, has unlocked additional funding by reducing the risk for lenders and the up-front financial burden on micro and small and medium exterprises acquiring loans. From a regulatory perspective, provincial education departments would need to see that lending products for the LFPS sector have the potential to reach scale, be sustainable in the longrun, and add value to the industry.

Service providers: Wholesale market reforms may include upstream services by the private sector such as support at policy level, institutional reforms addressing supply deficit in education delivery, whereas downstream interventions on individual interventions such as products in IT, STEM, digitization etc. There exists a market place for education where private sector stakeholders can supplement each other in service delivery rather than working in silos.

Financing Barriers and Risk Factors

Financing demand of LFPS sector for vertical and/or horizontal expansion (and renovation) and funding scale is large. Total estimated demand for external finance for the LFPS sector is **PKR 542 billion** in Pakistan – PKR 425 billion one-off CAPEX and PKR 117 billion in annual reinvestment. To contextualise the scale, this requirement is almost the same as total gross loan portfolio of the entire microfinance sector amounting to **PKR 547 billion** as of December 2023[26], and 78% of the total SME outstanding loan portfolio of **PKR 691.0 billion** as of June 2025.

The objective of this mapping exercise is to determine how lending/bank credit from both microfinance and commercial banks can be provided to LFPS owners or education entrepreneurs for quality improvements and sustainable expansion. There

25 https://ieg.worldbankgroup.org/evaluations/evaluation-international-finance-corporation-investments-k-12-private-schools/chapter-2?
26 https://pmic.pk/wp-content/uploads/2024/06/02-final-annual-report-2023-4.pdf

is little private sector development research that analyses the LFPS sector from a MSME entrepreneurship perspective in Pakistan. Understanding risk and approaches to risk management are perhaps the central considerations for any lender. A variety of inter-related factors were highlighted during the research process and interviews with key stakeholders. Following are the some major risks and challenges that need to be considered.

Market Risk: Most education investable companies seek funding with little or no track record. There is also a lack of information about available lending opportunities in the education sector. While there has been a lot of activity in the microfinance and SME financing space, very few opportunities have materialized as actual credit to the education sector. This is largely due to the challenge of developing sustainable business models. Social entrepreneurs struggle to access finance and face capital that is inappropriately structured for their needs.

Enterprise Risk: It is often difficult for entrepreneurs that come from the social sector to run their organization as a true "business" or "enterprise" in order to ensure success. Limited capacity of potential borrowers will require substantial technical assistance and ongoing pre- and post-lending support.

Reporting Risk: In the event that the scale is reached, there is still a risk on account of low borrower capacity on reporting requirements by lenders that creates a level of uncertainty and reluctance for lenders in the absence of such transparency and data.

Screening/Due Diligence vs Loan Size Risk: Average loan size is expected to be very small for LFPS. Screening schools for loans might represent the largest challenges facing lenders, making due diligence costly resulting in a high cost of financing.

Financial Risk: Transparency and reliability of financial data, operational systems and governance structures across education enterprises varies and pose major concerns. For debt investments, the terms for loans are often not appropriate, as debt requires high collateral and debt in early stages can also be crippling, due to interest repayment. Education companies are often operating with multiple financial accounting records—one for tax purposes and another that is more accurate. In addition, the lack of collateral is a financial risk in itself for the lender.

Reputational Risk: There is not much choice in terms of legal recourse against an education facility as it poses significant reputational risk for lenders.

Box 3: Developing Effective Private Education Nigeria (DEEPEN)

Developing Effective Private Education Nigeria (DEEPEN), a UK aid programme in Lagos, Nigeria where 73% of children attend private primary school. One of the objectives of DEEPEN was to address the barriers to improving access to financial services and products enabling schools to secure the resources needed to invest in quality. A study on the impact of DEEPEN showed that access to credit for schools stimulated investment by them in school improvements as well as better record keeping and financial management. The area in which

DEEPEN focused its maximum attention was encouraging banks to lend to low-cost private schools, the majority of which are unregistered.

Accion Bank, a licensed micro-finance bank operating in Nigeria, developed a product aimed at low cost private schools as a result of DEEPEN, and this made it possible for a large number of schools to obtain a loan for the first time.

Finance for schools. This intervention connected schools and financial service providers, by first raising awareness amongst the latter of the scale and potential of this market. In 2018, 1,415 schools received short-term loans (loans with terms of less than one year), and 244 received long-term loans. The 2017 Logframe Survey found that in 2016/17, 7.2% of all schools and 6.5% of schools serving low-income households accessed long-terms loans. Accion Bank loans were designed keeping the characteristics of low- and medium-cost schools in mind. They were offered at a relatively affordable interest rate compared to the market as Accion managed to get subsidised credit from the Central Bank of Nigeria. The majority of loans (56%) were accessed by medium-fee schools, but 14% went to low cost schools. The loans provided were mostly short-term and are earmarked as asset or working capital loans.

Business development services. In addition, DEEPEN introduced a BDS intervention (human resource management, leadership, marketing/customer relations, school planning, management for profit, and the importance of record-keeping -understanding financial management, financial record-keeping), under the finance workstream. Lower-cost schools have rudimentary business and accounting practices, and the observation was that this limits schools' growth potential and access to finance, DEEPEN aimed to stimulate a market for business development and financial management services for schools, rather than intervene directly to provide training. This also included building the capacity of financial institutions to provide support to schools, and helping them develop relevant products. By June 2017, 373 schools had accessed one or more BDS trainings, of which 353 schools were serving low-income households.

The repayment schedule was modelled around the school year with repayments being linked to school teaching terms rather than fixed monthly payments. The interest rate was capped at a maximum of 9%, however some additional fees also applied. Two further products were also designed: 'My School Extra', and 'My SME Educational Loan'. The second scheme offers a slightly higher yet still subsidized rate, while the third scheme uses close to the standard market interest rate.

A key finding is this study is that this initiative of ACCION, in partnership with DEEPEN, has successfully extended loans to schools that most likely would not have succeeded in borrowing in the usual formal financial market. A large proportion of borrowers did not have any bank account at all (28%) or at least not in the name of the school (11%), while many do not keep formal financial records (57%). In addition, there were school proprietors that were actually operating in a loss that still managed to borrow, which could have been on the basis of the applicants' other, non-school-related income. At the same time, while nearly 24% of proprietors were late with at least one repayment, the fact that loans were ultimately repaid would indicate that the schools receiving loans were able to honour their obligations and may likely be viewed as a satisfactory credit risk from the lending FI's perspective. The average loan repayment duration for low fee schools is 8.4 months as compared to 9.5 months for high fee schools however shorter duration for low fee schools is compensated by lower average annual rate of interest for these schools. The average annual interest rate was 12.9% for low fee schools compared to 15.5% for high fee schools.

Source: Endline evaluation, 2018. https://iati.fcdo.gov.uk/iati_documents/46805486.pdf https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4364900#:~:text=Abstract,the%20standard%20market%20interest%20rate.

Options for Financing LFPS segment

This mapping study aims to develop options for financial product(s) and instrument(s) that would cater to the profile of LFPS enterprises, which are characterised by the absence of tangible collateral and the unavailability of documented financial information on the enterprise. The following options as funding sources for credit have been analysed based on the review of various models as presented in this report.

Commercial Banks:
Advantages:
- There are significant amounts of liquidity and risk capital available.
- Banks have a large and extensive distribution network available to source deals from all over the country.
- They are increasing focus on SME finance, largely driven by growth of digital finance channels of distribution.
- Banks have strong institutional capacity for investment due diligence, structuring and executing credit and equity investment transactions.
- Banks have robust regulatory frameworks for the banking sector.

Weaknesses:
- Banks have a limited appetite for very small transactions.
- They have a low risk appetite for seed and early stage venture with no track record or collateral.
- Their product focus is mainly on short-term lending instruments.
- Their target market includes mature companies with established business models and track record of positive EBIDTA.
- Banks typically do not focus on social sector.

Microfinance Banks and Institutions:
Advantages:
- MFBs and MFIs have a large and extensive distribution network to solicit deals and transactions from all over the country.
- They have a significant risk appetite for collateral-free lending.
- They are focused on micro and small enterprises (normally un-registered entities).

Weaknesses:
- MFBs and MFIs have lower (than commercial banks) levels of capital and liquidity.
- Their product focus is only on short-term (one year or less) lending products.

Box 4: Indian School Finance Company (ISFC)

Established in 2008, ISFC is a Investment and Credit Company (NBFC-ICC) registered with Reserve Bank of India (RBI). It extends working capital and medium-term loans at market rates to low-cost private educational institutions across India. The loans are primarily used for infrastructure investment, which results in an increase in enrollment, growth in school revenue and improved ability to repay loan obligations. To date, around 2,000 schools and colleges have borrowed from ISFC. Gray Ghost Ventures, an impact investor in equity and focus on early-stage enterprises located in emerging markets invested USD 6 million in ISFC in equity. ISFC has also recently issued a corporate bond.

Donor funded Debt Capital in an Intermediary: While donors can support low cost private schools through direct grants, the scale of such interventions would most likely be limited, particularly given challenges on the ground with regards to access to sufficient information and ability to assess the sustainability of schools. At the same time, there is potential for donors to support a market based approach in which school owners are vested in improving the quality and scale of education provision tied to microfinance loans. In particular, donors can play an important role in resolving the liquidity constraints faced by MFPs to lend at higher loan amounts to this target group.

World Bank and FCDO are the largest DFIs for education sector in Pakistan. However, historical focus has been on government budgetary support rather than on encouraging private sector growth in the ducation sector. Leveraging new debt products such as **Programme-Based Lending Model** developed for low cost private schools, DFIs could play a role in providing the wholesale debt capital to Commercial Banks/Microfinance Banks portfolio. Alternatively, the financial intermediary could potentially be a specialist lender with a school-loan window on Indian School Finance Company model that investors/DFIs/Donors can help establish. Donor commitment in terms of providing long-term capital to banks to take exposure on the LFPS sector would not only incentivize investments in this sector by mitigating intermediary's risk, it will also demonstrate that LFPS are investable enterprises and can take the market-based lending approach to scale. The role of the government needs to be established here as this is essentially a market-based financing mechanism.

Donors could play a role and can support the government or a financial institution with **Non Funded Exposure in Guarantee.** A new framework could be developed, perhaps an "Education Guarantee", leveraging the success of previous guarantee scheme implemented by SBP to encourage commercial banks and microfinance banks to provide loans to SMEs. This will serve the dual objective of mitigating lenders' risk and presenting an alternative to donors with an alternative to direct lending.

Another important intervention would be a TA Facility across suggested investment structures. Most education providers remain fundamentally weak in their financial and managerial capacities with rudimentary educational delivery mechanisms largely due to limited exposure to education best practices. A separate financing (grant money) for technical assistance in order to build capacity of the participating schools. The TA facility may be called upon as necessary to enhance the impact of the investments, providing portfolio companies with a wide range of management support services, financial advisory services and other business development support to nurture these companies beyond financial support on the lines of interventions supported by DEEPEN.

Financial institutions view on taking exposure on education sector

There are numerous barriers to financial inclusion both on the supply and demand sides. On the supply side, the high costs of handling smaller loans, especially in physically remote areas, together with information asymmetries and a lack of documentation and collateral, deter financial institutions from extending financial services to lower end of the market. Moreover, "access" does not mean any kind of access, but implies access at reasonable cost and with accompanying safeguards, such as adequate regulation, which is non-existent on financial services for the education sectors. Additionally, a key question would be on the extent to which the government should and can subsidize such services or intervene in the market. Supply-side barriers reflect limitations on the capacity or willingness of the financial sector to extend financial services to SMEs and even lower end of the market such as LFPS. These can be categorized as market-driven factors, regulatory factors, and infrastructure limitations as summarized below:

- Market-driven factors include aspects such as relatively high maintenance costs associated with small loans, high costs associated with providing financial services in small towns or rural areas, lack of credit data or usable collateral, and lack of convenient access points. Further, the lack of credit data and reliable financial records worsens the problem of information asymmetry that discourages banks from lending.
- Regulatory factors include capital adequacy and supervisory rules that may limit the attractiveness of small loans, or other financial products for financial institutions. Identification and other documentation requirements are important both with respect to know-your-client requirements and monitoring. Regulatory requirements need to be calibrated to be commensurate with the systemic financial risks and the trade-off of financial stability with greater financial inclusion.
- Infrastructure-related barriers include lack of access to secure and reliable payments and settlement systems, the availability of physical bank branches or ATMs for repayments could pose particular problems for LFPS in remote areas.

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.

Table 7: 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 (often household-run). • Highly volatile enrolment and fee recovery.	• No reliable cash-flow visibility. • No enforceable security. • High mortality risk. • Debt would increase fragility, not growth.	No commercial debt. Instead, focus could be on capability-building and risk reduction: • Formalisation support: Registration and formal legal entity, school level bank account opening. • Basic compliance: Simple bookkeeping templates, fee registers & payroll tracking, attendance-linked fee monitoring. • Targeted, non-debt upgrades: 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:
			  o Classrooms furniture.
			  o Science / computer labs.
			  o School vans.
			  o Solar solutions.
			• Leasing / rent-to-own:
			  o Equipment leasing with ownership transfer.
			  o Lower upfront risk for lender.
			• Academic calendar–aligned repayment:
			  o Quarterly or biannual instalments.
			  o Grace periods during summer breaks.
			  o Balloon repayments after admissions season.
			• Revenue-linked safeguards:
			  o Enrolment thresholds triggering restructuring.
			  o Fee escrow or controlled collection accounts.
				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.
		• Predictable fee income.
		• Management depth beyond owner.
		• Track record of surplus generation.
			Commercial lending, guarantees or risk-sharing mechanisms:
			1. Term loans:
			  o Campus expansion.
			  o New branches.
			2. Portfolio / programmatic lending:
			  o School chains or networks.
			  o Credit scoring using enrolment, fee trends.
				To enable scaling and consolidation of quality providers by targeting this tier as low-hanging fruits.

	• Partial land/building ownership or long-term leases.	• Capacity to absorb financial shocks.	o Reduced transaction costs for lenders. 3. Working capital lines: o Short-term liquidity.	

Section-B: Low Fees Private Schools & A2F in Punjab

Chapter 4: Low Fees Private Schools in Punjab

Institutional set up in public sector

School Education Department

The School Education Department (SED) of Punjab runs over 48,000 public schools in all 36 districts of Punjab, employing over 400,000 teachers and enrolling over 11.8 million students from *katchi* (pre-primary) to Grade 10—nearly half of which are girls.[27] The Government of Punjab (GoPb) focus remains on primary education as 71% of the public schools in Punjab are primary schools and over a quarter of total schools in middle and secondary/high level. Enrolment follow the same trend across education levels. In terms of geographical presence, 91% of the primary public schools are in rural Punjab and 88% of the total public schools (primary to higher secondary) in the rural areas of the province.[28]

Registration of private schools is handled via an online portal called PEPRIS (Private Education Provider Registration & Information System), run by PITB (Punjab Information Technology Board) in coordination with School Education Department. It was noted during field work that the only benefit for registering with PEPRIS is for the registration for board exams.

Punjab Education Foundation

In Punjab, through SED, the government currently supports over 2.6 million children enrolled in over 7,300 LFPS under various schemes administered by the Punjab Education Foundation (PEF).[29] It was established in 1991 and made autonomous under the Punjab Education Foundation Act 2004 to enable poor households to access private education and a minimum level of quality. PEF serves as the primary institutional mechanism for education PPPs in Punjab. PEF has three core programmes on PPP model through which it supports education delivery: Foundation Assisted Schools (FAS), Education Voucher Scheme (EVS), and New School Programme (NSP). The largest programme is FAS with an enrolment of 1.8 million children, followed by EVS with 0.5 million and NSP at 291,601 children.[30] These programmes have provisions for uniform and reliable testing of student academic progress. Moreover, the government expects to hold private schools accountable for meeting contract terms under these programmes. In cases where a school fails to

[27] Annual School Census 2021-22. SED, Government of Punjab. https://www.pesrp.edu.pk/annual-school-census/
[28] Pakistan Education Statistics (PES) 2020-21.
[29] PEF Annual Report 2022. Punjab Education Foundation. http://www.pef.edu.pk/pdf/PEFreports/ANNUAL%20REPORT%202022.pdf
[30] PEF Annual Report 2022. Punjab Education Foundation. http://www.pef.edu.pk/pdf/PEFreports/ANNUAL%20REPORT%202022.pdf

meet this threshold twice, partnership with PEF is discontinued. This independent audit mechanism has led to significant improvements in the partner schools of PEF.

Punjab Education Initiatives Management Authority

Established under the Punjab Education Initiatives Management Authority (PEIMA) Ordinance 2017 and later replaced by the Punjab Education Initiatives Management Authority Act 2018, PEIMA enables SED to collaborate with non-governmental organizations or private entities for public-private partnership initiatives in education. The goal is to effectively leverage private sector's capabilities to achieve educational objectives of Government of Punjab. The Act allows the government to engage with private sector in various activities, including providing financial assistance, improving, managing, and expanding public sector educational institutions, and seeking technical assistance for innovative education programs, testing, and ranking public educational institutions. The only programme currently under PEIMA is the Public Schools Support Programme (PSSP), which was launched by PEF in 2015 and handed over to PEIMA in 2018. SED has contracted out management and operations of 4,200 public schools to the private sector partners under PSSP with 600,000 children currently under this programme.

District Education Authorities

Schools are regulated and registered with the District Registering Authorities (DRAs), which operates under the direct chairmanship of the Deputy Commissioner. Concerned CEO serves as the Secretary to the DRA. District Education Authorities (DEA) coordinate on a local level to facilitate smooth implementation, troubleshoot issues, and ensure that PPP initiatives align with local needs and priorities. The administrative and compliance requirements for private schools, regardless of their fee structure, are enforced by the District Registering Authorities (DRAs). The fundamental compliance requirements for initial and renewal registration on PEPRIS system are the provision of owner's basic information, a certified Building Fitness Certificate, and a Hygiene Certificate, along with adherence to any supplementary directives issued periodically by the School Education Department (SED).

In addition to the above, private sector schools are also represented by associations, that engage with the government on issues related to private schools in the province.

Regulatory framework

Private sector schools, including LFPS, operate under provincial private school regulatory framework, the Punjab Private Educational Institutions (Promotion & Regulation) Ordinance, 1984 (as amended 2015 & 2017). This as a key legal instrument that requires private institutions to register with the “Registering Authority” within 45 days and the Authority to decide within 60 days.

Registration: The registration must be renewed (via PEPRIS) and schools are issued an e-License once they complete the necessary submission of documents and fees. Done manually, when a private school submit the registration form to DEA, DEA notifies a committee to physically verify the provided information. This committee usually has a member from Private school Association and DEA officials. LFPS must register via the portal, secure an e license and comply with the regulatory framework in Punjab.

Compliance/monitoring requirements: Private schools must display their registration status, and required to upload data into PEPRIS (school profile, fees, etc). Recently stricter criteria have been introduced for registration (e.g. building fitness certificate, hygiene certificate) for private schools in Punjab. Compliance burden (registration, renewal, data uploads, building/hygiene certifications) may be higher for smaller schools (including LFPS) and may require resources/time.

Increase in Fees: Schools are subject to regulation of fees – 2015 ordinance stipulated that private schools cannot charge higher fees in the academic year 2015-16 than what they charged in 2014-15 without prior approval. In Punjab, private schools are generally capped at a 5% annual fee increase, as per the 2017 Ordinance, for schools charging above a certain threshold (around PKR 4000/month), but they can apply for more (up to 8%) with justification to authorities. The fact that fee regulation exists means that LFPS cannot arbitrarily raise fees; this has relevance for their business model.

Parents often face issues with non-compliance by schools including hefty demands for textbooks/uniforms, and general lack of enforcement on fees increaments, leading to parental complaints and court interventions, though regulations exist to keep fees reasonable and education accessible. Government warns against seeking additional funds from parents, forcing them to buy *uniforms* and *books* from specific shops and has banned supplement revenue for private schools.

Regulatory constraints

Regulatory and political economy factors that affect LFPS bankability such as uncertainty around fee regulation and periodic court interventions introduce risks that are often more significant for lenders than school-level performance. This regulatory inconsistency needs to be addressed in order to facilitate and provide an enabling environment for A2F for both, schools and financial institutions.

The key constraint, and the most painful for LFPS owners, was noted to be the Local Government rule of charging schools per sqft at Assistant Education Officer (AEO) level according to Local Government (LG) rules. Additionally, LFPS are considered as commercial ventures and charged commercial utilities rates without any differentiation between large, small, elite, mid scale or LFPS. For a new school, utility bills are crippling with commercial meters charges by WASA Lahore on the basis of per child cost. LFPS also face charges for participating in the board exams. Most LFPS face these multiple issues that make them financially non-viable.

Additionally, taxes depend on area (10 marla schools for primary, 1 kanal for secondary), which is seen as a financial burden given schools with lower fee brackets often consider their business also as a social service for which they consider taxation criteria similar to any commercial venture as unjustified.

Private Sector Schools

Scale

Challenges in public schooling system have fuelled a vibrant and growing market in private education in Punjab, particularly in the last three decades. Currently, a total of 42,633 private schools are listed on PEPRIS in Punjab, with only 29,792 active registrations. The number, however, does not depict the true picture. Based on PEPRIS's own preceding data sets and various external estimates, the projected number of operational private schools across Punjab is conservatively estimated to be approximately 55,000[31]. At 46.5% of enrollment in private sector to be applied to Punjab, there are 8.5 million children studying in private schools[32].

In the last 25 years, private schools in Punjab have increased three-fold, and interestingly, the majority of new private schools opened up in rural areas[33]. Private schools concentration seems to be more evident where teachers are available, and fees are lower. The balance between urban and rural is not skewed towards urban and has 60% of the schools in rural areas, however half of the high schools in private sector are in urban areas of the province.[34] In terms of large cities, 82 % of all schools in Lahore are privately run, similarly 70 % of the schools are private in Gujranwala district, while the percentage is 65 % in Multan, 61% in Mandi Bahauddin and 57% in Narowal[35]. This indicates strong concentration of private (and by implication many low-fee) schools in large urban centers/districts.

Defining LFPS

There is currently no separate, explicit regulatory classification for LFPS in Punjab. Schools are categorized solely by level (e.g. Primary, Middle, Secondary). The Lahore High Court (LHC) has consistently ruled on private school fees, especially regarding summer vacations, directing schools to charge fees monthly and not in advance for the whole break. Some courts have even capped increases or suggested waivers. Private schools still pressurize parents, leading to ongoing legal battles and CJP intervention against "exploitation," with specific fee thresholds such as monthly fee of less than PKR 4,000 often considered in context of fairness and affordability. This direction was given when a case regarding school fees in summer vacations was under hearing in High court. Inferring from this, we can assume that schools charging less than this threshold in Punjab can be categorized as LFPS.

LFPS and private schools associations have demanded that LFPS is recognized a separate category within private schooling system and given incentives to opperate in a sustainable manner. There is also a case for LFPS where they can be categorized as

[31] Field team data
[32] PES 2022-23
[33] Busting the Myth that Private Schools are Only for the Elite in Pakistan, RISE Programme, 2021. https://riseprogramme.org/blog/busting-myth-private-schools-elite-pakistan.html
[34] Pakistan Education Statistics (PES) 2020-21.
[35] Field team data

MSME, particularly as "education services" or "social enterprise". They are privately owned, mostly sole proprietorships, revenue-generating, even if its primary mission is educational. It typically has a limited number of employees (teachers, staff) and operates within a restricted revenue bracket. It requires financial management, compliance, and sustainability strategies similar to other small businesses.

Key features in LFPS in Punjab

Most features of an LFPS are common across provinces of Pakistan. Previous sections have covered the generic business model of LFPS comprehensively. This section elaborates on the specific information on LFPS operating model collected during the field data collection phase, including interviews with LFPS chains in Punjab.

Operating Model: LFPS generally follow a low-margin, high-volume business model built almost entirely on monthly tuition fees. Schools rely heavily on maintaining a baseline enrolment that allows them to cover salary, rent, and utility expenditures—usually comprising over 80% of total operating costs.

Profit margins remain thin, typically within the 10–20% range, and many schools operate close to break-even during low-admission months. Many LFPS purposely keep their fees low to make themselves accessible to lower income households. Because fees are low, schools keep other costs low (teacher salaries below those of government schools, limited facilities) to make the model viable.

Fee structure: Fee structures range largely between PKR 800 and PKR 4,500 per month, with some reaching PKR 6,000–7,000 indicating that even modest enrolment levels place these institutions well within the annual revenue thresholds defined for micro and small enterprises by SMEDA and SBP. The majority of LFPS operate within a tuition band of PKR 1,000–2,500 per month for primary classes, reflecting the low-fee nature of these institutions and their reliance on volume rather than premium pricing. For middle grades, fees typically increase modestly, most commonly falling between PKR 1,500 and PKR 3,000, while secondary grades (particularly Classes 9 and 10) exhibit slightly higher fee points, generally ranging from PKR 2,000 to PKR 3,500. A smaller group of mid-tier private school chains and branded networks charge higher tuition—often between PKR 3,500 and PKR 7,000 across all grade levels—yet these schools still fall within the broader low-cost or lower-middle-fee segment when compared to mainstream private school markets. Overall, the fee patterns evident in the dataset collected from the field align closely with national research on low-cost private education in Pakistan, demonstrating that LFPS maintain narrow fee differentials across levels and prioritize accessibility, thereby reinforcing their role as affordable micro- and small-scale education providers.

Table 8: Fee structure of selected large LFPS chains in Punjab

School Name	Primary	Elementary	Secondary
Unique Schools System	7500	7000	7000
Allied School	3700	3700	3700
Educators	4200	4200	4600

Dar-e-Arqam	5500	5500	6500
Smart School System	2500	2500	2500
Siddique Public School	8000	8000	8000
Mera Qalam School system (Rural)	700	900	1000
Orion Public school (Rural)	600	1000	1500

Source: Field Data collection

Admission fees, annual subscription fees and Security Fees are separate. Schools which are established in suburbs have comparatively low fees than the branch network schools. Their fees range from 700 to 1500 PKR per month.

In Punjab, underprivileged students benefit from government mandates requiring private schools to offer 10% free seats (under Private Schools Ordinance 2014). Most LFPS were found to adhere to this and some even above 10% of enrolment as non-payment students.

Enrolment: LFPS as institutions enrol on average between 150 and 250 students. This range is not empirically supported but financially coherent given the low-fee levels, LFPS must maintain a minimum enrolment base of well over one hundred students to meet recurring salary, rent, and utility obligations.

Infrastructure: LFPS typically operate with low capital intensity; most function in rented buildings, maintain limited physical assets, and rely almost entirely on monthly fee income. The asset base of LFPS is minimal and invest only incrementally in furniture, minor renovations, or essential teaching materials.

Infrastructure across LFPS sector is generally modest and functional, reflecting their low-capital operating model and the financial constraints associated with affordable tuition levels. Most LFPS operate in rented residential or commercial buildings, typically comprising a basic set of 6–12 classrooms, a small administrative office, and minimal auxiliary spaces. Classroom furniture is usually simple and locally procured, while dedicated facilities such as science labs, libraries, ICT rooms, or playgrounds are present inconsistently and often in rudimentary form. Many schools rely on shared or multipurpose spaces for assemblies, indoor activities, or examinations. The infrastructure patterns seen in the dataset's schools align closely with these trends, reinforcing the sector's dependence on low-cost premises, multipurpose spaces, and incremental upgrades funded from operational surpluses rather than upfront capital investment.

Staffing: LFPS operate with lean staffing arrangements, typically employing between 8 and 15 teachers depending on enrolment size and the range of classes offered. Smaller community-based schools, particularly those offering only primary grades, usually staff 6 to 10 teachers, reflecting both modest enrolment and the need to manage costs within low-fee revenue constraints. Schools offering middle and secondary classes tend to employ 12 to 18 teachers, with additional subject specialists required for science, mathematics, and optional subjects at the upper grade levels. These staffing patterns are financially coherent when viewed alongside the tuition fee.

Teachers Salary: Teacher compensation in LFPS reflects the financial constraints inherent in low-fee service models. Across Pakistan, LFPS typically offer salaries that range from **PKR 12,000 to PKR 20,000** for primary-level teachers, with slightly higher remuneration of **PKR 18,000 to PKR 30,000** for subject specialists teaching middle and secondary grades. Coordinators or senior teachers may receive marginally higher pay, but salary scales generally remain significantly below those of the public sector or premium private institutions. These patterns are well-documented in national education research and correspond with the fee structures observed in the dataset, underscoring the labour-intensive yet low-margin nature of LFPS operations.

Banking/fee collection: The overwhelming majority of LFPS rely on cash-based fee collection, a practice shaped by parental convenience, cultural preferences, and the informality of school financial systems. While some mid-tier private school networks offer bank deposit slips or digital payment options, these mechanisms remain the exception rather than the norm across the affordable private school landscape. The predominance of cash transactions also reflects broader sectoral challenges, including limited financial reporting capacity, lack of bank integration, and the operational simplicity of manual record-keeping. As a result, LFPS typically process monthly revenue physically at the school premises, reinforcing their identity as low-capital, community-anchored service enterprises. For the benefits accorded to tax filer, most LFPS are tax filers and maintain mostly individual bank accounts, not in the name of institution. However, these banking channels are rarely used for fee collection.

Working capital needs of an average LFPS: LFPS incur predictable monthly operating costs centred on teacher salaries, which typically consume largest portion of the budget. Additional recurring expenses include facility rent, utilities, cleaning, teaching materials, examination printing, and minor maintenance. Given the low fee levels and high share of salary expenditure, LFPS must maintain disciplined working capital management to ensure timely payment of staff and continuity of operations. These recurring financial responsibilities illustrate the fragile yet consistent cashflow profile of LFPS as micro-scale service enterprises dependent on stable enrolment and punctual fee collection.

Recently, LHC has directed all private schools to arrange for private transport/school operated transport facility for atleast 70% of its students. If made mandatory, this will wipe off many low tier LFPS because it will be impossible for them to procure the same. A substantial number of students enrolled in these schools cannot afford extra burden of school transport every month, and the schools also lack capital investment required to start such a system. Any financing product which is offered can not suffice in provision of this particular facility without sunsequent revenue attached to it for schools. Additionally, transport is not viable as most LFPS are located in small congested areas where buses or vans might not be feasible to operate.

Chapter 5: Access to Finance for LFPS in Punjab

Consistent with sector-wide findings, a significant proportion of LFPS manages finances through cash-based transactions, with a substantial share maintaining limited or individual or inactive bank accounts due to informality, documentation barriers, and low financial literacy. These characteristics collectively align LFPS with micro- to small-scale enterprises that emphasize operational continuity over capital accumulation.

Most small, independently run LFPS especially non-partner schools outside PEF programmes, operate on low margins and face working-capital and CAPEX constraints (limited collateral, costly credit), administrative/compliance burdens (paperwork, inspections), fee-cap uncertainty, and teacher quality pressures (low pay, turnover, limited CPD). Facility gaps (WASH, safety, ventilation/labs) and vulnerability to shocks (inflation, closures, local disruptions) exacerbate cash-flow risk.

Funding Requirements

Start-up cost: The start-up costs for establishing an LFPS are modest compared to other enterprises, mainly due to the reliance on rented space and low-cost materials. Typical initial expenses include basic classroom furniture, whiteboards, minor renovations, signage, and administrative setup. Start-up capital also covers initial marketing or community outreach to attract enrolment. Consistent with sectoral evidence, these costs generally fall within a limited range that allows small proprietors, families, or educational entrepreneurs to enter the market without substantial capital buildup. This accessibility contributes to the widespread proliferation of LFPS across urban and peri-urban areas.

OPEX and CAPEX: LFPS have predictable and recurring working capital requirements (operating expenses or OPEX), primarily driven by monthly salary obligations, rent, utilities, and essential school supplies. These expenses, which constitute the bulk of operating costs, necessitate a steady and dependable stream of fee income. LFPS commonly seek investment for **incremental improvements** rather than large-scale infrastructure projects. Typical investment requirements include classroom expansion, furniture replacement, establishment or upgrading of small science and computer labs, enhancement of learning resources, and basic safety or compliance upgrades such as CCTV, fire extinguishers, and boundary wall repairs.

Given the modest revenue base and profit margins, such capital improvements are usually financed gradually, through surplus income, informal borrowing, or external support programs. Overall, LFPS maintain a financial profile characteristic of micro-enterprises – consistent but low-value cashflows, limited reserves, and periodic small-scale investment needs.

According to a World Bank policy brief, based on a survey in Punjab, two-thirds of school-owners wanted to borrow to improve their schools, but only 2% actually had school-related loans.[36] As per data collected from the field, LFPS are most desirous to upgrade/install IT equipment with MFI/CB financing. This includes desktop computers, tablets and smart whiteboards/basic IT enabled teaching aids. As per the private schools associations, basic IT equipment and teaching aids make an LFPS attractive for low-income families and is key for upgradation and sustained financial viability of an LFPS.

For the school owners operating on owned premises which is very less and around 10% of LFPS, building improvement and renovation costs are also significant and LFPS owners have shown interest in using any additional funds beyond operational needs to finance those, especially if these additional and improvements can increase capacity of the school to enrol more students and inturn more revenue.

Key constraints and barriers to access finance for LFPS

LFPS consistently face structural and behavioural constraints when attempting to access formal credit, which limits their participation in Pakistan's financial sector. The multiple barriers to accessing formal bank credit by LFPS include:

- Prevalence of **interest-based financing**, which many school owners consider religiously unsuitable, particularly in cases where Islamic financing alternatives are either unavailable or offered with stringent collateral requirements.

- **High interest rates** across microfinance and SME lending further deter schools operating on thin margins and unpredictable cashflows.

- **Extensive documentation requirements**, including proof of business registration, bank statements, tax returns, and valid tenancy agreements pose an additional hurdle. Many LFPS lack formal financial statements or active business bank accounts, making it difficult to meet banks' due-diligence or credit assessment requirements. As a result, LFPS remain largely excluded from formal financing channels and continue to rely on informal borrowing or self-funded incremental growth.

- **Lack of collateral** due to rented premises especially for larger loans. Collateral expectations by financial institutions are often unattainable for that reason.

- **Limited understanding and awareness of financial/loan products and financial literacy**. Many school proprietors are unfamiliar with credit processes, lack banking relationships, or assume that formal loans are inaccessible to education providers.

- Limited and primarily **non-existent government support** in terms of incentives to access formal bank credit for schools.

[36] https://documents1.worldbank.org/curated/en/353001560873141888/pdf/Pakistan-Whats-the-Best-Way-to-Invest-in-Private-Schools.pdf

Combined, the above constraints create a cycle of exclusion in which LFPS remain dependent on informal financing and unable to leverage institutional credit for expansion or quality improvements. There are other findings from the field as well that may create a disincentive for LFPS to access formal bank credit. LFPS have no incentive to avail financing from banks or MFIs or even shariah compliant banks for smart equipment such as TV screens and computer, which is availabile on equal installments on zero interest in the market. Similarly, solar equipment is now also offered on a 3 year loan but LFPS were interested if the loans were made available at interest rates lower than 5-6%; and only those would be able to avail that own premises.

LFPS showed interest to explore financing and loan products if available on terms easier than a traditional loan product in terms of collateral and interest rates.

Existing funding sources for LFPS

As mentioned earlier, funding for LFPS is predominantly self-generated or informally sourced. Owners commonly rely on personal savings, reinvested profits, or short-term loans from family and friends to meet operating or investment needs. Access to formal financing remains limited; only a minority of LFPS engage with microfinance institutions, and an even smaller share obtains loans from conventional banks due to concerns about interest-based products, complex documentation requirements, and collateral constraints. Philanthropic donations are infrequent and typically associated only with mission-driven or NGO-linked school systems rather than mainstream LFPS. This funding landscape reinforces the sector's informal, community-anchored character.

Financial institutions in Pakistan including microfinance banks (MFBs), microfinance institutions (MFIs), and commercial banks do not generally offer dedicated loan products exclusively tailored for Low-Fee Private Schools (LFPS). Organizations such as Kashf Foundation, Taleem Finance Company, SAFCO Microfinance Company, and Akhuwat have historically extended financing to schools through products positioned under education enterprise loans, yet even these offerings tend to apply standard microenterprise terms related to loan size, tenor, documentation, and repayment schedules.

Larger financial entities including Bank of Punjab (BoP), Mobilink Microfinance Bank, JS Bank Limited, and other microfinance banks categorize LFPS within their MSME portfolio, applying general business loan conditions rather than sector-specific instruments. As a result, despite serving a large and socially significant segment, LFPS do not benefit from bespoke lending solutions designed around their unique cashflow cycles, seasonal fee collection patterns, or investment needs, and instead operate under the conventional frameworks used for micro and small enterprises.

Government of Punjab has initiated multple schemes such as "*Asan Karobar*" with 2-tier 5 year loans – Tier 1 as non-collaterlized and low interest loans (3%) and Tier-2 as conventional loans for MSMEs. These were not schools specific, however some schools did borrow under this facility. Another financing facility is routed through Bank of Punjab (BoP) and initiated in 2025 with PKR 30 billion in Phase 1, all of which has been disbursed with the size of individual loans of PKR 5-30 million. Subsequent to the successful uptake of Phase 1, Government of Punjab has recently launched Phase 2 of this facility with PKR 75 billion, of which PKR 10 billion has already been disbursed by BoP. BoP charges market based interest rates on these loans, which are absorbed by the Government of Punjab. This is a sector agnostic facility, however, some borrowers have been from education sector.

Despite these interventions by Government of Punjab, one needs to consider fiscal realism and risk appetite by the government to take on off-budget exposure on sector specific lending by commercial banks and MFIs. As discussed at length under Education Financing in Pakistan/Public Financing section earlier in this report, provincial fiscal space is limited and Punjab's education budget is heavily weighted toward recurrent expenditure. This leaves limited room for contingent liabilities, particularly those that are difficult to cap or quantify. Perhaps governments's key role envisaged in the larger ecosystem is that of an enabler for mobilising private capital.
The extent to which Government of Punjab can play an active role in guarantees or risk-sharing arrangements needs to be discussed and understood carefully with key stakeholders in Government of Punjab. This is reflected in the recommendations section below.

Specific lending products, financial-education support program for LFPS

Kashf Foundation – School *Sarmaya* programme[37]

- The "Kashf School Sarmaya" initiative provided loans/credit plus capacity building to low-cost private schools (LCPS) in Pakistan.
- Criteria included schools charging low fees, being operational for a year, and a certain enrolment thresholds.
- While not strictly limited to Punjab, it was limited to semi-urban and urban markets, potentially excluding rural schools that may have greater needs
- The programme have served over 2,253 low-cost private schools, trained more than 34,348 teachers and 11,779 school owners, and impacted over 788,550 students.

Pakistan Microfinance Investment Company (PMIC) – Education Quality Program[38]

- PMIC has committed to providing financial services to low-cost private schools, along with capacity building of school-owners and teachers. It is a a three-year programme launched in 2022 and initiated in 2023 to enhance quality education in southern Punjab.
- The objective is to provide quality education trainings to 150 Low-Cost Private Schools (LCPS) in Southern Punjab.
- Currently 163 schools are enrolled in this training program.
- The financing part of this initiative is not rolled out as found from desk review.

[37] https://www.unesco.org/en/dtc-financing-toolkit/kashf-school-sarmaya
[38] https://pmic.pk/wp-content/uploads/2025/07/connectreportnov2024.pdf

Karandaaz Pakistan & PEF / Bank of Punjab partnership – Financial literacy initiative[39]

- Launched more recently in 2025, this is more of a financial-education support program (for students/teachers) than direct credit to LFPS, but helps build capacity around financial management, which is part of "finance access" framework.
- The initiative would impart financial literacy to over 100,000 students. Nearly 2,000 teachers and 25 master trainers will be trained to deliver financial education sessions across 1,000 PEF schools in the pilot phase.
- PEF is already providing financial support to private schools under its 3 programs. Due to budget limitations PEF is not registering more schools for financial support. If PEF has donor support it can register more schools under already running program or PEF can launch a new program to support more schools for financial aid.

Akhuwat – Euip a School Facility

- Akhuwat, a zero-interest microfinance and lending institution launched pilot of "Equip a School" product.
- This facility was small scale lending for indivisual schools to purchase lab equipment, furniture etc worth PKR 100,000-200,000.
- Lending was made to 5-10 schools, however this facility was discontinued as Akhuwat had issues with financing this facility with own resources.
- It was noted during the interview that Akhuwat is interested to re-launch this product if funding is made available from external resources such as government or donor funds.

There are a number of financial-products available in Pakistan. While, some have been specifically tailored for schools, others are broader SME loans. Below is a table summarizing key products, their terms, and relevant conditions:

Table 9: Financial Instruments available in Pakistan

Provider	Product	Loan / Usage Purpose	Loan Size / Range	Interest / Mark-up Rate	Conditions / Notes
Taleem Finance Company	Taleem School Sarmaya (TSS)	Working Capital (salaries, utilities, supplies)	PKR 50,000 – 5,000,000	~15%	Tailored to schools; easy for school-owners; repeated loans; risk-sharing model.
	Taleem School Asasah	CAPEX / Fixed Assets	PKR 2,000,000 – 5,000,000	~15%	For infrastructure and school

[39] https://netmag.pk/2025/07/03/pef-karandaaz-bop-launch-financial-literacy-in-punjab-schools

		(furniture, building, labs)			asset investments.
Mobilink Microfinance Bank	School Loan	Working capital + fixed assets	PKR 500,000 – 5,000,000	~34.00%	Requires collateral or guarantee; works with Opportunity EduFinance; can be used for both salary and investment.
Kashf Foundation	Kashf School Sarmaya	School investment + capacity building	PKR 80,000 – up to 500,000 (repeat)	~20-22% (typical MFI-style)	Targeted to LFPS; includes training, teacher / management development; school must meet enrollment and minimum fee criteria.
Akhuwat Foundation	Interest-Free Micro Loan	Working capital or small investments	Varies (micro-enterprise level)	0% (Qarz-e-Hasna)	No interest; flexible; moral/social funding; good for small LFPS without collateral.
U Bank	Sarmaya-e-Taleem	Infrastructure, assets, expansion	PKR 100,001 – 3,000,000	It depends on product but typically more than 35%	Hypothecation of school assets; used for building renovation, furniture, lab purchases

Chapter 6: Recommendations for Access to Finance in Punjab

Policy Options

LFPS are crucial for supporting government education objectives by filling capacity gaps, offering quality in some cases, accessible education for low-income families, and reducing the financial burden on the state. They improve overall literacy rates and support initiatives like girls' education, especially in underserved areas. Prioritizing LFPS financing as a policy option acknowledges its role in larger education system given its footptint across Pakistan. LFPS finance can serve as a tool for system stability and cost containment given the limited fiscal space within public sector. Policy options for both supply and demand side are given below:

- The frameworks for private sector schooling such as the Punjab Private Educational Institutions (Promotion & Regulation) Ordinance, 1984 (as amended 2015 & 2017) and PEPRIS govern registration, renewal, fee notifications, and compliance standards. However, they provide limited institutional support for access to finance or capacity development. There needs to be a provision within these frameworks that provides an enabling environment for access to finance for private schools to enhance financial sustainability and quality. This may include regulatory regime that also affects LFPS bankability such as uncertainty around fee regulation to mitigate risks not only for LFPS but largely for lenders looking to take exosure on education sector.

- Supply-led subsidized microcredit programs do not always provide a conducive environment for sustainable microfinance providers to operate, and that the government should shift resources from subsidized program credits to capacity building of existing commercial banks and MFIs for expanded outreach and their sustainability. Government of Punjab, through SED and in collaboration with SBP, to introduce technical assistance programm for financial institutions to understand the sector better and its specific requirements, ahead of designing any financial products targtetted towards education sector.

- Given the scale of private sector participation and growth in recent years, especially in low-cost private schooling, its imperative that LFPS is defined and recognized a separate category within private schooling system. Defining LFPS and recognizing the role it can play in providing access, equity and quality, could potentially support the government to direct its interventions and incentives to this segment of private schooling system in Punjab.

- Incentives targeted for LFPS to opperate in a sustainable manner to include taxation relaxation, recognizing it as social service enterprise and apply domestic instead of commercial rates for utilities.

- Make PEPRIS registration useful as a source of information available on private schools. It was noted during field work that the only benefit for registering with PEPRIS is for the registration for board exams. Additionally, consider more information on schools at registration time and as required to update. Such information could be useful for lenders e.g. enrolment trend, fee receipt proxy, compliance status, location risk. Governance of data access would be critical to ensure schools willingly provide this information.

Institutional Pathways

- SED can play significant role in providing frameworks for institutional engagement for public sector. This could include guidelines for PPEI authorities, public sector banks in Punjab.

- SED to also engage with SBP to enhance A2F for private education sector and a preferred financial institution could be Bank of Punjab (BoP) for roll out of education specific loans.

- Public private partnership (PPP) programmes, notably through the Punjab Education Foundation (PEF) and related programmes such as PEIMA, offer per-child subsidies and quality assurance mechanisms for participating schools. However, these foundations are not regulatory bodies and engage only with partner schools. A large proportion of LFPS remain outside their ambit. Role of PPP structures in place and with access to LFPS in Punjab, PEF can facilitate designing of a programme targeting A2F for LFPS. PEF becomes key institution within SED frameworks can coordinate between SED, financial institutions and private schools.

- There is a need for a unit within SED to work with private sector schools especially LFPS. This will give institutional support required from public sector. A notfied unit to collaborate with major private sector schools' associations to collectively work with LFPS and support on institutional requirements for this segment to represent LFPS needs in terms of financing.

- Engage with institutions such as Karandaaz, which already have programmes on financial literacy and support for low-fee private schools in collaboration with BoP and PEF.

Financing Mechanisms and Instruments Options

Commercial Banks as Financial Intermediaries – Financing thru MFBs and MFIs

- Design a financing mechanism that ensures a large commercial bank involvement to ensure resource mobilization on large scale and portfolio management involving microfinance institutions and microfinance banks given their linkages with communities and expertise in managing micro, small or medium size loans.

- 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). These collaborations enable MFBs and MFIs to extend their reach to underserved populations and promote financial inclusion.
- Both MFIs (usually NGOs or non-bank NBFIs) and MFBs (licensed under SBP) struggle with cost of funds and limited access to long-term capital. With wholesale lending lines, commercial banks can provide long-term, low-cost credit lines to MFIs and MFBs for on-lending to microenterprises and households.
- Commercial banks bring scale, capital, and technology; MFIs and MfBs bring trust, reach, and community knowledge. Together, they can architect a financial model that not only meets profitability goals but also fulfills a national imperative: inclusive, equitable, and sustainable economic growth.
- For commercial banks to collaborate meaningfully with MFIs and MFBs, regulatory support from the SBP and development partners is essential.

Prototype for LFPS

- A financing instrument which provides equipment/tangible asset through a third party (vendor) arrangement to LFPS on soft terms, will be a much better option than providing hard financing/monetary injection. The equipment could also serve as collateral.
- Zero-interest to borrowers or subsidized interest rates to be supported by donors or government.
- For upto PKR 5 million, a large bank to manage funds and selected MFIs to roll out and responsible for its implementation.
- To be made available on specific criteria on years in operations, enrolment and other documentation neccsary as documentation on school capacity to repay.
- List of approved schools which can avail this facility with private sctor schools associations.
- Fiinaincing by commercial banks through MFB/MFIs in the past have been very expensive (Kibor+3% by commercial banks and MFIs adding 8% to the borrowers). A mechanism to ensure network and community linkages of MFIs are used to attract borrowers on soft terms, perhaps subsidized by government or a multilateral through either partial credit guarantees or grants.

Digitally enabled uncollaterlized credit and introducing Asset-Based Financing

- In a landmark reform, the Government of Pakistan has launched a product “Zarkhez-E” in December 2025, an uncollateralized, digitally enabled agri-credit scheme designed for smallholder farmers long excluded from formal finance.
- 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.

Prototype for LFPS

- Similar product could be designed for LFPS. A new, donor or government-backed digital loan platform for LFPS (providing collateral-free loans via app) and use of pre-approved vendors in Punjab for inputs such as IT and IT enabling equipment, solar equipment and other inputs (transport, furniture and fixtures, and installations for LFPS) to enhance quality of education and provide better access for students to school.
- Previously unbanked education instututions can be brought into the financial system, collateral removed and credit to flow on capability, not land ownership,
- Digital access to banking services.
- Financial institutions are more likely to engage through asset-backed finance (such as buses, solar, ICT, or furniture), leasing and rent-to-own models, revenue-linked repayment structures, or fee-collection escrow mechanisms.

Guarantee/Risk-sharing Mechanisms

Use of Existing Government Guarantee Mechanism

- Use of Fresh/Incremental financing facility from July 1, 2024 as per SBP circular[40] on Risk Coverage Scheme for Small and Medium Enterprises (SMEs). Government of Pakistan, on the recommendation of the SBP, has approved a Risk Coverage Scheme for securing banks' fresh exposure against SMEs.

Prototype for LFPS

- Credit guarantee by government thru SBP to allocate Risk Coverage Limits to each Participating Financial Institution (PFI) against LFPS finance.
- Criteria is for LFPS as defined in SBP PR for SMEs.
- Loan size of upto 25 million for Small Enterprises (SEs) and upto Rs 200 million for Medium Enterprises (MEs) for upto 5 years.
- Government will absorb credit loss (principal portion only) on the banks' fresh exposure against SMEs.

Note: In practice, Punjab's education budget is heavily weighted toward recurrent expenditure, leaving limited room for contingent liabilities, particularly those that are difficult to cap or quantify. The government is typically cautious about instruments that create off-budget exposure. In order to design any guarantee/risk-sharing mechanisms, a stakeholder consultation will be held. Additionally, the government's role is primarily envisaged to be catalytic and enabling and risk-sharing recommendations pertaining to government in this report envision government's role to be that rather than fully underwriting financial institutions' risks.

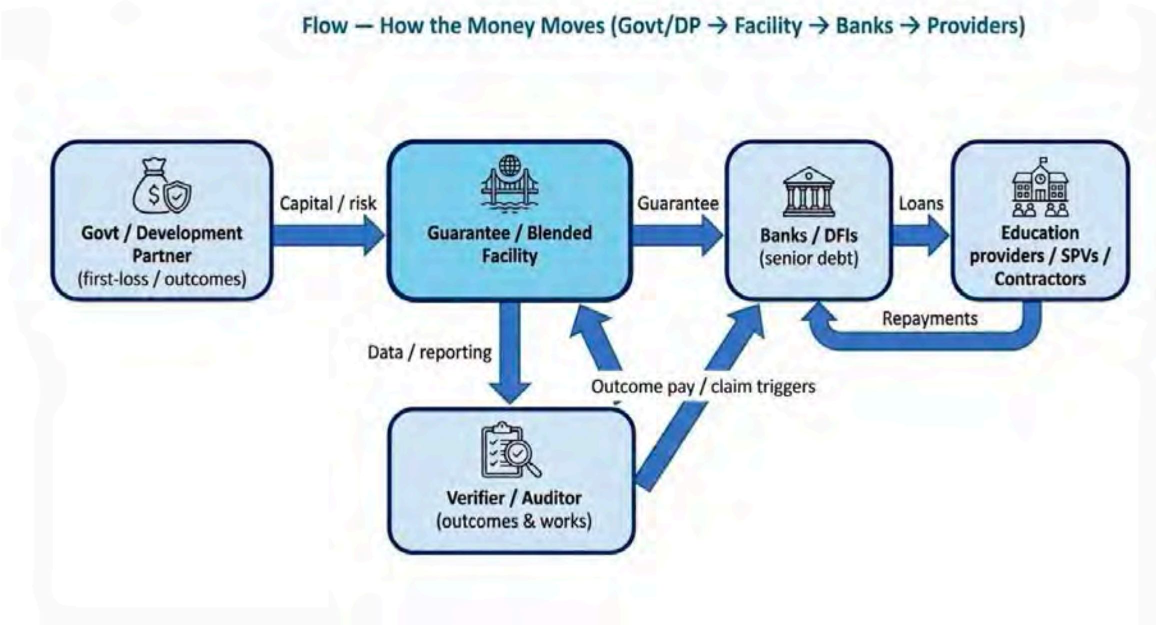
Market Based Credit Guarantee Facility

- National Credit Guarantee Company Limited (NCGCL) is a joint venture between the Ministry of Finance (44%), Government of Pakistan, and Karandaaz Pakistan (56%), with initial funding from the UK Government's Financial Inclusion Program through FCDO. It helps banks grow profitable SME lending by covering defined credit risk and supplying primary data to enable banks to lend more.

Prototype for LFPS

- NCGCL-style facility issues portfolio guarantees to banks.
- Banks lend to schools or contractors.
- Payments flow from fees, contracts, or outcome funds.

[40] https://www.sbp.org.pk/smefd/circulars/2024/C2.htm



Development Partners/Donors Role

- ADB has provided education specific financing product under its SOJHRO project in Sindh, which is an Outcomes-Based Pilot. It includes Results/Outcomes-Based Financing (RBF/OBF) tied to verified learning and progression, blended finance to de-risk private participation, (concessional co-finance, grants), credit guarantees to expand lending for education services/providers, structured PPPs, CSR-linked and revenue-based/quasi-equity models for education enterprises, and knowledge & TA to strengthen policy, verification, EMIS, and procurement.
- IFC has just launched its first ever local currency financing in Pakistan in December 2025. It is its first PKR denominated investment via an unfunded Partial Credit Guarantee to support a long-term PKR-denominated financing from a commercial bank to a local fertiliser manufacturing company in agriculture. This financing will enable the company to strengthen its agri-value chain (micro, small, and medium enterprises) in Pakistan by mobilizing local capital. The investment also benefits from a first loss counter guarantee from the IFC-Canada Facility for Resilient Food Systems.

Prototype for LFPS

- Some LFPS demonstrate the potential to meet creditors' interest and terms. A sector-based programme lending model offers an innovative approach to sector-based lending that can be adopted by financial institutions to help strengthen their credit appraisal process and unlock A2F for well-managed, sustainable LFPS. Additional funds, through an arrangement with microfinance/lending institution, at school level to growing LFPS could improve learning outcomes or efficiencies if training on improving quality or school management is provided.
- OBF (concessional co-finance or grants) to private sector in education tied to verified outcomes such as enrolment, results.
- Partial credit guarantees for local banks/financial intermediary to lend to schools and education service providers.

Section C: Low Fees Private Schools & A2F in Khyber Pakhtunkhwa

Chapter 7: Low Fees Private Schools in Khyber Pakhtunkhwa

Institutional & Regulatory Framework

Elementary & Secondary Education Department

Elementary and Secondary Education Department (E&SED) is the largest public sector employer in of Khyber Pakhtunkhwa with over 187,000 staff (142,000+ teachers). E&SED manages 27,514 government institutions/schools enrolling about 4.4 million students. Three institutional set-ups within E&SED:

Secretariat of E&SE: Formulation of policies, strategies and regulations for schools education & literacy, and development of Annual Developmental Programs (ADP).

Directorate of E&SE: Financial management, HR, planning and development related functions, and school supervision and monitoring.

District Education Offices: District Education Officers co-ordinate and supervise activities of the offices in districts and ensure efficient service delivery under administrative control of the offices. They are also responsible for preparing, spending development and recurrent budgets at district level and act as Departmental Accounting Officers. They enforce relevant federal and provincial laws and rules, including tax laws, according to the directions of the government.

In parallel, public private partnership (PPP) programmes, notably through the Khyber Pakhtunkhwa Elementary & Secondary Education Foundation (ESEF) and Merged Areas Education Foundation (MAEF), offer per-child subsidies and quality assurance mechanisms for participating schools. However, these foundations are not regulatory bodies and engage only with partner schools (largely community schools); a large proportion of LFPS remain outside their ambit.

Elementary and Secondary School Foundation

Elementary & Secondary Education Foundation Govt. of Khyber Pakhtunkhwa (ESEF) is an autonomous body established under “Khyber Pakhtunkhwa Elementary & Secondary Education Foundation Ordinance No. XXX of 2002”. ESEF supports community schools to serve out-of-schools children belonging to families lacking access to educational opportunities. These schools are established in those areas where government is not providing schooling facility. ESEF’s three programmes are: Girls Community Schools with 3,520 schools established and enrolment of over 273,000; Education Support Scheme with enrolment of out-of-school children falling in the age bracket of 4-16 through 44 partner schools and 4,800 children enrolled; and

New School Initiative for establishment of new schools has 22 partner schools with1,786 enrollment.

Merged Areas Education Foundation

Merged Areas Education Foundation (MAEF) is an autonomous organization, established in 2004 and operationalized in 2010 with issuance of regulations, to provide access to education though strengthening public educational delivery system and public-private partnership with focus on marginalized and the disadvantaged children. Todate, over 9,500 schools have been supported in Merged Areas of Khyber Pakhtunkhwa with 10.73 million scholarships awarded.

Private Schools Regulatory Authority

LFPS in Khyber Pakhtunkhwa operate under provincial private school regulatory framework, the Khyber Pakhtunkhwa Private Schools Regulatory Authority (PSRA) Act, 2017 and Regulations, 2018. The framework governs school registration, inspections, compliance monitoring, and enforcement of mandatory norms and standards. Its mandate does not include institutional support for A2F or capacity development for private schools. According to PSRA's Norms & Standards (2020), every private school in Khyber Pakhtunkhwa must be registered with the Authority and requires high schools/higher secondary schools to be affiliated with the relevant Board (BISE). According to field report, not all private schools in Khyber Pakhtunkhwa are registered with PSRA and several thousand schools more remain unregistered, suggesting a significant compliance gap.

Compliance requirements for private schools in Khyber Pakhtunkhwa:

Mandatory Registration: A private school cannot operate without being registered with the PSRA. Schools must register for a specified period, and renewal is required. Schools cannot be affiliated with a Board (e.g., BISE) if not registered.

Conditions for Opening and Operating Schools: PSRA prescribes conditions under which a school may be opened (e.g., infrastructure, minimum standards) and also categorizes schools into different "types" based on their standards, and this categorization affects compliance obligations.

Fee Compliance: PSRA determines and enforces a maximum fee that can be charged to students (according to school category). Also prescribes a minimum remuneration for teachers as part of this categorization. If a school violates rules, PSRA can issue show-cause notices, and in repeated or serious violations, can close, lock, or seal a school.

Classroom Size / Space: Norms & Standards require 10 square feet per student in a classroom with maximum class size of no more than 40 students in lower fee-category schools. For higher fee schools, student-teacher ratio to be no more than 25:1. , and no more than 25 students in one class section.

Building & Physical Infrastructure:

- Schools must occupy a legally owned or leased building.
- The building must have approval from local authorities for use as an educational facility and must be structurally sound.
- Multipurpose Hall: Minimum capacity of 100 students in certain school categories.
- Computer lab: For high fee schools, a computer lab with at least 30 computers, plus Internet access.

Regulatory constraints

Regulatory compliance apart from the sector specific rules and regulations also pose burden on LFPS. A number of taxes are levied on schools such as income tax, yearly sign board tax (per sq ft), professional tax, among others. Most painful regulatory requirement apparently is to meet minimum wage requirement by LFPS and related social security requirements as the labour department in Khyber Pakhtunkhwa is active in monitoring these. Schools can be sealed if not complied and have been sealed in significant numbers.

Private Schooling in Khyber Pakhtunkhwa

Scale

According to the Annual School Census 2023-24 and PSRA data, there are 10,944 registered private schools in the settled districts and they make up 22.6% of all educational institutions, including government schools and Deeni Madaris. Private schools in Khyber Pakhtunkhwa employ about 141,500 teachers. Most private schools are co-educational (10,051), while boys' schools are 722 and girls' schools are 171. In terms of school level, there are 2,051 primary schools, 3,736 middle schools, 3,481 high schools, and 1,676 higher secondary/inter colleges. Private schools are required to register under the PSRA Act, however, in practice, many small private schools, especially those not affiliated with boards, remain unregistered. Therefore, the exact total number of private schools in the province is not known.

Geographical concentration: Overall, the private schools are mostly concentrated in urban districts like Peshawar, Abbottabad, and Mardan, while their presence is limited in remote districts such as Torghar, Dir Bala, and Chitral.

Table 10: Enrolment in private schools in the settled districts and areas

District	Enrolment in Private Schools
Lower Kohistan	53.8%
Peshawar	50.6%
Swat	47.7%
Abbottabad	44.8%
Hangu	41.9%
Mansehra	41.5%

Haripur	40.6%
Karak	39.1%
Tank	39.5%
Battagram	38.6%
D.I.Khan	37.5%
Kohat	36.9%
Charsadda	36.2%
Nowshera	35.0%
Bannu	34.0%
Buner	32.5%
Mardan	31.3%
Swabi	30.5%
Malakand	29.8%
Dir Payan	28.4%
Lakki	26.3%
Chitral	25.5%
Shangla	22.9%
Dir Bala	17.7%
Torghar	7.1%

Source: ASC 2023-24.

Percentages of private schools operating at each level: Data on number of schools in each district is not available in Annual School Census. However, PMRU data from 2021-2022 has been extrapolated. Private schools in Khyber Pakhtunkhwa operate across primary, middle, high, and higher secondary levels. Overall, about 18–19% of private schools in Khyber Pakhtunkhwa cover only the primary level, while the largest share, 34%, operates at the middle level. High schools make up nearly one-third of all private schools, and higher secondary schools account for around 15%, most of which also include primary and middle sections. This distribution indicates that private schools in Khyber Pakhtunkhwa primarily focus on middle and high school education, with a smaller proportion of primary or higher secondary levels.

Table 11: Distribution by school level

School Level	Number of Registered Schools	Percentage of Registered Schools
Primary	2,051	18.7%
Middle	3,736	34.1%
High	3,481	31.8%
Higher Secondary / Inter	1,676	15.3%
Total	10,944	100%

Source: ASC 2023-24 and PSRA Data

Defining LFPS

In Khyber Pakhtunkhwa, PSRA does not explicitly define “low-fee private schools” (LFPS). Instead, the PSRA categorizes all private schools into seven categories based on the tuition fees charged for the highest class. These categories range from Category 1, charging less than PKR 2,000 per month, to Category 7, charging more than PKR 20,000 per month.

Table 12: Categories of Private Schools in Khyber Pakhtunkhwa

Category	**Fee Range (highest class)**

Category 1	Less than PKR 2,000
Category 2	PKR 2,000 – 3,500
Category 3	PKR 3,500 – 6,000
Category 4	PKR 6,000 – 10,000
Category 5	PKR 10,000 – 15,000
Category 6	PKR 15,000 – 20,000
Category 7	More than PKR 20,000

While PSRA does not use the term LFPS, schools in Category 1, which charge the lowest fees, can generally considered low-fee private schools. These schools typically have smaller budgets, fewer staff, and basic infrastructure, and are concentrated in urban as well as semi-urban and rural areas. The categorization system primarily determines the compliance and infrastructure requirements for schools. For example, schools in higher categories are required to meet stricter standards for classroom size, safety, staffing, libraries, laboratories, and other facilities. For analysis, the schools can be broadly grouped into three categories: low-fee/private schools, medium-fee schools, and high-fee/private schools.

Key features in LFPS in Khyber Pakhtunkhwa

While most of the features of LFPS are common across both provinces, Punjab and Khyber Pakhtunkhwa, specifc information obtained from the field on LFPS in Khyber Pakhtunkhwa is given below.

Operating Model as MSMEs: Most private schools operate as proprietorship with no legal registration except PSRA. Based on their scale and revenue, LFPS can be considered micro or small enterprises as defined by SBP based on annual sales turnover (Small Enterprise: annual turnover up to PKR 150 million; and Medium Enterprise: turnover between PKR 150 million and PKR 800 million). The Securities & Exchange Commission of Pakistan (SECP) follows a similar framework, further noting that small enterprises typically employ fewer than 50 employees, while medium enterprises may have up to 250 employees, depending on the sector. When these criteria are applied to LFPS, the sector aligns closely with the micro and small enterprise categories. Though not explicitly stated but a quick analysis of the latest Annual School Census (ASC) data suggests a large share of private schools in Khyber Pakhtunkhwa are small institutions in terms of:

- Student body size (most operate with a few dozen to a few hundred students)
- Staffing levels (most have under 20 teachers; and many have under 10)
- Infrastructure (basic rented or own premises with limited facilities)

Given the typical LFPS fee structure in Khyber Pakhtunkhwa, often between PKR 300–1,500 per month, the annual revenue of these schools falls far below the PKR 150 million threshold for "small enterprises," placing majority of them in the micro-enterprise space. Their CAPEX profile also matches micro and small enterprises as LFPS tend to have low fixed-asset investment, with many operating from rented buildings, only the more established high schools make larger investments in large buildings, labs, or buses etc.

Average revenue per child and enrollment in private schools: Low-fee private schools in Khyber Pakhtunkhwa typically serve 100 to 300 students per school. They usually operate with limited infrastructure, one or two classrooms per grade, and a small number of teachers. Monthly fees generally range from PKR 300 to 1,500 per child (implying an estimated monthly revenue of PKR 30,000–450,000 per school), depending on the grade level and locality. These schools focus primarily on primary and middle levels and often cater to underserved communities in both urban and semi-urban areas.

Khyber Pakhtunkhwa has a culture to provide for under-privileged children and most LFPS has an unwritten rule to waive fee for orphans and in some cases children whose parents cannot afford private schools. About 10-15% of the children enrolled do not pay fees in many LFPS.

Fee increments: As per PSRA, schools cannot increase fee more than 10% in any category. The fee increase is not allowed beyond this percentage arbitrarily, unless justified with proven requirements which is not always easy.

Average number of teachers per private school: An average of around 13 teachers per private school in the province according to field data. The number of teachers varies with school size and fee category. Low-fee private schools typically have fewer teachers, often around 3–10 per school, reflecting smaller student populations and limited grade coverage.

Infrastructure in Khyber Pakhtunkhwa private schools: Private schools in Khyber Pakhtunkhwa vary widely in their infrastructure, reflecting differences in fee levels, size, and PSRA categorization. The PSRA Norms & Standards set minimum requirements for facilities, classroom sizes, and safety, which schools must comply with. Based on these standards, infrastructure can be broadly grouped into three categories. Relevant to LFPS, every school must provide at least 10 square feet of classroom space per student, limit class sizes to 40 students, have functional washrooms (gender-wise), drinking water, cross-ventilation, and basic furniture for students and teachers; while mid-tier schools are expected to have a multipurpose hall, first-aid boxes, a sick room, a small library, and a computer laboratory; premium schools to have air-conditioned classrooms, smart boards/projectors, filtered water, and power backup systems as well as library (e.g. 3,000 books for high schools), fire-safety equipment, multipurpose halls, play areas, and full first-aid facilities.

Teacher salaries: Under the PSRA Norms & Standards, minimum salary for a full-time teacher is tied to the school's fee structure: the teacher's monthly pay must be at least four times the monthly fee charged for a single student in the highest-class level that the teacher teaches. Moreover, PSRA explicitly states that salary should reflect which level (grade) the teacher is teaching and the number of subjects or classes they handle. For LFPS, this rule means teacher pay may be quite modest. They are generally paid PKR 8,000-15,000 PKR per month.

During FDGs, LFPS owners had a concern about minimum wage requirement that is not actively enforced on schools. This can wipe out any profitability that an LFPS expects from its business model. Additionally, social security and EOBI requirements for employees are also now actively monitored in Khyber Pakhtunkhwa including with schools.

Use of bank accounts for fee collection: 6 out of 12 participants in FDG had bank accounts in schools' name and remaining maintain individual accounts. Still fee collection is largely in cash as almost all LFPS collect fees in cash.

Chapter 8: A2F for LFPS in Khyber Pakhtunkhwa

Funding Requirements

LFPS typically operate with limited infrastructure, low CAPEX, and thin profit margins. Operating costs are largely dominated by staff salaries and rent, while CAPEX remains low due to rented premises and minimal investment in infrastructure.

Start-up cost: Starting a typical LFPS generally requires low CAPEX. LFPS usually serve 200–300 students, focus on primary and middle education, and operate in rented buildings to keep initial costs manageable. Most investment goes into basic infrastructure, learning materials, and the first month's operating expenses.

CAPEX: The CAPEX which covers the one-time setup of classrooms, furniture, and teaching aids:

1. Building/Room Setup: Minor renovations for 3-5 rooms, basic painting, and safety measures, costing PKR 100,000–300,000.
2. Furniture & Fixtures: Desks, chairs, and blackboards for classrooms, costing PKR 50,000–100,000.
3. Learning Materials: Books, charts, and teaching aids, costing PKR 30,000–50,000.
4. Miscellaneous: Small library setup, playground equipment, or minor tools, costing PKR 20,000–50,000.

OPEX: The OPEX or operating expenses includes staff salaries, rent, utilities, and supplies for the first month:

- Principal/Owner: PKR 20,000
- Teachers (5 × 12,000): PKR 60,000
- Clerk/Accountant: PKR 10,000
- Rent (5–7 rooms): PKR 30,000
- Utilities (electricity, water, fuel): PKR 10,000
- Supplies/Admin/Miscellaneous: PKR 5,000
- Total OPEX (Monthly): PKR 135,000

Estimated Total Initial Investment (CAPEX + first month OPEX): PKR 215,000–550,000, depending on building condition and extent of setup.

Table 13: Typical LFPS CAPEX + OPEX in Khyber Pakhtunkhwa

Cost Type	Item	Description / Assumptions	Amount (PKR)	Frequency
CAPEX (One-time)	Building/Room Setup	Minor renovations, 5–7 rooms, basic painting	100,000 – 300,000	One-time
	Furniture & Fixtures	Desks, chairs, boards	50,000 – 100,000	One-time
	Learning Materials	Books, charts, teaching aids	30,000 – 50,000	One-time

	Miscellaneous	Small library setup, playground, minor equipment	20,000 – 50,000	One-time
	Total CAPEX		**200,000 – 500,000**	
OPEX (Recurring)	Salaries	Principal, 5 teachers, clerk/accountant	90,000	Monthly
	Rent	Small rented building (5–7 rooms)	30,000	Monthly
	Utilities	Electricity, water, fuel	10,000	Monthly
	Supplies/Admin/ Miscellaneous	Chalk, boards, registers, stationery, minor misc.	5,000	Monthly
	Total OPEX/Month		**135,000**	

Most LFPS owners identified digitization, IT enabling services, smart screens and boards, furniture, computer lab, solar equipment and setting up science labs as most pressing need for them to upgrade existing facilities. IT inputs were perceived to be quality inputs and expected to improve grades and build interest within student body to study.

Key Constraints and Barriers to Access Finance for LFPS

LFPS in Khyber Pakhtunkhwa have similar structural and behavioural constraints when attempting to access formal credit as is the case in Punjab. In addition to barriers to access finance as mentioned previously under section on Punjab, LFPS in Khyber Pakhtunkhwa have following specific issues that limits access to formal credit from commercial banks/MFBs/MFIs:

- Lack of collateral against which credit can be obtained. If LFPS owners wish to get credit on conventional terms, then they would need to offer personal property.
- Preference for zero-interest loans as even Shariah compliant financial products are perceived to be expensive, while microfinance is even more expensive then formal commercial bank loans. Many LFPS owners have shown interest to get loans for solar equipment if offered on interest free terms.
- 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.

LFPS showed interest to explore financing and loan products if available on terms easier than a traditional loan product in terms of collateral and interest rates. However, in order for LFPS to be credit worthy, it is important that they meet the minimum criteria of financial records, banking history, enrolment levels adequate to demonstate future cashflow potential, among others.

Funding Landscape for LFPS in Khyber Pakhtunkhwa

Access to formal financing remains limited with most LFPS self-financing schools or through funds from friends and family. Many LFPS founders in Pakistan rely heavily on personal investment to start their schools. LFPS are often run as very small, owner-operated enterprises and have limited access to formal credit in the early stages.

Foundations' support for A2F: Foundations such as ESEF and MAEF do not provide direct loans or financing for private schools, nor facilitate it. Their support to private schools, including low-fee schools, is mainly through partnership programs where the foundation contracts or accredits schools to deliver education under specific schemes, such as the Education Support Scheme (ESS) and the New School Initiative (NSI). Through these programs, ESEF provides per-student payments for delivering quality education, which indirectly helps schools cover operational costs.

Donor programmes focused on finance for private schools in Khyber Pakhtunkhwa: In Khyber Pakhtunkhwa, there are limited donor-led initiatives specifically focused on providing A2F for private schools, particularly small or low-fee institutions. Most donor support comes through broader budget support to government for education or infrastructure programs that private schools may benefit from indirectly.

Banks / MFIs products for LFPS: There are a number of financial-products available in Pakistan that LFPS can potentially use; some are specifically tailored for schools, while others are broader SME loans as mentioned under section pertaining to Punjab. Institutions like Kashf Foundation offer specialized credit products for low-cost private schools through their Kashf School Sarmaya program, combining microloans with capacity building for school owners.

In addition to sources summarized in the section on Punjab that is applicable nation-wide, currently Bank of Khyber (BOK) offer schemes for SME financing.

Table 14: Bank of Khyber Financial Products

Provider	Product	Loan / Usage Purpose	Loan Size / Range	Interest / Mark-up Rate	Conditions / Notes
Bank of Khyber (BoK)	SAAF (SME Term Financing)	SME working capital or term finance	Up to PKR 10 million	9% p.a. fixed markup	Collateral or guarantee typically needed; suitable for LFPS that register as SMEs.
	SME Modernization Finance (Refinance)	CAPEX / Asset Finance	Varies (SME-scale)	From 6% p.a. (refinance scheme)	For machinery, school infrastructure, or expansion.

BoK offers government supported and SBP regulated subsidized loans to SME under its retail banking operations. A youth focus scheme *Kamyab Jawan* is collateral free, low interest loan supported by the government. Uptake of these loans have largely been for housing and solar. There are other schemes as well such as loans for up to PKR 500,000 on zero-interest but requiring a Government Official guarantee; and collateral free and zero-interest loans for start-ups but with at least 3 partners. Overall, a sole proprietor/owner of LFPS has limited choices in terms of accessing bank loans on soft terms even if the school is profitable and can afford to serve repayments.

Chapter 9: Recommendations for A2F in Khyber Pakhtunkhwa

Policy Options

- While there are many dimensions to a policy toward private education, two may be most salient – the degree and type of subsidy or financial support and the degree and type of regulation or control. In terms of regulation, ESED through PSRA, should consider favourable regulatory conditions for high-quality low-fee private schools to thrive. It is imperative for the government to support sustainability of the private sector in parallel with growth in the public-school system. The multiple taxes applied to private sector schooling system could be reconsidered in favour of LFPS based on some criteria that could include results, equity, condition to reinvest part of profits in quality inputs etc. On the degree of financial support, besides subsidies under PPP model, the government has little role on providing enabling environment for private sector schools to access finance.

- Financial institutions require predictable regulation, access to credible data, clarity on enforcement, and confidence that there will be limited ad hoc interference. PSRA, as the key government entity and responsible for the regulatory framework dealing with private schools, could resolve data problems in the province on private sector schools. PSRA could explore expanding its coverage of schools in terms of information gathering and go beyond just the number of registered schools and compliance. PSRA to use its platform to make a repository of schools which are low-fee in nature, assets they have in the name of schools, year-on-year enrolment increases, compliance records, banking arrangements and others so that if a funding source becomes available for private schools, they can have access to this list to offer such facility. Of the 10,944 private schools registered with PSRA, how many are desirous of external funding and among those how many can actually offer the required documentation.

- A critical policy intervention would be to improve registration and data platforms, providing greater clarity on fee regulation, strengthening contract enforceability, and allowing private aggregation or intermediary models to operate without friction.

- PPP reform agenda to include LFPS financing requirements and engagement of private sector funding mechanisms to tap into.

- Minimum wages are not affordable for LFPS considering the low fee base and revenue potential unless enrolment increases. Enrolment in turn can increase with expansion for which funding is not available. To break this vicious cycle, a researched solution to be arrived at for LFPS as pathway to move towards meeting the minimum wage for its teachers and employees yet also being able to sustain its operations.

Institutional Pathways

- PSRA could support private schools' representation and institutional engagement with financial sector for exploring, building awareness, and understanding how formal credit can be obtained. This includes working with public sector banks such as BoK, and SBP for the schemes that are subsidizing loans for MSMEs and MFBs/MFIs for financial products that can be customized for LFPS. PSRA and private sector schools' associations to collectively work with LFPS and support on institutional requirements for this segment to represent LFPS needs in terms of financing.

- ESED to commission a study to assess infrastructure, quality inputs and OPEX/CAPEX funding requirements for LFPS in order to gauge estimated financing gap to engage with financial institutions meaningfully. ESED to identify entity such as BoK for a customized financial product for school chains as well as sole proprietor/single owner of LFPS.

Financing Mechanisms and Instruments Options

It is important to identify common objectives between seemingly disparate financial inclusion and education goals and between informal MSMEs and large financial institutions. If increasing enrolment and improved learning outcomes are to be achieved on the scale that is needed, then it is evident that new capital will be required, in a size that neither the donor community, nor the government, nor the family savings that currently finance low fee private schools are able to provide. Creating new and innovative financing sources for the private sector should be an immediate priority. Having said that, a significant proportion of LFPS will never be bankable, even with guarantees, and that private-sector solutions must therefore be selective and segmented rather than universal. Interventions should be designed to recognize that structural non-bankability of a large share of LFPS exist such as informality in the sector, capacity to maintain financial records and statements, cashflows do not go though banking channels, among others.

In addition to the financing instrument options provided in section B (portfolio lending by commercial banks through MFBs/MFIs; digitally enabled uncollateralized credit; government or donor guaranteed loans; market-based credit guarantee facility; and donor supported blended finance/risk-sharing facility and RBF), the following options are recommended to be considered in Khyber Pakhtunkhwa's context.

Low-interest, Collateral Free and/or Guaranteed Loans by Commercial Banks

Term loans: Fixed-rate loans with a set repayment term, ideal for long-term investments.
Line of credit: Revolving credit facility for ongoing expenses and costs for facilities such as labs, library and other educational materials.

Construction loans: Short-term loans for building and expansion projects.
Equipment financing: Loans for purchasing technology, furniture, and equipment.

Guarantee by donor or government aligned with SBP directives to encourage public sector bank such as BoK to move from conventional banking and lending towards sector specific lending.

Just as in Punjab and other provinces across Pakistan, majority of Khyber Pakhtunkhwa's education budget is allocated to recurrent expenditure, with a smaller portion for development projects leaving very little or no room to subsidize or underwrite commercial financing towards private sector. This, despite an increase of 11% in the current education budget, pose challenges towards conflicting priorities for the government that is mostly fiscally constrained, risk-averse, and tend to prioritise visible service delivery (such as schools, teachers, and infrastructure) over funded or undunded financial contributions. As also mentioned under the case for Punjab, for the government to play a meaningful role in facilitating A2F for LFPS, the key consideration would be to act primarily as catalyst and enabler for guarantee and/or risk-sharing mechanisms.

Microfinance Loans

MFBs/MFIs: Zero-interest loans for LFPS along with capacity building grants/technical assistance. Zero-interest/Interest-free loans would be possible if donor or government subsizes the loans through selected MFBs/MFIs such as Akhuwat as it has one of the largest reach within Khyber Pakhtunkhwa. Most MFIs and MFBs are headquartered and their operations are concentrated in Punjab and Sindh.

Conclusion

The private education market is dominated by the low-cost private schooling sector, which is primarily made up of small enterprises and plays a crucial role by enrolling a substantial number of children in urban, and peri urban areas. Despite encountering challenges like evolving regulation and limited infrastructure, the emergence of low-cost private schools has offered policy options for addressing access concerns.

LFPS as micro, small and medium-size schooling businesses provide greater access to affordable and quality private schooling to economically-disadvantaged children in urban, peri-urban and rural areas in Punjab and Khyber Pakhtunkhwa. This calls for attention to develop a market for investments in this sector for it to conitue growth on the aready established trajectory and play a key role in providing access, equity and quality in the larger education landscape in both provinces.

Funding for LFPS is predominantly self-generated or informally sourced such as personal savings, reinvested profits, or short-term loans from family and friends. It is imperative to develop financing mechnisms and design financial instruments that match the requirments of growing LFPS segment, its market size and respective financing needs.

The demand for education and quality inputs is evident from the findings in this report and financing options limited. Barriers to access formal financing limits possibilities for LFPS vertical and horizontal expansion as well as ability to invest in quality inputs. This report presents policy options, institutional pathways and recomments prototype financial instruments for LFPS segment to access formal credit. A stakeholder consultation engaging policy makers; development partners; financial institutions including commercial banks, MFBs and MFIs; and most importantly respresentatives of LFPS should be arranged in order to develop a comprehensive guidelines/policy briefs for Punjab and Khyber Pakhtunkhwa.

Way Forward: In the absence of a clear pipeline and sizeable opportunities, given the track record of investments in LFPS, a way forward in the next 2-3 years could be to select and support a number of promising enterprises that can potentially ensure the deal flow in the medium term. This will require government and development partners to observe, document and analyze track record of existing innovation programme as well as success stories outside of existing portfolios that can become investment ready. The idea is to look into the broader educational ecosystem given that market based, sector-based programme lending landscape is nascent and fragmented. Business models could include financing school infrastructure, low-cost ed-tech enabled innovations, and other quality inputs as well as expansion for better access to quality education.

Annex

Focus Group Discussions

Lahore, Punjab

Name	Organization
Kashif Adeeb Jawadani	President, All Pakistan Private Schools Management Association (APPSMA), also DSRA member
Mohammad Asif Sabir	General Secretary, Private Schools Association Pakistan (PSAP)
Usman Amjad Bhatti	CEO, SHS School
Atiq Ur Rehman	CEO, Ahmed Public School
Hafiz Abdul Shakoor	Director, Mind Reader Educator School
Mian Muhammad Arfan	Director, GMS School
M. Shahid Noor	CEO, Najaf School
Abdul Rasool	Secretary, Najaf School
Pervaiz Sanwal	Bab-ul-Ilm School

Peshawar, Khyber Pakhtunkhwa

Name of Participant	Designation	Organization
M. Ismail Jan	M.D	V.P. PEN Muslim Standard
Fazal Wahab	V.P	AJAB Khan Afridi P. High School
Hasbullah	M.D	Islah Faiz ul Quran
Amanullah	M.D	Pakhtunkhwa Group of Schools
Siraj Khan	M.D	Iqra Islamic Education System
Asghar Ali	Owner	Peshawar Foundation Public School
Lutfullah	S.V.P PEN	H.P.S Chapariza
Ajmal Khan	V.P Friends School Organization	Hallmette School Peshawar
Sadia	Vice Principal	Muslim Standard School
Muhammad Adil	Principal	Beacon Public School
Fazalullah Dada	M.D / Elected Member PSRA	Al-Iqra P/S Peshawar
Rooh Ullah	M.D	AGS Peshawar

Financial Institutions Interviewed

Ghulam Ali Khokar, Country Head Government Initiatives on SME, Agri and Retail Lending Bank of Punjab

Bank of Khyber, Retail Banking

Shehzad Akram, Chief Credit Officer, Akhuwat