We know education microloans can have a powerful impact for the 30 million out-of-school children in Africa. Data from Uganda suggests a $10,000 school improvement loan typically boosts the number of pupils at a school from 250 to 304 students within less than three years, or growth of 22.5 per cent. Such loans improve quality, too. One recent study showed that schools with access to finance improved literacy by 60 per cent more than those without. But far too many impact investors - in America, Europe, the Middle East and elsewhere - don’t consider investing in Africa’s education system; it is off their radar and they don’t know where to start. If we could close this gap between the education system in Africa and investors who want to help, it could improve millions of lives.

The question is how to do this? The digital revolution and the rise of big data offer a tantalising new possibility. Microfinance has long leveraged data collection and analysis to boost the microfinance sector. Industry experts know that collecting metrics on financial performance and social outcomes, using a consistent format and a single database, allows us to not just understand the risk of granting microloans, but also to understand how to improve the lending model.

"The impact investment segment isn’t mainstreaming education finance products into its portfolios - at least not yet "By contrast, education finance in the developing world has been slow to leverage the power of data. Yet using it is how we can get private players involved - by limiting risks, demonstrating profit potential, and effectively using data to ensure that it’s all within a framework that benefits the client first - in this case, schools and students.

We have seen first-hand just how powerful data can be and how it can transform the way we operate. Opportunity International offers education microloans - financing to help parents pay tuition fees or to schools to expand, for example - for African communities. Soon after we launched our education loan programme in 2006 our data
began to show that default rates were nearly twice as high for schools that had been operating for fewer than two years. Schools that defaulted typically saw dropping enrolments and reduced cash flow prior to borrowing from the bank, the data revealed, a possible sign that local families hadn’t begun to trust the school yet. Guided by that data, we adjusted our loan requirements. It was data that helped figure out which schools are likely to be successful and which are not, and broke down the "why" in order to de-risk the education lending sector.

The impact investment segment isn’t mainstreaming education finance products into its portfolios – at least not yet. Under pressure, the big bank model has been delivering smaller profits over the past few years and with it innovation has stalled. Financial institutions, both big banks and traditional debt providers, have gone further up-market in search of returns, leaving socially-positive impact investments, and investors with a strong interest in impact, without the major players to serve as a critical link. In microfinance we called this ‘the missing middle’. Financial institutions are either socially focused and serve the micro market, or purely commercial and focus on funding big business. Small enterprise is left without a funder.

Lest we despair, donors and investors are gradually taking note of the power of sustainable financing. Our data shows financial returns of 10 per cent or more after direct costs and loss provisions. Now, microfinance banks are requesting support to build new products. We have an opportunity to turn this into a fantastic story of leverage, matching investments with microfinance banks whose outreach can get hundreds of thousands more children into school. In education it takes all types to drive scale: NGOs, community groups, curriculum experts and, yes, private investment. We must seize the opportunity offered by big data to bring them on board.

About the writer
Nathan BYRD is head of Opportunity EduFinance, the education finance division of Opportunity International, a global nonprofit organisation that provides financial services and other sustainable solutions to help millions of families around the world.

Source: http://www.philanthropyage.org/education/big-data-key-unlocking-impact-investing
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