



2019 REFFA Impact Report

Table of Content

	Page
1 INTRODUCTION	3
2 EDUCATION FINANCE NEEDS IN AFRICA	4
3 ABOUT REFFA	5
4 REFFA'S IMPACT APPROACH	7
5 EVALUATING IMPACT - INVESTOR OUTCOMES	9
6 EVALUATING IMPACT - PORTFOLIO OUTCOMES	10
7 EVALUATING IMPACT – REFFA ADDITIONALITY	12
8 REFFA FOCUS ON QUALITY & AFFORDABILITY OF EDUCATION	13
9 IT'S ABOUT PEOPLE	16
10 CONCLUSIONS AND WAY FORWARD	17

1. INTRODUCTION

The education finance gap is substantial. To meet the Social Development Goal (SDG) of Quality Education, the Education Commission's Landmark 2015 Report¹, estimates that total global annual spending on education will need to grow from USD 1.2 trillion in 2016 to USD 3 trillion by 2030.

The Regional Education Finance Fund for Africa (REFFA or the Fund) was created to address the fundamental challenges of increasing access and quality of education in Africa. REFFA is the first Fund created to exclusively support the development of the education sector in the region.

Since the Fund's inception, REFFA has steadily grown its education investments in Africa and has made significant efforts to capture outreach and outcome data. This has allowed the Fund to monitor and evaluate the progress of REFFA's targets, while also contributing to attract new investors in the Fund in the last three years. At the same time, the Board has acknowledged that additional efforts were required to get a broader picture of REFFA's impact and to find mechanisms to evaluate progress of quality of education in a standardised way across the portfolio. This has been the main focus of 2019 and will continue to be for the year 2020.

The **objective** of this report is to:

- (i) Provide a high level overview of REFFA and its core objectives
- (ii) Introduce the approach through which REFFA measures and monitors its results and impact
- (iii) Present the estimated results and impact that have been achieved to date
- (iv) Present the progress done in 2019 on building a new framework through which the Fund's investees can undertake a documented analysis of education quality and affordability
- (v) Present main conclusions and remaining challenges for the years to come

Methodology:

The data and results presented in this report have been collected and analysed by BlueOrchard Finance, the Investment Manager. They are a combination of ongoing monitoring of investment and technical assistance activities, as well as data reported by the Fund's investees and information collected as part of market and impact assessments undertaken.

150,000



students &
learners reached

1,100



private schools

42



Technical Assistance
projects

2. EDUCATION FINANCE NEEDS IN AFRICA

Despite the significant progress that has been achieved in the last 20 years, universal **access** to primary, secondary and technical and vocational education (TVET) continues to be a significant challenge to achieve in African countries. The World Bank estimates that around **50 million children** remain out of school in the region. Moreover, the **quality** of education received is not sufficient, as students don't obtain necessary standard skills¹.

45%

of the global “out of school” children statistic live in Africa. It is estimated they may never attend school¹.

75%

of second grade pupils in several Sub-Saharan African countries could not count beyond 80¹.

40%

of second grade pupils in several Sub-Saharan African countries could not do a one-digit addition problem¹.

50-80%

of second grade pupils in several Sub-Saharan African countries couldn't answer 1 question of a read passage¹.

Private education plays an important complementary role in African countries as private schools supplement the public offer. In some countries, the private sector is becoming essential. In Burkina Faso, 20% of primary schools are private and in Abidjan (Cote d'Ivoire) they are 48%². Demand for private schools is also higher, as quality of education is commonly perceived as better in the private sector in this region.

Private schools in Africa are also targeting the poor and vulnerable, as many “low-fee private schools” have appeared, particularly in the Sub-Saharan Africa region¹. However, for poor families, even a “low-fee” means important sacrifices as these fees can still represent a large percentage of their income.

In this context, **education finance** can then be useful to:

1. Ease cash flow constraints in families, helping them pay fees and any additional costs for learning materials, equipment, transport, etc.
2. Support private education providers to deal with short-term funding gaps (due to tuition fee collection and seasonality) and pay teachers salary on time, among others. It can also fund more investments in school infrastructure, teaching equipment, school buses, etc.

Source:

¹“Facing Forward: Schooling for Learning in Africa”, Sajitha Bashir, Marlaine Lockheed, Elizabeth Ninan, and Jee-Peng Tan .World Bank. 2018.

²“Supporting Education in Africa: Challenges and Opportunities for the Impact Investor”, Francesca Marchetta, Tom Dilly. Foundation for Studies and Research on International Development (FERDI). July, 2019.

3. ABOUT REFFA

Based on the significant education needs in Africa, the Regional Education Finance Fund for Africa (REFFA or the Fund) was initiated in 2012 with the main objective of increasing equal access to primary, secondary, vocational and higher education in Africa, while also contributing to increase education quality. REFFA was initiated by KfW German Development Bank and funded by the German Federal Ministry for Economic Cooperation and Development (BMZ). As of 2017, the Fund was also sponsored by the UK Development Finance Institution (CDC). The OPEC Fund for International Development (OFID) and private investors also joined the Fund as of 2017.

In 2015, REFFA started to be managed externally and BlueOrchard Finance was selected as the Investment Manager. In its new set-up, REFFA has been operating for five years. During this time, important milestones and results have been achieved to strengthen education finance across Africa.



**CLEAR IMPACT
INTENT**

REFFA's MISSION STATEMENT

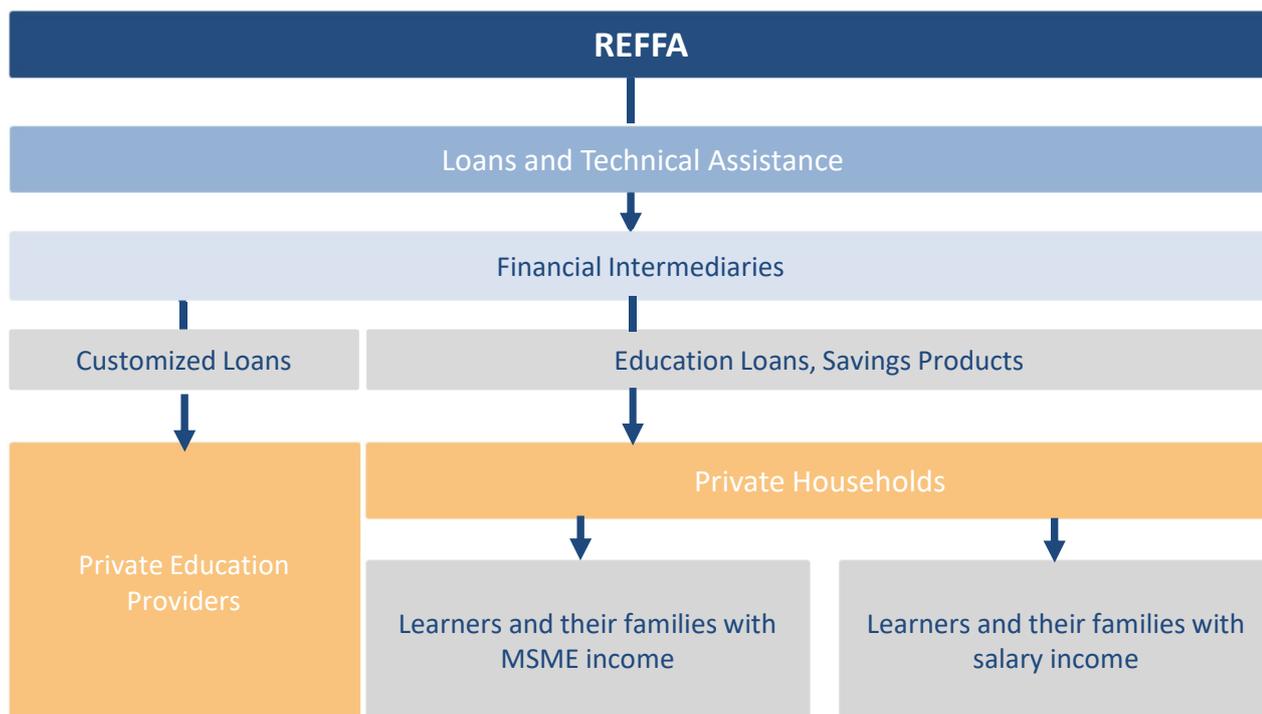
*"The Fund aims at increasing the **ACCESS** of lower income households in Target Countries to **AFFORDABLE** education, as well as improving the **QUALITY** and **affordability** of education by increasing the availability of education finance products".*

In order to accelerate the achievement of its mission and impact intent, REFFA was created as a unique Public Private Partnership (PPP) structured fund, where funds from Development Finance Institutions (DFIs) and private investors are blended in one legal structure based in Luxembourg. By providing first loss capital, BMZ funds have been catalytic in attracting financing from development finance institutions and private sector investors that share the objectives of the Fund and can benefit from the credit enhancement provided by the junior tranche. As a PPP Fund, REFFA attracts different types of investors' profiles. The Fund has three different tranches:

Senior Tranche	Funded mainly by private sector		
Mezzanine Tranche	Funded by DFIs	  	<small>Member of the Schroders Group</small>
Mezzanine Tranche	Funded by BMZ	 	

REFFA aims at achieving its objective by providing funds to financial intermediaries in Africa for on-lending and expand their education loan portfolios. Financial intermediaries include banks, microfinance institutions, credit co-operatives and other finance companies across Africa.

REFFA in a nutshell:



REFFA Private Debt Fund

REFFA debt investments are made in banks, MFIs, credit co-operatives and other finance companies.

The main characteristics are:

- Loan sizes: USD 0.5 – 5.5 million, in local currency.
- Loan tenors can go up to 5 years, while amortization schedules are tailor-made.
- Overall, debt investments are provided to financial intermediaries at market rates to ensure the long-term sustainability of the Fund's operations and of the financial institutions' education portfolios.

REFFA's Technical Assistance (TA) Facility

To maximize the indented development impact, REFFA has a Technical Assistance Facility (TAF) endowed with public and private grant funds to (i) enhance institutional capacity of REFFA's investees for education lending, (ii) provide market information, and (iii) foster innovation.

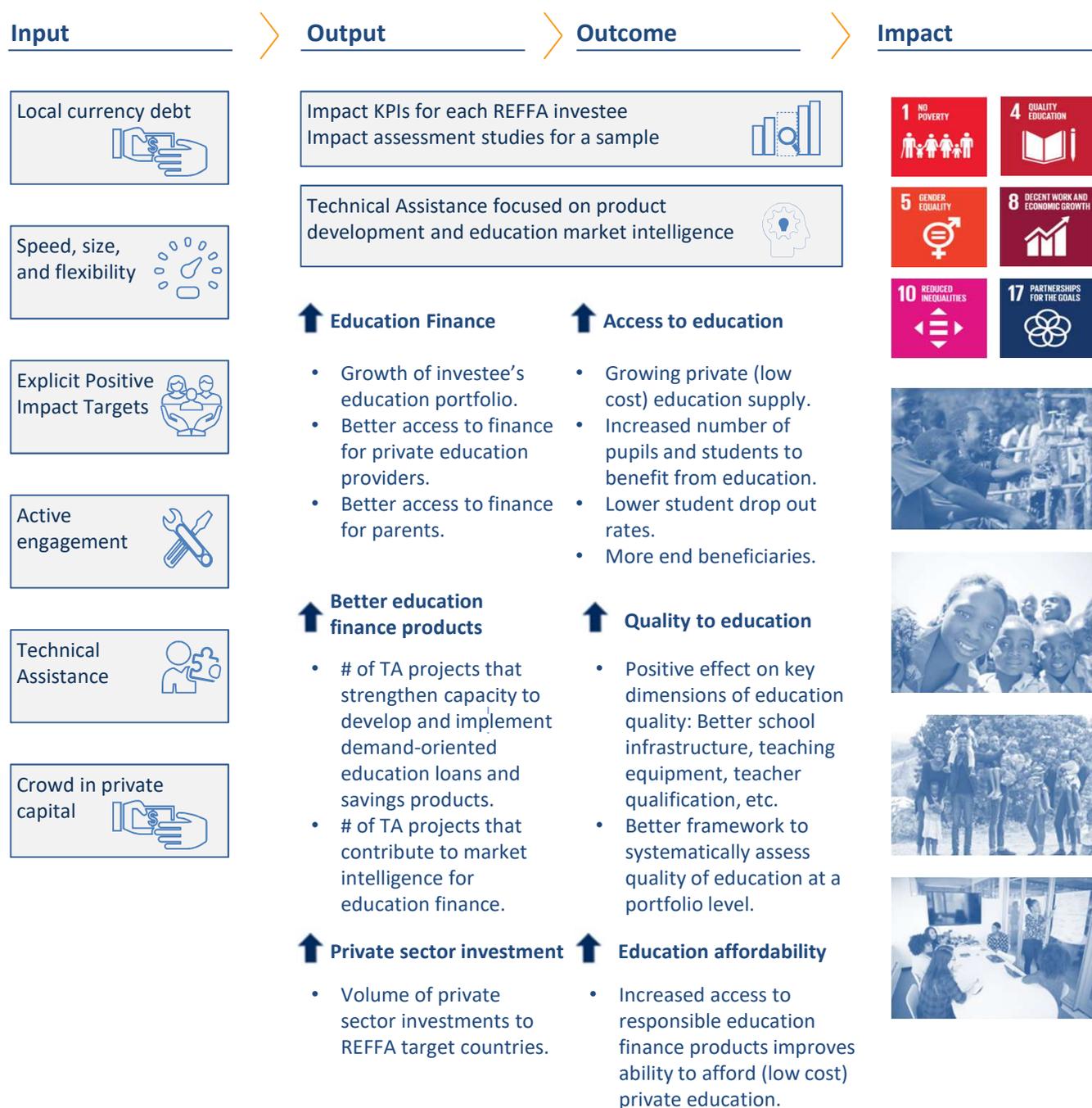
Typical projects include the development of education finance products tailored to the financial needs of (private) education providers as well as learners and their families.

The use of these funds is overseen by a TA Committee where the main TA donors are represented. The TA Facility is managed by BlueOrchard Finance, the TA Manager. Financial institutions benefiting from TA funds participate to the costs via a cost sharing contribution.

4. REFFA'S IMPACT APPROACH

With clear objectives, REFFA uses the theory of change model to illustrate the rationale the impact framework, its assumptions, linkages and final expected outcomes and impact.

Figure 1: REFFA's theory of change



REFFA's Impact Measurement

For the founders, sponsors and investors of the Fund, it is crucial to be able to assess if REFFA is reaching its mission. To do so, the Fund Manager performs:

- A regular assessment of fund allocation, building a pipeline for investments and TA that fit REFFA's objectives.
- A quarterly reporting of the education loan portfolio of REFFA investees (e.g. number of loans, type of clients, type of education promoted).
- Focused impact studies (so far on individual investees and their clients, namely in DRC and Tunisia).
- Continued improvements on data collection and education impact assessment, particularly around impact of REFFA on quality and affordability of education.

REFFA Objectives

Increase **ACCESS**

to education for lower income families in Africa.

Improve **QUALITY**

to education in primary, secondary and higher education (including technical vocational education and training, or TVET).

Facilitate **AFFORDABILITY**

of education in primary, secondary and higher education (including technical vocational education and training, or TVET).

WHO are the final beneficiaries?

The Fund aims to reach **lower and lower-middle income households** in those African countries that are eligible to receive official development assistance (ODA). The Fund addresses two main target groups:

REFFA Target Groups

- 1 Pupils from families with salary income**
Refers to any loan service provided to employees with a regular salary to finance their family's education (e.g. payment of tuition fees or education related costs).
- 2 Pupils from families with MSME income**
Refers to any loan service provided to MSME owners who want to finance their family members education (e.g. payment of tuition fees or education related costs).
- 3 Students**
Refers to any loan service provided to people who want to finance their own education (e.g. payment of tuition fees or education related costs). In most cases is professional training or Technical and Vocational Education and Training (TVET).
- 4 Private Education Providers**
Refers to any loan service to an education provider (whereas the borrower can be the legal entity or the business owner as physical person). Such educational institutions are privately owned and operate on a (partly) commercial basis.

¹In this document, we define "pupil" as a person (mostly a child), who is being taught in a primary or secondary school. A "student" is defined as a person who is pursuing higher education (college, university, TVET)

5. EVALUATING IMPACT - INVESTOR OUTCOMES

REFFA has been catalytic in attracting funding from other like minded investors

The initiators of REFFA, with their contribution of junior tranche capital, have been catalytic in attracting financing from other like-minded investors. During the last 3 years, the Fund succeeded in adding close to USD 25 million investments from development finance institutions in the mezzanine tranche (i.e. CDC and OFID) as well as attracting investments and commitments from private investors (e.g. foundations and family offices) in the senior tranche. By the end of 2019, REFFA had investments and committed capital across all its tranches, adding to a total of USD 51 million capital contributions.

New commitments (in the form of grants) were also received in the Technical Assistance Facility by CDC and a private investor, adding to a total of EUR 4.8 million capital contributions.

Figure 2: Capital mobilization of REFFA to education finance (Dec 2019)

Senior Tranche	Funded by private investors	<ul style="list-style-type: none"> • Qualified investors • HNWIs • Foundations and family offices 	USD 4.2 million	Drawn capital
			USD 5.0 million	Committed capital
Mezzanine Tranche	Funded by DFI investors		USD 12.8 million	Drawn capital
			USD 2.9 million	Committed capital
Junior Tranche	Funded by public investors		USD 26.3 million	Drawn capital
USD 25 million capital mobilized until 2019			USD 43.3 million	Drawn capital
			USD 7.9 million	Committed capital

Figure 3: Capital mobilization of REFFA Technical Assistance Facility (Dec 2019)

Drawn grants	EUR 3.7 million
Undrawn grants	EUR 1.2 million

6. EVALUATING IMPACT - PORTFOLIO OUTCOMES

REFFA's investment portfolio has steadily grown

Over the last 4 years, REFFA's portfolio volume has grown 45% reaching USD 25.7 million by December 2019. The number of investees have remained relatively stable, ranging from 7 to 9.

Despite the fact that the Fund has a geographic focus in Africa, REFFA has been adequately diversified, with presence in 12 countries across Western, Eastern and Northern Africa over the last four years (as of Dec 2019, REFFA had outstanding exposure in 8 countries). The selection of countries has been done following REFFA's mission

- All countries show significant opportunities and needs to develop further education finance for the low income families
- All countries are eligible to receive official development assistance (ODA)

As per the REFFA's investment guidelines, investees are mainly financial institutions that have a large portion of their portfolio in MSMEs (micro, small and medium enterprises) and/or to low income individuals. These institutions have the appropriate distribution channels to get to the bottom of the pyramid and offer education finance products and services to the target beneficiaries of the Fund.

One key component of a socially responsible financial product is to extend loans based on the repayment capacity of the end-borrower, in order to avoid over-indebtedness. At the investment selection process, the Investment Manager (BlueOrchard) makes a thorough assessment of the underwriting practices of the financial institution. As of Dec 2019, REFFA had a sound portfolio quality (portfolio at risk over 30 days was a7.16%) .

REFFA Portfolio evolution

Outstanding volume of investments - In USD millions



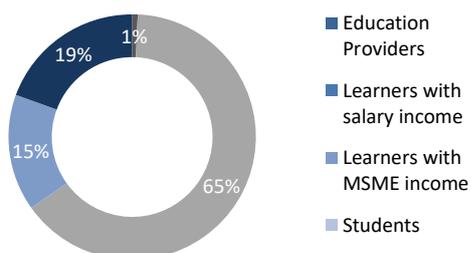
REFFA Outreach

(Dec 2019)



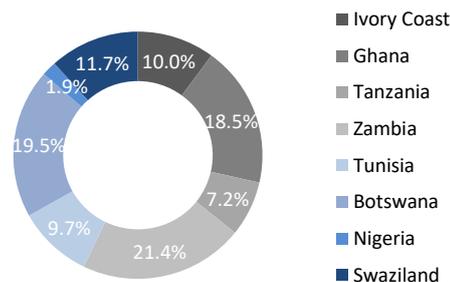
REFFA education portfolio composition

Number of loans - Dec 2019



REFFA Portfolio country composition

Volume of loans - Dec 2019



End beneficiaries outreach has significantly increased since 2016

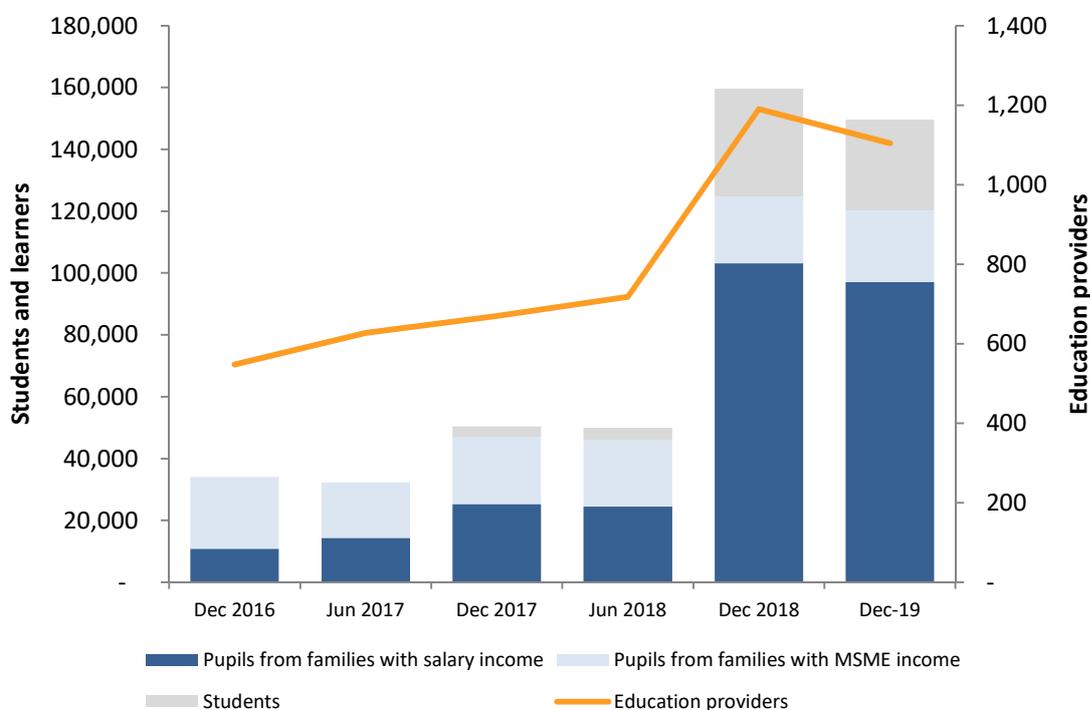
The overall outreach of REFFA in terms of end beneficiaries has been growing over the last four years. REFFA’s investees have provided education loans to pupils of 120,287 families by the end of 2019 and this segment has been the main focus of the Fund since inception (education loans to families represent the largest portion of the portfolio). Education loans are mostly used to fund the fees of more than one pupil in the family unit. With an average household size in the region that REFFA operates in (3 pupils per family¹), and assuming that only 50% of pupils benefit from the education loan received, REFFA investees reached 180.430 pupils in 2019.

Loans to students started to scale up since 2018, with the addition of two investees; Bayport Ghana and Bayport Zambia. As of Dec 2019, 29,276 students have received a student loan. These loans tend to reach adult individuals who have taken out a salary-backed loan to invest into their further professional development. This category shows a valuable contribution of REFFA to the professionalization of the labour market force.

REFFA investees have reached 1,104 education providers by December 2019. These loans are mostly used to increase investments in the schools. In a case study of a REFFA investee, 89% of the schools analysed had invested the loans in fixed assets (school buildings and equipment). This resulted in an improved learning environment for pupils. Equipment purchased also assisted teachers to explain content in a more engaging manner.

The structure of the investee portfolios has continued its shift towards being more inclusive of women - both in terms of the number and volume of loans granted: Q4-19 saw the number of loans granted to women increase to 39% (previously 37.5%), while the volume of loans given to women now constitutes 34% of all loans disbursed (32.5% in the previous quarter).

Figure 6: REFFA investees – Number of beneficiaries



Source:

¹“Household Size and Composition Around the World 2017”, –Data Booklet (ST/ESA/SER.A/405).United Nations, Department of Economic and Social Affairs, Population Division (2017)

REFFA investments have supported the education portfolio growth of its investees

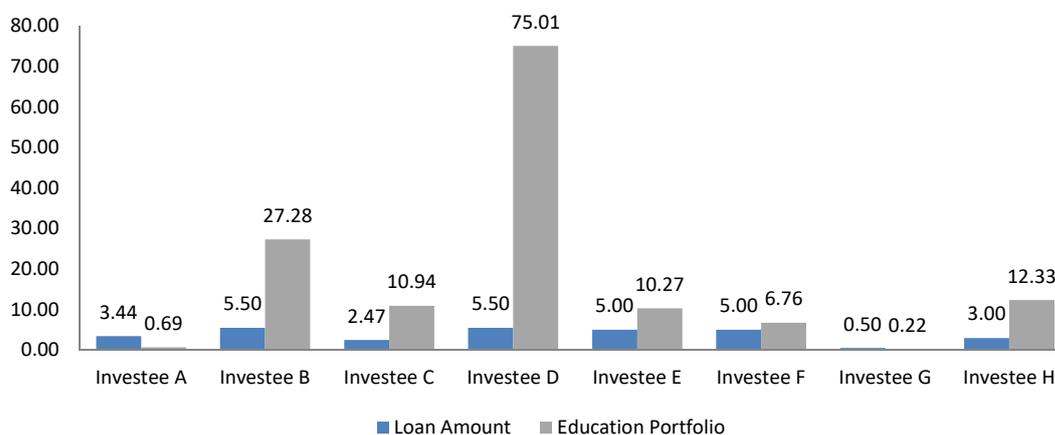
REFFA investments in financial institutions are made with the objective to support growth of their underlying education portfolios. The evidence so far indicates that REFFA loans are indeed helping investees grow their education loan outreach. Figure 7 lists investees that have had a REFFA loan for at least 2 years (it includes investees where loans have matured) and shows the year on year education portfolio growth of investees, experienced after receiving the investment. In all cases the education portfolio has grown significantly.

Table 1: YoY growth of education portfolio of REFFA investees

REFFA Investee	YoY growth	
	Year 1	Year 2
FI in Senegal	29%	1%
FI in Cameroun	21%	53%
FI in Ghana	13%	28%
FI in Tunisia	70%	10%
FI in Congo	46%	35%
FI in Tanzania	52%	19%

When analysing the proportion of REFFA's investments relative to the education portfolio of its investees, Figure 7 shows that there is a wide range. However, in 90% of investees, REFFA loans represent over 20% of their underlying education portfolio. This indicates the significant relative importance of REFFA investments in the investee's education outreach growth. There are two cases where the REFFA investment is still larger than the underlying education portfolio, as this is still ramping up and expected to continue growing.

Figure 7: REFFA investment relative to Education portfolio of investees (USD millions)



7. EVALUATING IMPACT – REFFA ADDITIONALITY

REFFA’s contribution is dedicated to maximise impact

Technical Assistance

To increase the intended impact objectives, REFFA has a dedicated Technical Assistance Facility (TA). Funds are mostly used to enhance institutional capacity of investees for education lending, provide market information to the Fund and its partners, and to foster innovation.

Since the TAF’s inception in 2013, more than 30 projects on capacity building or market research were implemented and completed in 11 countries. The use of these funds is overseen by a committee of the Facility’s donors, and managed by BlueOrchard Finance.

Loan structures

An important and unique contribution of REFFA is that 100% of its portfolio has been invested in local currency. While a large portion of the fund is hedged to protect it from the historic volatility of local currencies in target countries, REFFA has taken fully the currency risk of 9% of the portfolio has taken fully the currency risk, demonstrating its unique contribution and additionality to its investees. Moreover, 95% were lent in long term.

REFFA Technical Assistance Facility (Dec 2019)

42

Technical Assistance projects (31 completed)
since inception

59%

of TA (by volume) has been on individual investees
majority focused on product development

16%

of TA has been on market intelligence
majority focused on education market analysis

REFFA Portfolio evolution (Dec 2019)

8

Number of investees

100%

of the Portfolio is in local currency
out of which 8.6% is unhedged.

95%

of investments were lent long term
(above 36 months)



8. REFFA FOCUS ON QUALITY & AFFORDABILITY OF EDUCATION

REFFA's core objective is to contribute to increased education quality and ensure that predominantly lower income households benefit from affordable private education. The Fund therefore launched a dedicated project in early 2019 to design a framework which allows REFFA to understand the quality of education offered with the help of its funding, and to be able to assess how far this is affordable to the Fund's ultimate target group.

The final objective of this project is to build a framework through which the Fund's investees can undertake a documented analysis of education quality and affordability.

QUALITY OF EDUCATION ("QoE")

Measuring QoE is a complex and inherently qualitative concept which can be assessed on different dimensions. The UN has defined five such dimensions: learning environment, enabling inputs, teaching content and process, learning characteristics and learning outcomes. These served as basis for elaborating the **REFFA** assessment framework for QoE. In addition, different indicators are used as proxies for these dimensions, e.g. teacher-student-ratio to observe changes in education quality.

REFFA has been assessing QoE since its inception. During the past individual TA projects, an education-specific credit assessment was introduced to give guidance on evaluating certain core aspects of education quality during underwriting. Also, a focused impact assessment has shown that **REFFA** can contribute to improving education quality through its loans (e.g. for a more conducive learning environment).

AFFORDABILITY OF EDUCATION ("AoE")

Education is understood to be "affordable", if its costs can be covered by a family (or the learner) without having to make major sacrifices. The concept of AoE lies in the relationship between three variables: (i) household income/ expenditure; (ii) total (household) education costs and (iii) number of (privately schooled) children.

REFFA intends to promote education which is affordable to low - and lower middle-income groups. In its initial years, **REFFA** partnered with microfinance institutions only, which provided comfort that **REFFA**'s activities would benefit the lower income population. With a diversification of the portfolio towards banks, a concern emerged that high cost private education would become an important share of the portfolio. The question of affordability under **REFFA** is more one of targeting certain parts of a population and of gaining more visibility of **REFFA**'s activities in that regard.

Based on the early design considerations, key hypotheses on suitable indicators for measuring QoE and AoE were developed during 2019. To test these initial hypotheses for measuring QoE and AoE and to understand the realities and motivations of collecting required data by the investees, on-site visits were undertaken to two REFFA investees: Bayport Zambia and FINCA Nigeria.

These financial institutions represent the two extremes of the Fund's education-loan spectrum. While Bayport Zambia is strictly a payroll lender (funding education/ school fees of individuals), most of the education loans that are disbursed by FINCA Nigeria are to schools, which use such loans for school improvement and/ or working capital needs.

Based on the assessment done so far, REFFA, with the help of external consultants, has elaborated a framework to assess both QoE and AoE.

REFFA’s approach to assess Quality of Education for School Investment Loans

STRONG ESG PRACTICES

A school must be a safe and supportive learning environment for children. REFFA has selected a range of indicators to assess this, like the safety of the building, or availability of clean water, among others.

LEARNING INPUTS

REFFA evaluates indicators such as pupil-teacher ratios, class sizes, pupil textbook ratios, percentage of formally trained teachers and teacher absenteeism. These are crucial indicators for education quality.

LEARNING OUTCOMES

REFFA evaluates a set of indicators based on formal exam results which are published by education institutes.

REFFA’s approach to assess Affordability of Education

To assess AoE, REFFA is evaluating thresholds for household income spent on education. This would require that the total education expenditure (of all children in the household) does not exceed a certain percentage of total household income. The threshold could be varied by income quintile and educational level as poorer households can afford a smaller share of household expenditure on education before compromising basic welfare (e.g. food and health). Three types of data need to be available:

- Average household expenditure (or income) by income quintile (publicly available data)
- Average number of children per household by income quintile (publicly available data)
- School fees (collected by FI)

REFFA investees rely on their own assessment processes and client repayment capacity tools to assess any loan affordability. However, collecting this data will provide valuable information on what is the share of education expenses for the target beneficiaries of REFFA. Education affordability levels across the REFFA sub-loan portfolio will be analysed by the Fund Manager based on the data reported by the REFFA investees.



Project progress and outlook

The research and the discussions of interim results revealed that there is an inherent conflict of objectives between QoE and AoE. Typically, quality comes at a cost. An investment into improving quality of education (e.g. equipping an IT room) may trigger an increase in the school fees which in turn will decrease affordability. This relationship between the two fields will be further analysed in focused research.

For REFFA's board of directors, quality of education is a crucial goal for the Fund, reflecting the core concern that families get access to quality education. Therefore, affordability indicators will be used for strategic decisions and impact assessments at the Fund level.

The main project activities for 2020 will comprise:

- Draft tool development in close coordination with the Fund Managers' impact and investment teams
- Testing of prototype version of tool with the pilot investees Bayport Zambia and FINCA Nigeria
- Development of reporting tool to be used by the Fund Manager
- Finalization of the tools (FI level and Fund Manager level)
- Materials and recommendations for rolling out the tool across existing (and future) REFFA portfolio

This endeavor is of high strategic importance to REFFA and its investors, as it will provide the basis for mission-aligned monitoring and create a data base for future detailed impact-related reporting



9. IT'S ABOUT PEOPLE

Lotfi Tergui, client of Enda Tunisia

Lotfi lives with his family in the outskirts of Tunis, Tunisia. He is an independent tailor and happy father of two. The Arab Spring in 2010 blew a fresh wind of change in his life. After 4 years as a clothing shop seller and 2 years in a production factory, Lotfi decided to develop his own activity. A room in the family house was converted into a small workshop. He started mending trousers, shirts as well as other garment brought by his friends. His wife was already working in a hammam beauty salon.

In 2011, his former employer contacted Lotfi and asked him for small tailoring orders that required him to invest in fabrics. A friend advised him to go to Enda to seek funding and assistance in formally setting-up his microenterprise.

Enda Inter-Arabe, a pioneering microfinance institution in Tunisia, first trained Lotfi on how to create and run a company, providing basic finance courses on budgeting, accounting and saving. Once passed, Lotfi obtained his 1st loan (USD 260) to purchase fabrics and textiles.



Step-by-step, Lotfi diversified his activities, acted as subcontractor of larger organizations and received orders for more expensive outfits such as western suit requiring additional investments in materials and equipment. At the end of 2018, Lotfi borrowed USD 800 from Enda in his 6th cycle with an additional USD 175 school-fee loan to purchase books, aprons and pay the school-fees of his daughter aged 11 and his 15 year-old son.

10. CONCLUSIONS AND WAY FORWARD

REFFA's commitment to the achievement of its mission is manifested at various levels. As demand for primary, secondary and tertiary private education has increased in the region, REFFA's outreach indicators show a positive trend over the last 4 years. REFFA has financed an education portfolio of close to USD 150 million as of December 2019, providing loans to more than 1,100 private schools, 120 thousand learners and close to 30 thousand students.

Some portfolio trends and achievements can be highlighted:

- As in previous years, the education portfolio split at the end of 2019 shows a strong focus on education loans to families dedicated to fund school fees.
- Loans to students, which are directed to adult individuals who have taken out a salary-backed loan to invest into their further professional development, show the valuable contribution of REFFA to the professionalization of the labour market force.
- REFFA reached out to new African markets during 2019, adding Nigeria, Botswana and Swaziland.

Aligned with REFFA's mandate, during 2019 the Fund has also put significant efforts oriented to improve impact measurement and evaluation tools. The implementation start of the QoE and AoE project marked an important step towards designing a new dimension of on-the-ground impact monitoring. A key conclusion was the need to align the Fund's impact reporting needs with the business interests of REFFA's investees. The respective tools under development thus aim simple but meaningful at the same time. Nevertheless, striving to support quality of education has shown to be a clear common denominator between REFFA and its investees.

Way forward

The Fund aims to further expand its education portfolio, bringing in more financial institution partners who serve education providers with school investment loans, as well as learners and students. At the same time, the Fund is in touch with investees to design technical assistance interventions through which these institutions can further expand their current practices of education lending.

The way forward in terms of designing the framework for QoE and AoE will include the actual design of a web-based interface through which REFFA investees will upload relevant data from their client assessment to inform about levels of quality and allow for subsequent affordability calculations. This will be crucial to set strong foundations for a more in-depth and pro-active assessment of REFFA's impact intent: supporting good quality private education that is affordable to lower income populations in Africa

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