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USAID CATALYZE

Non-State Education Market Assessment: Ecuador

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Non-State Education Market Assessment: Ecuador

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GLOSSARY

Ancillary Services: are the services necessary to support the provision of formal education and services that complement it. Examples include school transportation, food catering, extracurricular activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, Ed-Tech companies, hardware providers, academic and administrative software.

Blended Finance: is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environmental results, such as improving infrastructure, education, agriculture, healthcare, and more.

Ed-Tech: is the collection of technologies that support the education sector, including services such as video learning platforms, e-readers, online file sharing platforms, and others.

Fund: A fund is a pool of money allocated for a specific purpose, such as retirement funds and mutual funds. Governments also create funds that are allocated to various goals. For example, capital project funds are used to finance the capital projects of a country, such as purchasing, building, or renovating equipment, structures, and other assets.

Gross Domestic Product (GDP): is the standard measure of the value added created through the production of goods and services in a country during a certain period.

Guarantee: A guarantee is a legal promise made by a third party (guarantor) to cover a borrower's debt or other types of liability in case the borrower defaults. The guarantee can be limited or unlimited.

Non-State Education: is characterized by a diversity of providers, including religious schools, non-profit schools run by NGOs or foundations, publicly funded schools operated by private boards, community owned schools, and for-profit schools that operate as enterprises

Private Schools: are schools that do not receive funding from the government or any other institution and depend only on their own income to operate.

Private Subsidized Schools: are schools that receive funding from the government or other institutions to operate (e.g., government pays for part of the payroll, church provides funding for the school to operate), but can charge fees to parents.

Return on Equity (ROE): is a key financial metric that measures a corporation's profitability relative to stockholders' equity. It is calculated by dividing a company's net income by shareholders' equity"

1. OVERVIEW

1.1. OBJECTIVE

This market assessment seeks to understand the non-state basic education sector, the state of blended finance in Ecuador and to identify potential opportunities for blended finance in the non-state education sector. This ranges from pre-school through secondary school, including ancillary educational services, with a focus on financing availability and access.

1.2. SCOPE AND METHODOLOGY

This assessment consisted of six weeks of primary and secondary research in Ecuador between October and November 2020. Primary research included interviews with 26 stakeholders from the educational and financial sectors, with a specific focus on the non-state education sector and the education financing market that serves it. Specific attention was given to the current status of non-state schools, ancillary services, and financial institutions, to identifying challenges and opportunities, and to assessing interest across different players involved in expanding the supply of financing to the non-state education sector and its end customers. Interviews included1 the following actors:

- Public Sector (1)
- Association of Banks/MFIs (2)
- Banks/MFIs (5)
- Association of Private Schools (4)
- Non-State Schools (6)
- Funders (5)
- Other education experts (3)

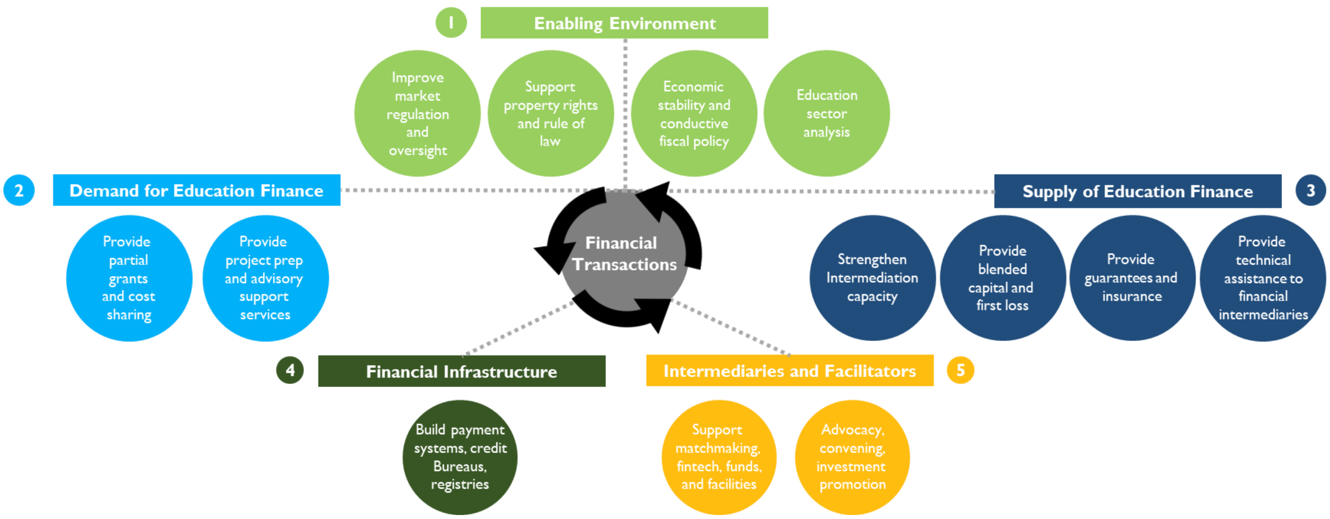
The methodology for the secondary research included a systematic search to identify relevant reports, studies, and statistics. The keywords were used both in English and Spanish, and date ranges were set from 2010 to 2020 for news articles, reports, academic databases, and international organization searches. The data sources consulted included:[2]

- Internet (Google)
- Academic databases (e.g., Scopus, Proquest, Jstor, Google Scholar)
- International organizations (e.g., USAID, UNESCO, IADB, World Bank, Convergence)
- Statistical databases (e.g., World Bank Open Data, UNESCO, Ecuador Ministry of Education, *Superintendencia de Bancos*)

The research is presented in five categories that have been informed by USAID's Five Point Blended Finance Framework. The five categories are: Enabling Conditions, Demand for Education Financing, Supply of Education Financing, Financial Infrastructure, and Financial Intermediaries.

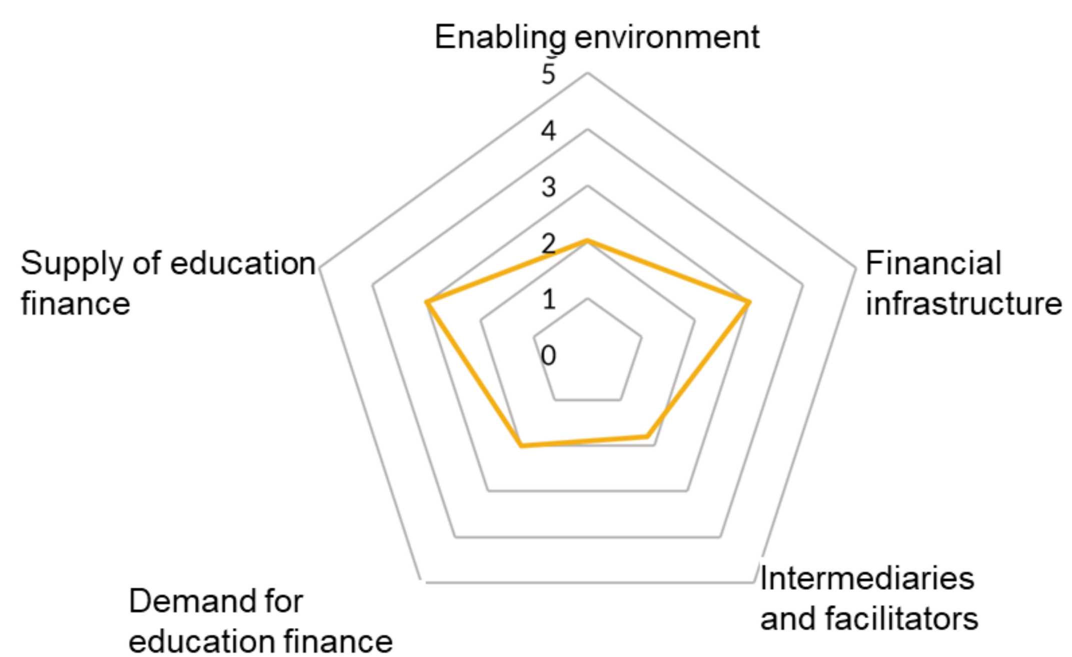
[1] Refer to Annex for full stakeholder list
[2] Refer to Annex for full list of data sources and key terms.

Figure 1: Five-Point Framework



The report builds into the results from the five-point framework diagnostic tool which indicates that Ecuador has strong finance providers and financial infrastructure, yet a weak enabling environment, finance seekers, and facilitators and disruptors.

Figure 2: Five-Point Framework Spiderweb



Note: Closer to the perimeter indicates relative strength; closer to center indicates possible obstacle to private sector growth

1.3. KEY FINDINGS

- **Non-state education institutions in Ecuador face a stringent regulatory environment under which they cannot freely adjust their prices, making growth and improving educational quality challenging.** Schools face additional restrictions. For example, they are prohibited from suspending students who have not paid their dues and from selling uniforms and other materials.
- **National and international assessments of non-state education quality are mixed.** Although the PISA assessment indicates that private schools have higher quality than public schools in some subjects, other studies measuring *Ser Bachiller* exam results have shown that if one accounts for socioeconomic differences, the difference in educational quality between public and private institutions is zero.
- **Over the next decade, demand for education is expected to keep growing driven by rising incomes and population growth**. However, demand for non-state education is weaker. The number of non-state institutions and the share of primary school enrollment in non-state institutions has been decreasing. Demand for private education, however, remains strong in Ecuador's large cities, with 39% of all students in Quito attending private schools and 44% in Guayaquil.
- **The non-state education sector has been hard hit by COVID-19.** As a result of the economic repercussions of the pandemic, enrollment in public schools increased 6.5% in June 2020, when the school year began on the coast. Institutions focusing solely on initial education have been the hardest hit, with approximately 45% of all initial education institutions permanently closing.
- **Schools have stated that the greatest financial needs are in the form of materials and equipment, infrastructure, and technology investments.** Moreover, operating costs for schools drastically increased as a result of COVID-19, as schools were forced to make large investments in technology and training professors for virtual teaching. According to Opportunity International, there's a demand of USD 39 million for school improvement loans.
- **Accessing financing is challenging for non-state schools due to i) lack of technical capabilities to request loans, ii) lack of collateral, and iii) limited product options.** Those institutions that have obtained financing from banks have stated that it has been through consumer loans and that usually, the loan is awarded to an individual (i.e., the school owner), not to the school as an enterprise. There is an estimated current demand for educational loans USD of 117-185m; USD 20-39m for school improvement loans and USD 97-146m for school fee loans.
- **Education entrepreneurs in Ecuador have struggled to receive financing due to i) high requirements, ii) limits to early-stage entrepreneurs, and iii) long and inefficient processes.** Moreover, Ecuador has a low rating in the "getting credit" index, which corroborates the challenges for SMEs, including non-state schools and ancillary services, in accessing credit.
- **However, there's high demand for financing ancillary services**, particularly from the school transportation sector (e.g., for OPEX) and EdTech companies such as electronic test preparation platforms and enterprises offering academic and administrative software (e.g., for operation expansion and scale-up). Demand for finance from ancillary services and other education-related enterprises is estimated around USD 9-18 million.
- **Education credits for students and parents in Ecuador are capped at a 9.50% interest rate, making it difficult to be profitable given that operational costs are higher than the**

interest rate. The 9.50% interest rate cap applies to students/parents seeking financing for the following education levels: general basic education to post graduate studies, continuous education, special education, scientific research, military careers, and languages. As a result, when targeting parents, most banks and MFIs provide financing through consumer loans, which enables financial institutions to charge a higher interest rate – 17.30% maximum. These credits are mostly used for complementary services, rather than tuition and enrollment fees.

- **Schools and education related enterprises in Ecuador (e.g., after-school, language programs) are treated as SMEs or commercial entities by most banks and MFIs.** No specific products targeting educational institutions have been identified. The most common types of loans for education institutions are priority commercial corporate loans and priority commercial SME loans. Interviewed schools that had received loans mentioned that loans ranged from USD 25 – 30 thousand in size and were mostly used to cover current expenses. Given that risk and charging costs are higher when lending to individuals rather than enterprises, banks do provide SME and commercial loans at interest rates of 9.33 – 11.83%, yet most are hesitant to offer education credits to parents at this price.
- **The four banks currently lending the most to education institutions (excluding higher education) are Banco Guayaquil, Banco Pichincha, Banco Bolivariano, and Produbanco.** These four banks, plus Banco del Pacífico (which currently offers the most education credits for higher education), could be potential partners for USAID in offering education finance. These five banks were selected based on an analysis of i) total lending; ii) total lending to the education sector (education credits plus SME and commercial loans to educational institutions); iii) additional SME loans (excluding SME loans to educational institutions) and consumer loans; and iv) average return on equity.
- **Although blended finance is emerging in Ecuador, blended finance for education is limited.** None of the deals on the Convergence platform are in the education sector specifically and just one of the 16 transactions recorded on the platform lightly touches on education.
- **Impact investing and public private partnerships (PPP) have been on the rise in Ecuador, presenting opportunities for increased investment in education.** Successful education PPP include *Fé y Alegría* and *Unidos por la Educación*, which could serve as models.
- **Ecuador still heavily relies on cash, with only 51% of the population 15 years and older having a bank account.** Additionally, only 28% of the population owns a debit card and just 9% owns a credit card. Lack of access to banking accounts and access to debit/credit cards has limited the use of financial products for education. The use of credit and debit cards for education payments represents an opportunity as a distribution channel and as a vehicle for short-term financing.
- **Despite having robust digital service offerings, demand for digital financial services is weak.** Ecuadorian citizens prefer in-person banking transactions. As such, there might be limited uptake if digital products / innovations are developed targeting the non-state education sector.
- **There are three main opportunities for blended finance to play a role in catalyzing funds in the non-state education sector**.
    - **A guarantee fund for the non-state education sector.** Such a facility could be coordinated between USAID and Ecuador's National Financial Corporation, which currently operates the National Guarantee Fund. The guarantee fund could be available to all financial institutions for loans to the non-state education sector (e.g., to schools for infrastructure investments and to parents for school fees and supplies loans) and provide a partial guarantee if the borrower default.

- **Technical assistance to financial institutions for product development.** USAID could partner with Opportunity International, who is already operating in Ecuador and has a long history of partnering with local financial institutions (e.g., Fundación ESPOIR, CACMU) to provide education financing. End beneficiaries of the technical assistance could include the following banks, which provide the most lending to the learning sector: Banco Pichincha, Banco del Pacífico, Banco Guayaquil, and Banco Bolivariano.
- **Design-stage funding for innovative educational enterprises and ancillary educational institutions.** Such funding would support educational enterprises at an early stage by financing (a) feasibility studies or (b) proof of concept. Potential investees include companies offering innovative educational models such as ReinventED Schools; Ed-tech companies providing tutoring services, test prep services, and educational management platforms such as Cuestionarix and Idukay; and foundations such as Fundación Scalesia who manage schools.

2. ENABLING CONDITIONS

2.1. NATIONAL CONTEXT

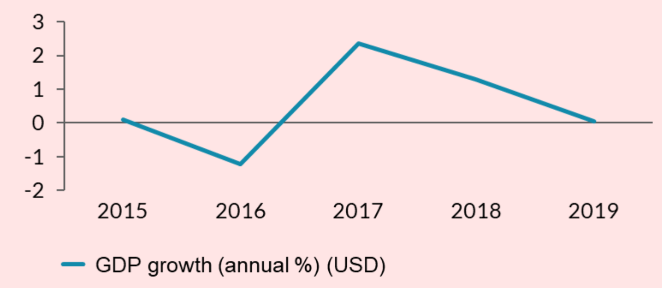
Year of independence: 1830

Population: 17.08M

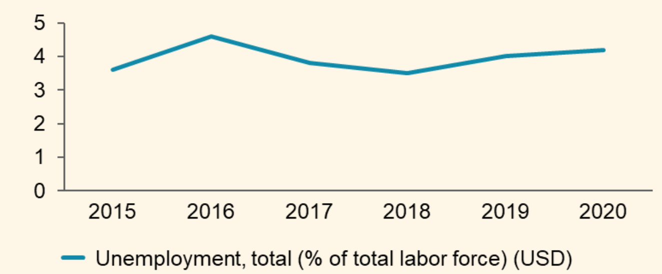
GDP size: 108.4 B USD

Capital: Quito

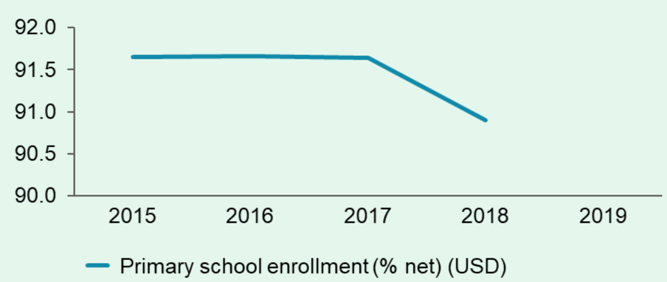
Macroeconomics	
2015-2019 average economic growth	0.5% (WBG)
2020 COVID-19 impact on GDP	-12.4% (IMF)
2021 predicted growth	3.7% (FocusEconomics)



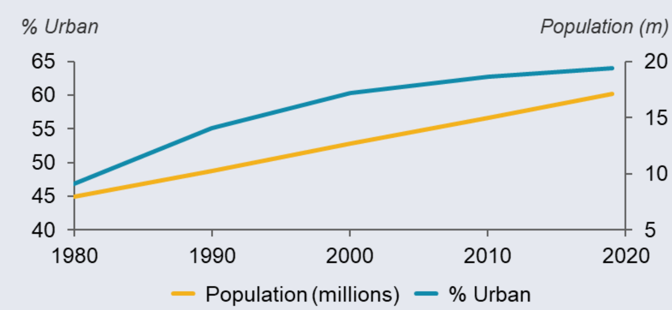
Market Conditions	
Unemployment rate (2020)	4.2% (ILO)
Inflation rate (2019)	0.3% (WBG)
Ease of doing business (2020)	Score: 57.7 Ranking: 129 out of 190



Social Conditions	
Poverty ratio at USD 3.20 per day (2018)	9.7% (WBG)
Literacy rate (2017)	92.8% (WBG)
Primary school enrollment (2018)	90.9% (WBG)



Demographics	
Language (2017)	Spanish (93%); Kichwa (6-12%); Schwar (0.2%)
Gini index (2018)	45.4 (WBG)
Urban population (2019)	63.9% (WBG)
Female population (2019)	49.9% (WBG)



Ecuador is a small country in northwestern South America, bordered by Colombia on the north, Peru on the south and east, and the Pacific Ocean on the west. Ecuador has 17 million people, with the following ethnic distribution: 71.9% Mestizo, 7.4% Montubio, 7.2% Afroecuadorian, 7% Indigenous, and 6.5% White.[3] The country's official language is Spanish (93% of population), with Kichwa (4.1%) and Shuar (0.7%) recognized as official languages of intercultural relations.[4] In total, there are 13 indigenous languages in official use by indigenous communities. Ecuador is a middle-income representative democratic republic. It is the 7th largest economy in the Latin America and the Caribbean (LAC) region.[5] Its economy heavily depends on commodities, particularly petroleum and agriculture.

Ecuador's population has been steadily growing and is likely to continue growing given (1) its above replacement level fertility and (2) increasing immigration.[6] Today, Ecuador has a population growth rate of 1.2% and the number of young people aged 0-19 years continues to rise.[7] Currently, 30% of the population is aged 4-19 years old.[8] Ecuador is expected to reach its maximum population of people aged 0-19 years in 2030 (6.5 million 0-19 year olds).[9] Moreover, immigration to Ecuador continues to rise, from 78,663 immigrants in 1990 to 381,507 immigrants in 2019.[10] Today, Ecuador is Latin America's top recipient of refugees, 98% of whom are Colombians fleeing violence.[11]

Ecuador's population is mostly concentrated in urban areas in the interior, with approximately 50% of the population living in the Andean basins and valleys.[12] The western coast is also largely populated, while the rainforests of the east are sparsely populated. In the last three decades, Ecuador has undergone rapid urbanization. In 1990, 44.9% of Ecuador's population lived in rural areas.[13] Today, that figure has decreased to 36%.[14] Currently, Ecuador has a high rate of urbanization at 1.66% annually.[15]

During the 10-year presidency of Rafael Correa (2007-2017), economic conditions also improved in the country, with GDP per capita, Human Development Index (HDI), and years of schooling steadily increasing, and inequality and poverty decreasing. An overview of key development indicators is presented in the table below.

Table 1: Key Development Indicators 2009-2017[16]

Indicator	2000	2010	2019
GDP per capita	USD 1,445	USD 4,634	USD 6,184
Inequality-adjusted HDI	N/A	0.572	0.607
Mean years of schooling	7 years	8 years	9 years (2018)
Inequality (gini coefficient)	56.4	48.7	45.4 (2018)
Poverty headcount ratio at USD 5.50 a day (% of pop.)	72.7%	34.4%	24.2% (2018)

[3] *El Universo*, 2011
[4] USAID, n.d.
[5] International Monetary Fund, 2018
[6] CIA, 2020
[7] CIA, 2020
[8] *Instituto Nacional de Evaluación Educativa*, 2018
[9] United Nations Department of Economic and Social Affairs, Population Division, 2019
[10] *Expansión*, 2019
[11] CIA, 2020
[12] CIA, 2020
[13] World Bank Indicators, 2019
[14] World Bank Indicators, 2019
[15] CIA, 2020
[16] World Bank Indicators, 2018; World Bank Indicators, 2019; UNDP, 2019

Although Correa's presidency ushered in a period of political stability, poverty reduction, and strong economic growth, his time in office also eroded democracy in the country and hampered many private sector initiatives. Correa exhibited authoritarian tendencies including (1) intimidating independent media outlets through the Organic Law on Communications (2013); (2) using emergency provisions to force all TV and radio outlets to broadcast him; (3) eliminating term limits; and (4) drafting a new constitution that increased his power.[17] Along with this, Correa relied on strong populist rhetoric that was antagonistic towards banks and the private sector.[18] Correa's handpicked successor, Lenin Moreno, who came into office in 2017, has reversed many of Correa's anti-democratic reforms, including reinstating presidential term limits and increasing the autonomy of the press and universities. Despite this shift back to democracy, Moreno's presidency has been marred by widespread economic turmoil.

2.1.1. ECONOMIC AND FISCAL CONTEXT

Two major events have shaped Ecuador's modern economy: (1) the discovery of oil reserves in the 1960s and (b) the dollarization of the economy in 2000. The discovery of oil reserves transformed Ecuador from an agrarian economy to a commodity-driven economy. After beginning to export oil in 1972, Ecuador experienced a major economic boom. Most importantly, oil became a new source of revenue for the government and as a result, the size of government doubled.[19] Today, Ecuador's government remains just as large despite dips in the price of oil. On the other hand, the adoption of the US dollar as the country's official currency in 2000 after the 1999 economic crisis ended a period of high inflation that had lasted approximately three decades. Since the adoption of the US dollar, inflation in the country has remained at single digits.[20]

After dollarizing the economy in 2000, Ecuador underwent a period of economic growth, bolstered by a second oil boom (2005-2015). Between 2000 and 2017, the economy grew at an average rate of 3.7% per year.[21] In 2000, Ecuador restructured its foreign debt, which it had defaulted on in 1999.[22] As a result of the restructuring, the face value of the debt fell by 40%.[23] Despite strong economic growth, fiscal policy has been less robust, with fiscal discipline eroding through the years. During the initial dollarization years (2000–2006), Ecuador improved its fiscal accounts. The government passed several fiscal responsibility laws to ensure the sustainability of the dollarization system – government expenditures were capped at 3.5% annual growth, the debt-to-GDP ratio was capped at 40%, and oil stabilization funds were developed to increase government savings.[24] From 2000 to 2006, government deficit averaged at around 0.5% of GDP, a significant change from the previous decade.[25] As a result of improvements in the fiscal accounts and increased economic growth, Ecuador decreased its foreign debt-to-GDP ratio from 55% in 2000 to 21.5% in 2006. [26]

However, with Correa's entrance into office in 2007, Ecuador's public expenditure increased, facilitated by historically high oil prices, and fiscal discipline decreased. As a result, Ecuador's budget deficit rose, and the country resorted to increased borrowing to cover its financial needs. Today, under the presidency of Lenin Moreno, Ecuador has prioritized attaining fiscal

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[17] Stuenkel, 2019
[18] Stuenkel, 2019
[19] Cueva and Díaz, 2019
[20] Cueva and Díaz, 2019
[21] Cueva and Díaz, 2019
[22] Cueva and Díaz, 2019
[23] Cueva and Díaz, 2019
[24] Cueva and Díaz, 2019
[25] Cueva and Díaz, 2019
[26] Cueva and Díaz, 2019

sustainability, reducing the size of the public sector and its role in the economy, strengthening the dollarization system, and encouraging private investment.

Despite Moreno's efforts at fiscal consolidation, Ecuador has been experiencing a sharp economic contraction since 2018, driven by the end of the commodity boom. This precarious economic situation was worsened by the economic shocks of COVID-19. Domestic consumption fell 2% in 2016.[27] Although consumption slightly recovered in 2017 with a 3.6% increase, it has been growing at a slower rate since then.[28] In 2019, consumption only increased 0.7%.[29] Moreover, in 2020 consumption plummeted 11.9% year-on-year as a result of COVID-19.[30] Although remaining at relatively low levels, unemployment has also been steadily rising since 2018, reaching 4.2% in 2020.[31]

The long-term economic outlook for Ecuador is slightly more positive. However, uncertainty still looms given the upcoming 2021 presidential elections. Despite economic hardships, Ecuador benefited from an increase in both imports and exports from 2016 to 2018, with a slight dip in each in 2019.[32] FocusEconomics predicts that Ecuador's economy will rebound strongly in 2021, growing by as much as 3.7%.[33] Fitch Ratings concurs, estimating that the country will grow around 4.9% in 2021.[34]

2.1.2. INVESTMENT CONTEXT

Under the leadership of President Moreno, Ecuador has actively tried to increase private sector investment and foreign direct investment (FDI) to drive economic growth. Ecuador passed the Productive Development Law to bolster investment in 2018, has changed tax policies and regulations, and enacted a Law of Incentives for Public Private Partnerships (PPP) and Foreign Investments in 2015.[35] Ecuador also seeks to draft a new law on PPPs to increase private investment in infrastructure initiatives. Given Ecuador's dollarized economy, the country has "few limits on foreign investment and repatriation of profits," only requiring a 5% capital exit tax.[36] Ecuador's population views the United States positively in particular and President Moreno has significantly increased bilateral ties and cooperation with the country.

Despite government efforts, FDI has remained very low compared to other LAC countries, particularly due to corruption.[37] Ecuador ranks in the bottom third of countries in Transparency International's Corruption Perceptions Index.[38] Moreover there have been high-profile cases of corruption among state officials, including several cases involving PetroEcuador, the state-owned oil company, and charges against former Vice President Jorge Glas, who was convicted in 2017.[39] Additionally, Ecuador performs poorly in international rankings, which explains investor hesitance. Ecuador is ranked #129 out of 190 countries in the World Bank's "Ease of Doing Business" report.[40] Moreover, out of the 32 countries in LAC, Ecuador ranks 21, with particularly low rankings in ease of starting a business, resolving insolvency, and paying taxes.[41] Ecuador's rankings in specific categories

[27] FocusEconomics, 2020
[28] FocusEconomics, 2020
[29] FocusEconomics, 2020
[30] FocusEconomics, 2020
[31] World Bank Indicators, 2020
[32] FocusEconomics, 2020
[33] FocusEconomics, 2020
[34] Fitch Ratings, 2020
[35] US Department of State, 2020
[36] US Department of State, 2020
[37] US Department of State, 2020
[38] US Department of State, 2020
[39] US Department of State, 2020
[40] World Bank Group, 2020
[41] World Bank Group, 2020

compared to other LAC countries can be found in Table 2. Ecuador also received an International Property Rights Index score of 4.803, ranking it 94th globally and 15th in Latin America.[42]

Table 2: Ease of Doing Business Rankings[43]

Indicator	Ecuador LAC ranking	Ecuador score	LAC avg. score
Ease of starting a business	29	69.1	79.6
Dealing with construction permits	14	66.4	63.2
Getting electricity	18	72.3	71.7
Registering property	4	67.7	54.9
Getting credit	18	45.0	52.0
Protecting minority investors	19	44.0	47.3
Paying taxes	20	58.6	60.5
Trading across borders	17	71.2	69.1
Enforcing contracts	15	57.5	53.5
Resolving insolvency	26	25.5	39.2

Note: Bold indicates worse performance than regional average.

2.1.2.1 USAID EDUCATION PRIORITIES IN ECUADOR[44]

Although USAID closed its Ecuador field office in 2014, increasing access and quality of education has always been a priority area. USAID signed a Memorandum of Understanding with Ecuador in 2019, which consists of eight strategic areas for cooperation, including "promoting education in Ecuador at all levels, including in science, technology, and innovation".[45] USAID seeks to promote quality education for all Ecuadorian citizens by helping Ecuador build its capacity in this area.[46] Moreover, historically, USAID has been committed to improving education in Ecuador. Between 1965 and 1972, USAID built approximately 1,000 schools to increase access to basic education.[47] Since 2000, improving access to higher education and science and technology has been a key focus area. USAID's education-focused efforts in the early 2000s include: i) increasing civic education in schools as part of its democracy and governance program (2001-2009), ii) providing technical assistance to improve education in Ecuador's eight indigenous communities (2007-2011), and iii) promoting environmental education (2007-2012).[48]

2.2. OVERVIEW OF THE EDUCATION SECTOR

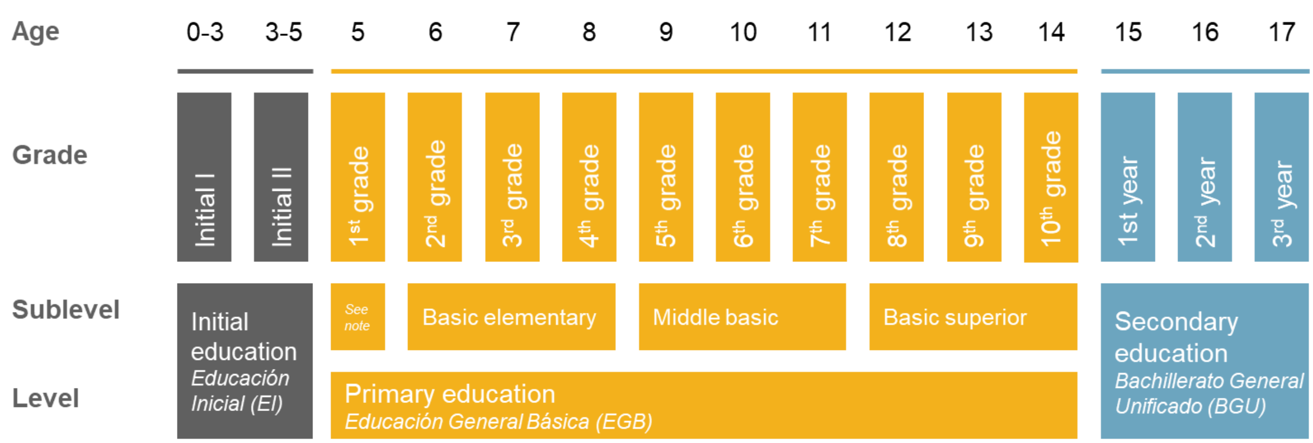
2.2.1. STRUCTURE OF THE EDUCATION SECTOR AND COORDINATION BODIES

The education sector is divided into initial education, primary education, and secondary education. Initial education (EI) is split up into two levels: Initial I (abbreviated *EI I* in Spanish) for

42 Property Rights Alliance, 2019
43 World Bank Group, 2020
44 Ecuador does not have a Country Development Cooperation Strategy (CDCS). As such, other USAID materials were used to develop this section.
45 USAID, 2019
46 USAID, 2019
47 USAID, n.d.
48 USAID, 2011

students aged 0 to 3 years and Initial II (abbreviated *EI II* in Spanish) for students aged 3 to 5 years. In accordance with the *Ley Orgánica de Educación Intercultural 2011*, *EI I* falls under the responsibility of parents, while *EI II* is the responsibility of the state. Although *EI* is obligatory under Article 28 of Ecuador's constitution, it is not a mandatory requirement for enrolling in primary education, referred to as General Basic Education (abbreviated *EGB* in Spanish). *EGB* services students aged 5-14 years and is divided into four sublevels: (1) preparatory, (2) basic elementary, (3) middle basic, and (4) basic superior. Excluding preparatory, which is just one year in duration, the subsequent three levels are split into three years each. Secondary education, referred to as General Unified High School (abbreviated *BGU* in Spanish) is three years long. Students are required to take a series of core courses and then specialize in either sciences or technical areas. Students can also opt to enroll in complementary *BGUs*, which can be either productive technical schools or artistic schools. A breakdown of the structure of Ecuador's school system can be found in the figure below.

Figure 3: Structure of the Education System



***First grade is referred to as sub-level "Preparatory"*

2.2.2. DISTRIBUTION BY LEVEL AND TYPE OF INSTITUTION

There are three types of educational institutions in Ecuador: public, private, and *fiscomisional*. *Fiscomisional* schools have mixed financing, meaning they receive both public and private funding. Most *fiscomisional* schools are religious schools that receive subsidies to pay teacher salaries.

Public institutions dominate the education landscape in Ecuador. Over 70% of Ecuadorian students are educated in public institutions. This predominance of public sector schools extends across all educational levels. Furthermore, students predominantly attend schools in urban areas, with 77.7% of students enrolled in urban schools and 22.3% of students attending schools in rural areas.[49] As of 2017, Ecuador reached 97% net enrollment for general basic education in urban areas and 94.6% net enrollment in rural areas, indicating that there is still work to be done in rural areas.[50] Providing educational services in rural areas has been more challenging given lower connectivity and lower population density. The tables below present a breakdown of (a) students by type of institution, gender, and geography, and (b) institution type by geography and teaching language.

[49] *Instituto Nacional de Evaluación Educativa, 2018*
[50] *Instituto Nacional de Evaluación Educativa, 2018*

Table 3: Number and Percentage of Students by Type of School, Gender, and Geography 2017[51]

Level	Enrollment	Type of school			Gender		Geography	
		Public	Fiscomisional	Private	Male	Female	Urban	Rural
Initial education	351,989	71.5%	3.3%	25.2%	49.9%	50.1%	77.7%	22.3%
General basic education	3,267,181	76.4%	5.9%	17.7%	50.7%	49.3%	74.6%	25.4%
Secondary education	915,711	71.4%	8.9%	19.7%	49.9%	50.1%	82.2%	17.8%
Total	4,534,881							

Source: Ministry of Education (Ecuador)

Table 4: Number of Schools by Type, Geography, and Language[52]

Type of School	Number of Schools	Geography		Language of Instruction	
		Urban	**Rural**	**Bilingual**	**Spanish**
Public	12,755 (76%)	5,823	6,932	1,679	11,076
Private	3,372 (20%)	2,938	434	12	3,360
Secular	2,604	2,282	322	10	2,594
Religious	768	656	112	2	766
"Fiscomisional"	671 (4%)	432	239	69	602
Total	**16,798**				

Most private schools in Ecuador are family-owned, although several additional ownership models also exist. No publicly available databases exist on private school ownership in Ecuador. However, interviews with school associations indicated that most private schools in the country are family-owned. These schools can be either religiously affiliated or secular. Private schools in Ecuador can also be owned by individuals, corporations, foundations, school chains, and religious organizations.

2.2.3. REGULATORY BACKGROUND

Education in Ecuador is governed by the Ministry of Education. The education system is administered through a decentralized system that consists of 9 zones, 140 districts, and 1,142 education circuits. There are a total of 16,932 educational institutions, of which 7,627 institutions offer initial education, 15,992 offer *EGB*, and 8,366 offer *BGU*.[53] Additionally, a separate institution, the National

[51] *Instituto Nacional de Evaluación Educativa, 2018*
[52] *Archivo Maestro de Instituciones Educativas (AMIE) Periodo 2018-2019*, 2019
[53] *Instituto Nacional de Evaluación Educativa, 2018*

Institute of Educational Evaluation (*INEVAL*, its Spanish acronym) oversees education quality by promoting continuous improvements in education quality and leading evaluation processes.

Ecuador's 2008 Constitution and the 2011 *Ley Orgánica de Educación Intercultural (LOEI)* form the basis for the country's education policy and strategy. Under Ecuadorian law, education must be centered on the human being and his holistic development. Ecuador's constitution stipulates that education is a basic right and that it is the state's duty to provide education to all citizens. Article 3 states that the government must guarantee the right to education without discrimination and Article 28 stipulates that initial, primary, and secondary education is mandatory for all citizens. In accordance with Article 27, education must help develop competencies for creation and employment and must respect the right of communities, towns, and nationalities to an intercultural, bilingual education. The *LOEI* on the other hand serves as the norms that dictate implementation of constitutional educational guidelines. The *LOEI* also outlines the responsibilities of the different stakeholders of the National Education System.

Since 2006, Ecuador's education policies have sought to strengthen the public education system, after a decade of operating on a largely privatized and commercialized education system (1996 – 2006). In 2006, the Ministry of Education drafted the Ten-Year Education Plan 2006-2015 (Plan Decenal de Educación), which centered on strengthening the country's public education system. This plan became the education proposal of President Rafael Correa, who took office in 2007. Under this plan, the government sought to 1) increase access to public education by eliminating barriers of entry and b) increase the supply of public education.[54] Through this, Ecuador aimed to achieve universal basic education. During Correa's administration, the 2008 Constitution was also adopted, which had additional reforms for the education sector.

To increase access to education under the Ten Year Plan (2006-2015), the government (a) eliminated enrollment fees[55] and instead offered free education, (b) disbursed USD 50 per month to people living below the poverty line who sent their children to school, and (c) provided textbooks to all students and uniforms and meals to those with the greatest need.[56] Similarly, the government focused on increasing the supply of public education by (a) improving school infrastructure and materials; (b) increasing the number of teachers; and (c) building more schools, particularly where there were supply and demand gaps.[57] As a result of the Education Plan and subsequent policies, pre-school and general basic education became mandatory, reaching near-universalization.[58] Public spending on education, as a share of GDP, also rose from 4.3% in 2009[59] to 5.0% 2015 (although still falling short of the government objective of spending 6% of GDP).[60]

In particular, Ecuador's 2008 constitution focused on strengthening the quality of public teachers by improving their working standards: "Article 349. The State shall guarantee, for the teaching staff… job security, modernization, ongoing training, and teaching and academic improvement, as well as fair pay".[61] The law also regulates salaries and promotions and established a performance evaluation system.

[54] Cevallos Estarellas, 2015
[55] Note: Prior to 2006, parents had to pay approximately USD 25 when enrolling their children in a public school; Source: Hermida, 2014
[56] Cevallos Estarellas, 2015
[57] Cevallos Estarellas, 2015
[58] Cevallos Estarellas, 2015
[59] Note: Earliest date with data available
[60] World Bank Indicators, 2015
[61] Schneider, Cevallos Estarellas, & Bruns, 2017

Today, the country's education strategy is incorporated in the 2017-2021 National Development Plan (NDP).

2.2.4. TARGETS OF THE EDUCATION SECTOR

Ecuador has set ambitious objectives for the education sector, which are outlined in the 2017-2021 National Development Plan. By 2030, Ecuador aims to (1) provide universal access for both EGB and BGU; (2) expand specialized and inclusive education modalities; and (3) increase the supply of higher education options clearly related to labor force demands.[62] These education targets are included in objectives 1 and 2 of Ecuador's NDP:

- Objective 1: Guarantee a dignified life with equal opportunities to all people
  - Offer productive education options by strengthening technical and technological education. Transform technical and technological education so they become the equivalent of higher education.
  - Systemically increase coverage and quality of inclusive education services
  - Goals: Increase attendance rates and percentage of adults with a *BGU* degree
- Objective 2: Affirm multiculturalism and plurinationality, and foster diversity
  - Guarantee the conservation of traditional languages and multilingualism, and sustain multicultural education systems
  - Goals: Increase education enrollment and education achievement levels for indigenous populations and other minorities

2.2.5. QUALITY OF EDUCATION

Education quality is mostly on par with other countries in the region, with scores around or slightly below average in most aspects. According to the latest TERCE[63] assessment results (2015), Ecuador ranked below average or average among Latin American countries in all test categories.[64] Similarly, the latest PISA[65] assessment (2017) shows mixed results: Ecuadorian students ranked below the regional average in mathematics and slightly above the regional average in reading and science.[66] According to PISA results, 71% of Ecuadorian students have poor performance in mathematics.[67] Moreover, Ecuador is one of the countries with the largest gender gaps in mathematics, with boys scoring 20 points higher, the equivalent of a difference of one year of schooling.[68] Similarly, PISA results indicate that students from lower socioeconomic levels have lower scores and have little probability of improving their scores.

2.3. NON-STATE EDUCATION IN ECUADOR

2.3.1. REGULATORY BACKGROUND FOR NON-STATE EDUCATION

The regulatory framework for private education in Ecuador is extremely rigid, with stringent requirements and price controls. This has made it difficult for private schools to thrive. Despite achieving increased access to public education, the presidency of Rafael Correa (2007-2017) greatly hampered non-state education. His anti-neoliberalism rhetoric, the reforms enacted in

[62] *Instituto Nacional de Evaluación Educativa, 2018*
[63] Note: *Tercer Estudio Regional Comparativo y Explicativo de la Calidad de la Educación en América Latina*
[64] *Organización de las Naciones Unidas para la Educación, la Ciencia y la Cultura, 2016*
[65] Note: Programme for International Student Assessment
[66] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[67] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[68] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019

accordance with the Ten Year Plan, and the 2008 Constitution, although advocating for equity in education, stifled private education.[69] For example, Article 28 of the constitution states that "education should respond to the public interest, and will not be at service of individual and corporate interests".[70] In addition, President Correa sought to halt educational reforms that could potentially segregate the population, including the creation of charter schools.[71] As a result, innovation in non-state education became increasingly challenging, hampering the ability of schools to grow and improve their educational services.

In 2011, Ecuador enacted the *Ley Orgánica de Educación Intercultural (LOEI)*, which (a) prohibited for-profit schools in the country and (b) gave the government the authority to set and regulate non-state school monthly and enrollment fees.[72] Article 118 of the *LOEI* determines the price ranges that non-state schools can charge for enrollment and monthly fees, based on education quality and other indicators.[73] New schools must submit their monthly fee proposals to the Ministry of Education for approval before being able to operate. Furthermore, in accordance with Article 132, at the beginning of each academic year, the Ministry of Education determines the specific monthly and enrollment fees that each non-state educational institution may charge for that academic year.[74] The fee can increase by a maximum of 10% year-on-year, yet most schools do not get their fee increases approved.[75] Schools must justify why they want to increase their fees and must show evidence of having implemented improvements to obtain a fee increase approval. This applies to all non-state schools in the country, both private and *fiscomisional*.

To determine the prices that non-state schools can charge, the Ministry of Education evaluates several metrics, including the school's budget, facility size and quality, and number of students and teachers. The problem is that the government fails to consider important factors in determining the fees that schools may charge, including the amounts schools must spend on teacher retirement gifts and scholarships (by law, 5% of the student body has to receive scholarships of at least 50%).[76]

As a result, most schools are left in a tight financial situation – they are able to cover their basic operational costs, which primarily consist of teacher salaries (70%), but are unable to grow. [77] The government fee caps prevent schools from investing in technology improvements, infrastructure, and innovations that could help improve educational quality. As a result, many schools have opted for additional monetary inflows, such as fundraising from parents and donations from municipal governments, to cover expenses that they are unable to pay for given the government's fee restrictions. In the past couple of years, many schools have also shut down given their inability to raise prices as needed.

Non-state schools in Ecuador face additional monetary restrictions, which hamper their ability to adequately operate and invest in improvements. These include (1) frequently freezing tuition through presidential decrees (e.g., during the 2019 economic downturn and 2020 COVID-19 pandemic), (2) prohibiting schools from suspending students who have not paid their dues (i.e., withholding services), and (3) prohibiting non-state schools from selling uniforms and materials, and

[69] Gomez, 2019
[70] Isch Lopez, 2011
[71] Isch Lopez, 2011
[72] Inter-American Development Bank, 2018; *Ministerio de Educación*, 2017
[73] *Ministerio de Educación*, n.d.
[74] *Ministerio de Educación*, n.d.
[75] Interview with *Fedepal*
[76] Interview with *Fedepal*
[77] Interview with *Fedepal*

from selecting specific suppliers for such.[78] In total, Ecuadorian non-state schools face 8 prohibitions by law.[79]

As a result, non-state schools are frequently sanctioned. The most common breaches are irregular enrollment fees, exceeding the spending limit on required school supplies, and charging for additional expenses.[80] Sanctions range from small warnings to closing institutions. Consequently, many non-state schools have been forced to either lower their prices or shut down entirely, hampering educational alternatives in the country.

In addition, non-state schools have mentioned that regulation is uncertain, as it is characterized by frequent policy and restriction changes. This makes it extremely difficult for schools to operate, forcing them to channel their efforts into keeping up with the latest government decrees and navigating bureaucratic hurdles, rather than focusing on internal school operations.

2.3.2. REQUIREMENTS FOR NON-STATE SCHOOLS

There are several requirements for setting-up a non-state school. Schools must obtain permits for operating and renovating, and must conform to what is stipulated in the *Ley Orgánica de Educación Intercultural.* Requirements to establish a non-state school include: (1) education proposal, (2) adherence to infrastructure and equipment standards, (3) risk reduction plan, (4) compliance with standards for directors and professors, (4) economic and financial plan, and (5) a declaration that they are not engaging in any activity prohibited by law.

2.3.3. ASSOCIATIONS OF NON-STATE INSTITUTIONS

Ecuador has four major associations of non-state institutions. The Federation of Secular Private Education Establishments (*Fedepal*, its Spanish acronym), the Ecuatorian Confederation of Catholic Education Establishments (*Confedec*, its Spanish acronym), the Corporation for the Quality of Education (*Corpeducar*, its Spanish acronym), and the Corporation of Private Kindergartens of Ecuador (*Crecipe*, its Spanish acronym). These organizations represent the interests of non-state institutions with the Ecuadorian government and provide services to their members, including trainings. Furthermore, they have come together in a united front to advocate for joint priorities including (1) drafting the new Organic Law for Education, (2) attaining financial autonomy (i.e., eliminating price controls), (3) eliminating educational districts to reduce bureaucracy, and (4) achieving judicial stability, as the policy environment in regards to education is quite volatile.

2.3.4. QUALITY OF NON-STATE EDUCATION

National and international assessments of non-state education quality are mixed. Scholars have argued that "non-state education has taken advantage of the gaps in Ecuador's public infrastructure and service provision system to offer education at a higher cost and without guaranteeing higher quality".[81] A study conducted by *Ecuadoruniversitario.com* in 2014 corroborates this point. The study concluded that although private school students overall perform better in the *Ser Estudiante* assessment, if one compares students of similar socioeconomic levels, rather than comparing public school students and private school students aggregately, the difference in results is zero. This means that the difference in the scores of public and private school students is due to economic differences and not to higher quality in private institutions.[82] The study used official data from the National Institute of Educational

[78] El Telégrafo, 2019
[79] El Telégrafo, 2019
[80] El Telégrafo, 2019
[81] Benalcázar, 2017
[82] *Ecuadoruniversitario*, 2014

Evaluation (*INEVAL*) and compared the scores of 48,000 students who took the 2013 *Ser Estudiante* assessment.

Despite these findings, the PISA assessment indicates that private schools have higher quality in some subjects. In reading, private school students scored 63 points higher than their public school peers, which translates into a difference of one year of schooling.[83] In line with these findings, Ecuador's government has noted that there are still public institutions that lag behind non-state schools in education quality. This is mostly due to the quality of teachers.[84] However, consistent with *Ecuadoruniversitario.com*'s analysis, the PISA assessment also finds that for mathematics and science differences in public and private student scores diminish when considering socioeconomic status.[85]

2.3.5. DEMAND FOR EDUCATION

The demand for basic K-12 education in Ecuador has increased over the past decades. This is driven by two factors: 1) population growth: the population between 0-19 years increased from over 4 million in 1980 to over 6 million in 2020[86] and 2) increase or high enrollment rates in the last decade: gross enrollment rates in preprimary[87] (initial education) grew from 40% to 66%[88], primary net enrollment rates have remained stable at over 90%[89] since the 1990s (although have been slightly decreasing since 2007), and net enrollment in secondary education rose from 48% in 2000 to 85% in 2018[90].

Over the next decade, the demand for education is expected to keep growing as a result of rising incomes and population growth, until Ecuador reaches its maximum population of people aged 0-19 years in 2030 (6.5 million 0-19 years old).[91] Over the past decade, Ecuador's population has been growing at an average rate of 1.6% per year.[92] Moreover, today, approximately 30% of Ecuador's population is aged 4-19 years, indicating that the country has a large potential market for education. Multidimensional poverty in Ecuador has also decreased over the past decade, from 27.2% of the population in 2009 to 16.9% of the population in 2017.[93] From 2030 onwards, there will be a decline in the demand for education as the population gets older, the fertility rate continues to decrease (from over 6 children per woman in 1950 to 2.5 in 2016)[94] and as the population aged 0-19 years declines to levels seen in the 1980s by 2100.

2.3.6. TEACHERS AT NON-STATE EDUCATION INSTITUTIONS

Teachers at non-state schools are required by law to have the same credentials as public school teachers; however this does not ensure quality. Requirements include having a university degree that's related to education and passing a psychological examination. However, private schools have argued that finding quality teachers is quite challenging. Multiple private school directors stated that professors lack motivation and passion for teaching, which hampers their performance. For instance, professors are reluctant to move beyond traditional teaching methods or sticking to the textbook even

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83 Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
84 *La Nación*, 2016
85 Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
86 United Nations Department of Economic and Social Affairs, Population Division, 2019
87 "Preprimary education refers to programs at the initial stage of organized instruction, designed primarily to introduce very young children to a school-type environment and to provide a bridge between home and school." (World Bank)
88 World Bank Indicators, 2018
89 World Bank Indicators, 2018
90 World Bank Indicators, 2018
91 United Nations Department of Economic and Social Affairs, Population Division, 2019
92 United Nations Department of Economic and Social Affairs, Population Division, 2019
93 *Instituto Nacional de Evaluación Educativa*, 2018
94 World Bank Indicators, 2018

if these aren't the most effective strategies. One director mentioned: "if I am not constantly pressuring professors, they do not do anything".

Moreover, attracting quality professors has been challenging due to low non-state education salaries compared to other sectors. Education degrees in Ecuador cost around the same as other degrees, such as engineering degrees which ensure higher salaries after graduation. As a result, many of the most qualified students decide to pursue other careers given the low return of investment of an education degree. In the Galapagos in particular, public sector salaries are 80% higher than the minimum wage in continental Ecuador. As a result, it is extremely difficult for non-state schools to compete with public schools when recruiting qualified teachers.

Schools also mentioned that high teacher rotation is particularly problematic since it increases costs for schools. This problem is most pronounced in *fiscomisional* schools and in non-state schools in Galapagos. In the case of *fiscomisional* schools, the Ministry of Education is responsible for assigning teachers to each institution. As a result, the Ministry of Education can withdraw teachers as it sees fit, usually removing the very best teachers. On the other hand, non-state schools in Galapagos face high teacher rotation due to the island's unique situation. Given high teacher salaries in the public sector and high tourism industry salaries, non-state schools are uncompetitive employers for locals. Non-state schools are thus forced to recruit teachers from abroad. However, some schools mentioned this is problematic as foreigners can stay in Ecuador for a maximum of five years, which increases staff rotation and recruiting and training costs for schools.

2.3.7. COVID-19 IMPACT ON NON-STATE EDUCATION

The non-state education sector has been hard hit by COVID-19. As a result of the economic repercussions of the pandemic, enrollment in public schools increased 6.5% in June 2020, when the school year began on the coast.[95] In addition to decreased enrollment in non-state institutions, the Ministry of Education established limits on enrollment and monthly fees for institutions providing virtual education or homeschooling models during and after COVID, at 65% and 30% of the original cost, respectively.[96] The government has also mandated that private schools must reduce their monthly fees by up to 25% for all parents who can demonstrate they have lost their jobs or have reduced incomes.[97] Similarly, the government has prohibited schools from suspending students who have not paid their fees, for up to six months.[98] This might result in additional school closures.

Institutions focusing solely on initial education have been the hardest hit. Most kindergartens in the country do not own their property and were unable to pay rent due to the economic aftermaths of the pandemic. Consequently, approximately 45% of all initial education institutions permanently closed.

2.4. SUMMARY

National Context:

- Ecuador's population has been steadily growing and is likely to continue growing given above replacement level fertility and increasing immigration.

[95] Olsen, 2020
[96] *Ministerio de Educación*, 2020; Trujillo, 2020
[97] *El Universo*, 2020
[98] *El Universo*, 2020

- Ecuador uses the United States dollar as its official currency since 2000, which has helped maintain inflation levels at single digits.
- Ecuador's economy is heavily dependent on oil exports. As a result, the country achieved significant economic growth and poverty reduction during the presidency of Rafael Correa (2007-2017), which was accompanied by a major oil boom. Today, Ecuador is experiencing a major economic contraction driven by decreases in the price of oil and exacerbated by COVID-19.
- Historically, Ecuador has struggled to maintain fiscal discipline. However, President Lenin Moreno (2017-2021) has strived to attain greater fiscal consolidation. Moreno has also actively tried to increase private sector investment and foreign direct investment (FDI) to drive economic growth.
- Despite efforts to improve investment conditions, FDI has remained very low compared to other LAC countries, particularly due to corruption. Ecuador ranks in the bottom third of countries in Transparency International's Corruption Perceptions Index and there have been high-profile cases of corruption among state officials.
- Although Ecuador is projected to rebound strongly in 2021, growing by as much as 3.7%, the country's economic outlook remains uncertain given the impending 2021 presidential elections.
- USAID closed its Ecuador field office in 2014; however, increasing access and quality of education has always been a priority area. USAID signed a Memorandum of Understanding with Ecuador in 2019, which consists of eight strategic areas for cooperation, including "promoting education in Ecuador at all levels, including in science, technology, and innovation".

Overview of the Education Sector:

- The education sector is divided into initial, primary (General Basic Education), and secondary education (General Unified High School). Initial education is comprised of two levels; primary education is divided into four levels, the first one a year in duration, and the other three levels composed of three academic years each; secondary education lasts three years.
- There are three types of educational institutions in Ecuador: public, private, and *fiscomisional. Fiscomisional* schools have mixed financing – they receive both public and private funding. Most *fiscomisional* schools are religious schools that receive subsidies to pay teacher salaries.
- Public institutions dominate the education landscape, with 76.4% of primary students attending public schools, 17.7% attending private schools, and 5.9% attending *fiscomisional* schools.
- There are a total of 16,798 schools in Ecuador – 76% are public schools, 20% are private schools, and 4% are *fiscomisional* schools.
- Education in Ecuador is governed by the Ministry of Education. Ecuador's 2008 Constitution and the 2011 *Ley Orgánica de Educación Intercultural (LOEI)* form the basis for the country's education policy and strategy. Today, the country's education strategy is incorporated in the 2017-2021 National Development Plan (NDP).
- Education quality is mostly on par with other countries in the region, with scores around or slightly below average in most dimensions.

Non-State Education in Ecuador

- The regulatory framework for private education in Ecuador is extremely rigid, with stringent requirements and price controls, which has made it difficult for private schools to thrive. The 2011 *Ley Orgánica de Educación Intercultural* prohibited for-profit schools and gave the government authority to set and regulate non-state school fees. Additionally, schools are prohibited from suspending students who have not paid their dues and from selling uniforms and other materials.
- As a result, most schools are left in a tight financial situation – they are able to cover their basic operational costs, which primarily consist of teacher salaries (70%), but are unable to grow.
- Most private schools in Ecuador are family-owned, although several additional ownership models also exist.
- National and international assessments of non-state education quality are mixed. Although the PISA assessment indicates that private schools have higher quality than public schools in some subjects, other studies have shown that if one accounts for socioeconomic differences, the difference in educational quality between public and private institutions is zero.
- The demand for basic K-12 education in Ecuador has increased over the past decades. This is driven by two factors: 1) population growth: the population between 0-19 years increased from over 4 million in 1980 to over 6 million in 2020 and 2) increase of or high enrollment rates in the last decade. Over the next decade, the demand for education is expected to keep growing as a result of rising incomes and population growth, until Ecuador reaches its maximum population of people aged 0-19 years in 2030 (6.5 million 0-19 years old).
- The non-state education sector has been hard hit by COVID-19. As a result of the economic repercussions of the pandemic, enrollment in public schools increased 6.5% in June 2020, when the school year began on the coast. Institutions focusing solely on initial education have been the hardest hit, with approximately 45% of all initial education institutions permanently closing.

3. DEMAND FOR EDUCATION FINANCING

3.1. EDUCATIONAL INSTITUTIONS

3.1.1. LANDSCAPE AND SEGMENTATION OF NON-STATE EDUCATIONAL INSTITUTIONS

The non-state educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models. The Brookings Institution analyzes educational institutions through two lenses: the type of education provider and the type of financing the institution receives. The type of education provider can fall into one of three categories: state, non-state not-for-profit, and non-state for-profit (although this last category is prohibited in Ecuador). The type of financing can be public, private, or hybrid. In addition, schools can be further segmented by both the quality of the education they provide as well as their overall cost of attendance, which can range from low-cost or subsidized to high-cost or market-rate.[99]

Figure 4: Framework to Categorize Non-State School Types[100]

	Private subsidized schools			Private schools
Financed by	State + fees*	Non-state giving + fees	State + non-state giving + fees*	Fees
Fees	No fees / low fees			Market return fees
Quality	Variable			Variable
Examples	Other *"fiscomisional"* (e.g., UE Daniel Hermida)	Foundation schools (e.g., UE Tomás de Berlanga)	Faith NGO schools (e.g., Fe y Alegría)	Low-cost schools (e.g., UE Luis Chiriboga); International schools (e.g., Liceo Campoverde)

*Schools in Ecuador that receive public funding are known as *"fiscomisional"* schools. Most *"fiscomisional"* schools are religious schools.

Non-state educational institutions in Ecuador can be either private or private subsidized. Ecuador's Ministry of Education classifies non-state schools as either *fiscomisional* or private. *Fiscomisional* schools fall under the private subsidized category above; they are the most common type of private subsidized school. *Fiscomisional* schools have mixed financing, meaning they receive both public and private funding. Most *fiscomisional* schools are religious schools that receive government subsidies to pay teacher salaries. Depending on the school's location, *fiscomisional* schools can have one of three financing schemes: (1) state financing and fees; (2) state financing and non-state giving (i.e., foundations, donations, NGOs); or (3) state financing, fees, and non-state giving. Private subsidized schools can also be financed solely by fees and non-state giving, without monetary aid from the government. These schools tend to be supported by private foundations. These types of schools are classified as private by the Ministry of Education, although under this framework they are classified as private subsidized schools. Private schools on the other hand are financed primarily by school fees. However, school fees in Ecuador are regulated by the government.

[99] Steer, Gillard, Gustafsson-Wright, & Latham, 2015
[100] Based on Steer, Gillard, Gustafsson-Wright, & Latham, 2015; Dalberg analysis.

In 2019, there were 3,372 private schools in Ecuador and 671 *fiscomisional* schools.[101] According to the Ministry of Education, the percentage of private schools increased from 18.1% to 19.5% between 2015 and 2017.[102] *Fiscomisional* schools followed a similar pattern, with the proportion of *fiscomisional* schools increasing from 3.1% to 3.9%.[103] Despite these recent increases, when considering a longer timeframe, the number of private schools seems to be decreasing. The number of non-state education institutions decreased from approximately 8,000 in 2009-2010 to 4,000 in 2019-2020.[104] Moreover, just in the city of Guayaquil, approximately 1,000 schools closed from 2010-2017.[105] The institutions most affected are small, low-cost schools that tend to have less solid financial foundations. As a result, they are the hardest hit by student desertion (i.e., public sector transfers driven by increased economic difficulties) and school fee regulations, which prevent them from increasing their fees as needed.

There is no formal segmentation or breakdown by price of educational institutions in the country. Available data on the prices of non-state schools is not centralized or publicly available (similar to the data on school performance). Through interviews with the Ministry of Education, non-state school associations, and school directors, we classified institutions into four types based on the monthly fees charged to parents – ranging from USD 1.25 to over 2,000.

Table 5: Non-State Segmentation by School Fees[106]

School Segment	Monthly Fee	Monthly Cost Relative to Avg. Monthly Household Income	Number of Schools in Quito
Low cost	USD 1.25 – 150	0 – 20%	~450 schools
Middle cost	USD 150 – 450	20 – 60%	~200 schools
Upper-middle cost	USD 450 – 750	60 – 100%	~20 schools
High cost	USD 750 – 2,000	100 – 268%	~5 schools

In addition to non-state school closures, the share of primary school enrollment in non-state institutions has also been decreasing since 2005, when it reached 29%. However, this figure slightly improved from 23% in 2015 to 24% in 2018.[107] The share of secondary school enrollment in non-state institutions has also been steadily decreasing -- from 33% in 2009 to 26% in 2018.[108] The shift from private to public education can be partially explained by increased government assistance, such as free uniforms, books, and lunch.[109]

[101] *Archivo Maestro de Instituciones Educativas (AMIE) Periodo 2018-2019*, 2019
[102] *Instituto Nacional de Evaluación Educativa*, 2018
[103] *Instituto Nacional de Evaluación Educativa*, 2018
[104] *Ministerio de Educación*, 2020
[105] Gomez, 2019
[106] Interviews with Ministry of Education, non-state school associations and school directors; *Ministerio de Educación*, 2020; *El Comercio*, 2019; World Bank Indicators, 2019; *Primicias*, 2020
[107] World Bank Indicators, 2018
[108] World Bank Indicators, 2018
[109] *El Telégrafo*, 2014

Despite these downward trends, demand for private education remains strong in Ecuador's large cities with 39% of all students enrolled in school in Quito attending private schools and 44% in Guayaquil.[110]

3.1.2. FINANCIAL NEEDS OF NON-STATE EDUCATIONAL INSTITUTIONS

Non-state education institutions in Ecuador face a stringent operational environment under which they cannot freely adjust their prices, making growth and improving educational quality challenging. In order to increase their monthly fees (by a maximum of 10% annually), schools must submit investment proposals to the Ministry of Education, which are rarely approved.[111] As such, institutions are constrained in their ability to expand. One school dean stated that he was unable to expand his facilities since the government froze all investment proposals. Moreover, given that by law, non-state schools cannot stop offering educational services to students whose parents have stopped making payments, many schools face overdue portfolios, which make it difficult for them to cover their basic operational costs, including teacher salaries. The inability to reliably procure fee payments is problematic, as it is the principal source of revenue for most non-state schools.

Schools have stated that the greatest financial needs are in the form of materials and equipment, infrastructure, and technology investments. According to Edufinance Report: The State of the Affordable Non-State School Sector[112], which estimates that the current markets for school improvement loans in Ecuador is USD 39 million and for school fee loans it is USD 146 million.[113] A second estimation on the right hand side of the table estimates the demand for school improvements loans is approximately USD 20 million and for school fee loans around USD 97 million. This estimate is a more conservative approach that uses the same methodology as the first one, but updates data points to use official figures from governments and estimates the take-up % - percentage of schools or parents that would take a loan – by considering the maturity level of the non-state education sector of the country, according to the average score of the Five-Point Framework Level 1 Diagnostic Tool from USAID. The table below presents the assumptions to estimate the demand figures.

Table 6: Demand for School Loans and School Fees Loans

	Edufinance Report	Dalberg Estimate
School Improvement Loans		
# of non-state schools	5,445[114]	4,043[115]
Value of loan (USD)	12,000[116]	12,000

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[110] Inter-American Development Bank, 2018
[111] Interviews with school directors in the country
[112] The EduFinance Report sought to estimate these figures on a country-specific basis for all markets, which resulted in its use of estimates of school numbers rather than information from corresponding ministries of education
[113] The Edufinance report's figures are calculated as follows: School Improvement Loan data is the product of Number of Schools, Average Loan Value, and Loan Uptake Rate – Average Loan Value and Loan Uptake Rate are calculated by identifying proxies through consultations with financial institutions in developing countries and Edufinance survey data on interest in loan procurement, respectively; School Fee Loan data is calculated by dividing the country's total non-state enrollment by the number of school aged children per household, and then multiplying the Average Loan Value and Loan Uptake Rate
[114] Estimate based on enrollment from UNESCO 2019 and average number of children per school.
[115] *Instituto Nacional de Evaluación Educativa, 2018*
[116] Based on Edufinance's partner's long-term average in the region.

Take-up %	60%[117]	40%[118]
Demand for school loans	**39,204,000**	**19,600,464**
School Fees Loans		
Total enrolment Non-State Schools	1,166,338[119]	1,133,265[120]
# school aged children per household	1.75	1.75
Total enrolment / # of school-aged children per household	665,401	646,533
Value of loan (USD)	500[121]	500[122]
Take-up %	44%[123]	30%[124]
Demand for school fees loans	**146,388,302**	**96,979,979**

Schools income generation is regulated by the Ecuadorian law. The cost of the school supply list required by schools cannot surpass the country's minimum wage and schools cannot have additional income sources (from selling uniforms, books, etc). As a result, many institutions are forced to operate under suboptimal conditions, teaching without adequate materials and equipment.

Moreover, operating costs for schools drastically increased as a result of COVID-19, as schools were forced to make large investments in technology and training professors for virtual teaching. The difficult financial situation was further hampered by two factors: (1) schools were required to lower monthly fees by law and (2) payment defaults by parents increased. Furthermore, according to CRECIPE, initial education institutions were among the hardest hit by the pandemic since most institutions lease their spaces. As a result, approximately 45% of initial education centers closed due to their inability to pay rent.125

Accessing financing is challenging for non-state schools. In the interviews there was a common theme around the difficulties of accessing financing and the limited options

[117] Based on Edufinance research in Ecuador.
[118] The Take-up % has 3 tiers, i) High: 60% (from Edufiance), ii) Medium: 40% (average between high and low) and iii) low: 21% (% of SMEs that have accessed credit according to the WB enterprise survey data for Ecuador filtering for SMEs). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level 1 Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of "low," "medium" if between 1.67 and 3.33 and "high" if above 3.33. For the case of Ecuador, the average score of the Five-Point Framework Level 1 Diagnostic Tool is 2.4, so we used the medium tier to perform this estimate.
[119] Based on enrollment from UNESCO 2019.
[120] *Instituto Nacional de Evaluación Educativa*, 2018
[121] Based on Edufinance partner in Ecuador.
[122] Value of loan from Ecuador adjusted by GDP per capita of the countries.
[123] Based on Edufinance research in Ecuador.
[124] The Take-up % has 3 tiers, i) High: 44% (from Edufiance), ii) Medium: 30% (average between high and low) and iii) low: 16% (% of people who have accessed credit according to the Central Bank of Ecuador 2017). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level 1 Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of "low," "medium" if between 1.67 and 3.33 and "high" if above 3.33. For the case of Ecuador, the average score of the Five-Point Framework Level 1 Diagnostic Tool is 2.4, so we used the medium tier to perform this estimate.
[125] Interview with *CRECIPE*

available in the market for educational institutions in particular. Those institutions that have obtained financing from banks have stated that it has been through consumer loans and that usually, the loan is awarded to an individual, not to the school as an enterprise. One school director mentioned that obtaining loans from banks took over five months, but that borrowing from cooperatives was an easier and faster alternative.

CASE STUDY: UNIDAD EDUCATIVA LUIS CHIRIBOGA

Family-owned school relies on owner for obtaining financing

Like most low-cost schools in Ecuador, the *Unidad Educativa Luis Chiriboga* is a family-owned private school. The school is affiliated with a Catholic church and its main mission is to improve socioeconomic conditions in the community by preparing students to meet labor market demands. To this end, the school offers primary and technical secondary education focused on systems administration, industrial administration, and automotive electromechanics. The school charges students USD 40 – 45 in monthly fees.

The *Unidad Educativa Luis Chiriboga* depends on its owners for obtaining financing. Due to its low monthly fees, the *Unidad Educativa Luis Chiriboga* has resorted to using loans from credit and savings cooperatives to finance its operations. Since its establishment in 1989, the school has received four loans of around USD 25 – 30 thousand. The school uses these loans to pay for current expenses. However, loans have been awarded to the school's owner and not to the school per se. Today, given the owner's rising age, financing from savings and credit institutions has become increasingly challenging, putting the school's financial sustainability at risk. Moreover, the size of loans from credit and savings cooperatives is not large enough for most significant investments.

Today, the school's main challenge is raising funds for its investment projects: (1) an English lab and (2) the construction of an additional school building. Given the increased difficulties in securing financing from financial institutions and the difficulty in obtaining government approval to raise monthly fees, the *Unidad Educativa Luis Chiriboga* has been unable to make its planned investments, impeding it from improving its educational offering and quality.

CASE STUDY: UNIDAD EDUCATIVA TOMÁS DE BERLANGA

Using philanthropy to support education in the Galápagos

Established in 1993 by the Scalecia Foundation, the *Tomás de Berlanga* is the Galápagos' only bilingual school. The *Tomás de Berlanga* is a small middle-cost school servicing 148 students from initial II to secondary school. In addition to offering a bilingual education, the *Tomás de Berlanga* distinguishes itself for its focus on sustainability and on teaching critical thinking, as well as its personalized approach.

Although the school is primarily financed by school fees, *Fundación Scalecia* and parent groups play a critical role in supplying additional funds. *Fundación Scalecia* manages the school's budget and is responsible for raising additional funding. For example, *Fundación Scalecia* coordinates the Lindblad-National Geographic grant, which is used for scholarships. 72% of all students are on scholarships (either Lindblad-National Geographic, need-based scholarships, or family-discount). Additionally, the *Tomás de Berlanga* has built a strong community of parents. This community frequently collaborates to raise funds for the school. For example, a parent-driven effort paid for the construction of a roof for the school's sports field.

Given its geographic location on the Galápagos, the *Tomás de Berlanga* faces unique constraints and challenges. These include low teacher quality, little connectivity, and difficulty attracting and retaining teachers. Due to its remote location, teacher trainings rarely reach the islands. As a result, *Fundación Scalecia* has filled this gap since 2016, offering bi-annual trainings led by American personnel for *all* professors in the Galápagos. Two on the ground staff members give continuous support to schools based on these trainings. Moreover, connectivity in the islands is limited.

In particular, teacher recruitment and retention is challenging for the *Tomás de Berlanga*. By law, public sector salaries in the Galápagos are 80% higher than the minimum wage in continental Ecuador. As such, teachers in the Galápagos earn more working in public schools than in private schools, making the *Tomás de Berlanga* uncompetitive as an employer. In addition, salaries in the tourism sector are higher than those provided by the *Tomás de Berlanga*. Consequently, the school has a difficult time competing with both public schools and the tourism industry when recruiting teachers. The school has thus resorted to recruiting teachers from abroad. However, this presents challenges as foreigners can stay in Ecuador for a maximum of five years, which increases staff rotation.

3.2. ANCILLARY SERVICES AND OTHER EDUCATION-RELATED ENTERPRISES

In addition to formal educational institutions (i.e., schools), the education sector is made up of an ecosystem of related companies and services. Education related enterprises include school transportation, food catering, extracurricular/after-school activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, Ed-Tech companies, hardware providers, teacher training institutes, and academic and administrative software. Examples of the status of fast-growing education-related sectors in Ecuador are presented below.

3.2.1. SCHOOL TRANSPORTATION

In Ecuador there are 13,000 school buses[126] that serve both public and non-state institutions. The sector is regulated by the Ministry of Education, which establishes operating and contracting requirements.[127] In Quito, there are over 92 school bus operators and 49 in the city of Cuenca.[128] *Cooperativa Unión* is one of Quito's largest players, with over 50 years of experience in the market. COVID-19 has paralyzed the school transportation sector in Ecuador, resulting in lost business for operators. As of September 2020, only 24% of school buses maintained their operating contracts.[129] Additionally, most buses that maintained their operations have had to slash down fees as a result of the pandemic. The transportation sector, in general, is one of the hardest hit by the economic effects of

126 Silva, 2020
127 *Ministerio de Educación*, 2018
128 *Metro Ecuador*, 2019; *El Universo*, 2019
129 Silva, 2020

COVID-19. Furthermore, operators and bus owners have argued that "access to financing is difficult as transportation is considered a risky sector by financial institutions".[130]

3.2.2. TEST PREPARATION

To attend college, Ecuadorian high school students must pass a National Education Evaluation Exam. Each year approximately 450,000 students take the exam[131], however many are not prepared to succeed. In 2017 for instance, 170,000 students failed the exam.[132] Moreover, spots in public universities are limited and are awarded to students based on their test scores. As a result, students are pressured to perform extremely well. Although prep courses exist in cities, they are expensive and difficult to access in peri-urban and rural areas.

Companies such as Cuestionarix have emerged, addressing gaps in the market, namely a) affordability and b) availability. Cuestionarix offers an online test prep platform that uses interactive, personalized and flexible methods, at an accessible price.[133] As of June 2018, Cuestionarix is the largest online education community in Ecuador, teaching over 360,000 students. Cuestionarix seeks to reach an additional 12 million unattended students in Latin America who are unable to adequately prepare for national evaluations and other similar tests.

Moreover, Cuestionarix highlights how local companies can design creative organizational models to overcome financing obstacles. Cuestionarix has an innovative legal model, choosing to register the company in the United States to avoid local regulatory challenges. As part of its operating model, Cuestionarix incentivizes employees by offering them stock options so they can have a stake in the company. Although setting up this type of venture is legal in Ecuador, including third-party shareholders is challenging in practice. As a result, Cuestionarix was registered in the United States and operates under a binational structure. Exploring innovative legal models, such as registering in the United States, also facilitates financing given that "investment is easier and more viable through a company registered in the USA."[134]

3.2.3. ACADEMIC AND ADMINISTRATIVE SOFTWARE

There are more than 16,000 educational institutions in Ecuador, most of which are small institutions that don't have the financial muscle or capabilities to access education management platforms.[135] As a result, they rely on manual processes for teaching and school management. In addition, software companies also face challenges when scaling and providing services to the education sector. Companies such as Idukay have emerged throughout Ecuador to address this challenge. Idukay is an education management platform that automates communication within schools and improves processes and interaction between professors, students, administrators, and parents.

Companies in this sector have struggled to obtain financing given their limited tangible assets. Financing is not only difficult to attain, but processes tend to be long (e.g., it took Idukay six months to obtain a loan; loan for 5 years at 9% interest).[136]

[130] Silva, 2020
[131] Ramos, 2020
[132] *Metro Ecuador*, 2017
[133] IMPAQTO, 2018
[134] IMPAQTO, 2018
[135] *Ministerio de Educación*, 2020
[136] IMPAQTO, 2018

3.2.4. TEACHER TRAINING

In 2008, Ecuador's Ministry of Education began prioritizing teacher training to improve public education, yet quality of teacher training has been poor. Teacher training became mandatory for all public-school teachers. Between 2010 and 2018, over 113,000 teachers received in-service teacher training, with approximately 10,000 teachers being trained per year from 2015-2018.137 In-service teacher training is imparted by the Comprehensive System for the Development of Education Professionals (SIPROFE, its Spanish acronym). To conduct trainings, SIPROFE partners with universities and pedagogical institutes. These programs require a yearly investment of USD 2.7 million and cost between USD 28.5 – 38.5 per hour.138 Most courses range from 20 to 40 hours in duration and teachers are required to take a variety of courses. However, the World Bank has argued that in-service teacher trainings have not been properly designed to adequately address skills gaps.139 As such, there's an opportunity for financing improvements in the design and quality of trainings. However, investors must be careful when determining investment projects to ensure that the changes being financed do make a difference in the trainings and consequently in the quality of teachers that emerge from them. There are also additional opportunities in the provision of online trainings, particularly given the current COVID-19 situation, and trainings for private school teachers.

Demand for finance from ancillary services and other education-related enterprises is estimated at around USD 9-18 million. This figure is an estimate based on the market size from ancillary services and other education-related enterprises as percentage of the private school industry market size. To perform this estimation, we established USA as country of reference, and estimated that the following services – school transport, ed-tech, and textbook publishers – together represent 70%140 of the market size of the private school industry. Then we applied this percentage to the demand for school loans and adjust based on the maturity level of the non-state education sector of the country, according to the average score of the Five-Point Framework Level 1 Diagnostic Tool from USAID. The table below presents the assumptions to estimate the demand figures.

Table 7: Demand for Loans from Ancillary Services and Other Ed. Related Enterprises

	Dalberg Estimate	
Ancillary Services and Other Education-Related Enterprises Loans[141]		
Demand for school loans (USD)	39,204,000 (Edufinance report figure)	19,600,464 (Dalberg estimate figure)
% of market size of ancillary services and other education-related enterprises of private schools	70%	70%
Adjustment factor by maturity level	67%[142]	67%

[137] Angel-Urdinola & Burgos-Dávila, 2019
[138] Angel-Urdinola & Burgos-Dávila, 2019
[139] Angel-Urdinola & Burgos-Dávila, 2019
[140] The market size of ancillary services and other education-related enterprises for school transport, Ed-tech, and textbook publishers is USD 60 billion and the private school industry is USD 86 billion, which represents 70%.
[141] In an ideal scenario we would develop a bottom-up approach, but there is limited information of the number of organizations in each ancillary services and other education-related enterprises to be able to perform this analysis.
[142] The Adjustment factor has 3 tiers, i) High: 100% (as mature as USA), ii) Medium: 75% (average between high and low) and iii) low: 50% (estimated according to the difference between the take-up % from the Edufinance report and the lower tiers estimated in this report for school improvement loans). To determine which tier to use in this estimation, we used the scoring from the USAID Five-Point Framework Level 1 Diagnostic Tool from USAID, which ranges from 0 to 5, as a proxy. The tool awards countries scoring below 1.67 the score of "low,"

Demand for loans	**18,367,651**	**9,183,106**

In general, educational entrepreneurs in Ecuador have struggled to receive financing given that "there are no options for credit without collateral…, lots of requirements, and [that] there are limits to early-stage entrepreneurs. It's not efficient and the process takes a long time."[143]

CASE STUDY: REINVENTED SCHOOLS

Financing low-cost schools through a chain model

Established in 2020, ReinventED Schools seeks to revolutionize education in Ecuador by ensuring high educational quality regardless of income level. The organization is developing a network of schools in different socioeconomic levels, under which higher-income schools make enough revenue to sustain low-cost schools. In this way, the network is capitalizing on a crossed subsidy between high-income and low-income schools, which ensures the organization's financial sustainability.

ReinventED Schools is managed by a private company and the initial capital came from private investors. Given that the school is managed by a private company, the company will be able to offer investors a return on their investment in 6-7 years. ReinventED Schools is particularly attractive to investors because it is creating a high-quality service, at a low cost, and with little upfront investment. For example, the organization leases its school land, instead of owning it. With this innovative financial model, ReinventEd Schools seeks to prove that high capital investments are not needed to establish a high-quality school.

3.3. SUMMARY

Educational Institutions:

- The non-state educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models.
- In 2019, there were 3,372 private schools in Ecuador and 671 *fiscomisional* schools.
- The number of non-state education institutions (private and *fiscomisional*) decreased from approximately 8,000 in 2009-2010 to 4,000 in 2019-2020. In addition to non-state school closures, the share of primary school enrollment in non-state institutions has also been decreasing since 2005, when it reached 29%.
- Despite these downward trends, demand for private education remains strong in Ecuador's large cities with 39% of all students enrolled in school in Quito attending private schools and 44% in Guayaquil.

"medium" if between 1.67 and 3.33 and "high" if above 3.33. For the case of Ecuador, the average score of the Five-Point Framework Level I Diagnostic Tool is 2.4, so we used the medium tier to perform this estimate.

[143] IMPAQTO, 2018

- Through interviews with the Ministry of Education, non-state school associations, and school directors we classified institutions in four types based on the monthly fees charged to parents – ranging from 1.25 to over 2,000 USD
    - Low cost: USD 1.25 – 150 (0 – 20% average monthly household income)
    - Middle cost: USD 150 – 450 (20 – 60% average monthly household income)
    - Upper-middle cost: USD 450 – 750 (60 – 100% average monthly household income)
    - High cost: USD 750 – 2,050 (100 – 268% average monthly household income)
- Non-state education institutions in Ecuador face a stringent operational environment under which they cannot freely adjust their prices, making growth and improving educational quality challenging. In order to increase their monthly fees (by a maximum of 10% annually), schools must submit investment proposals to the Ministry of Education, which are rarely approved according to school directors.
- Schools have stated that their greatest financial needs are in the form of materials and equipment, infrastructure, and technology investments. Moreover, operating costs for schools drastically increased as a result of COVID-19, as schools were forced to make large investments in technology and training professors for virtual teaching.
- There is an estimated current demand for educational loans USD of 117-185m; USD 20-39m for school improvement loans and USD 97-146m for school fee loans.
- Accessing financing is challenging for non-state schools due to i) lack of technical capabilities to request a loan, ii) school buildings not broadly accepted as desirable guarantee, and iii) limited options available in the market. Those institutions that have obtained financing from banks have stated that they have done so through consumer loans and that usually, the loan is awarded to an individual (i.e., the school owner), not to the school as an enterprise.

Ancillary Services and Other Education-Related Enterprises

- Ancillary services companies that support education in Ecuador are highly fragmented, composed of small companies that serve their communities, except for publishers and EdTech.
- There is demand for financing particularly among the school transportation sector (e.g., for OPEX) and EdTech companies such as electronic test preparation platforms and enterprises offering academic and administrative software (e.g., for operation expansion and scale-up).
- Demand for finance from ancillary services and other education-related enterprises is estimated around USD 9-18 million.
- In general, educational entrepreneurs in Ecuador have struggled to receive financing given that "there are no options for credit without collateral…, lots of requirements, and [that] there are limits to early-stage entrepreneurs. It's not efficient and the process takes a long time."

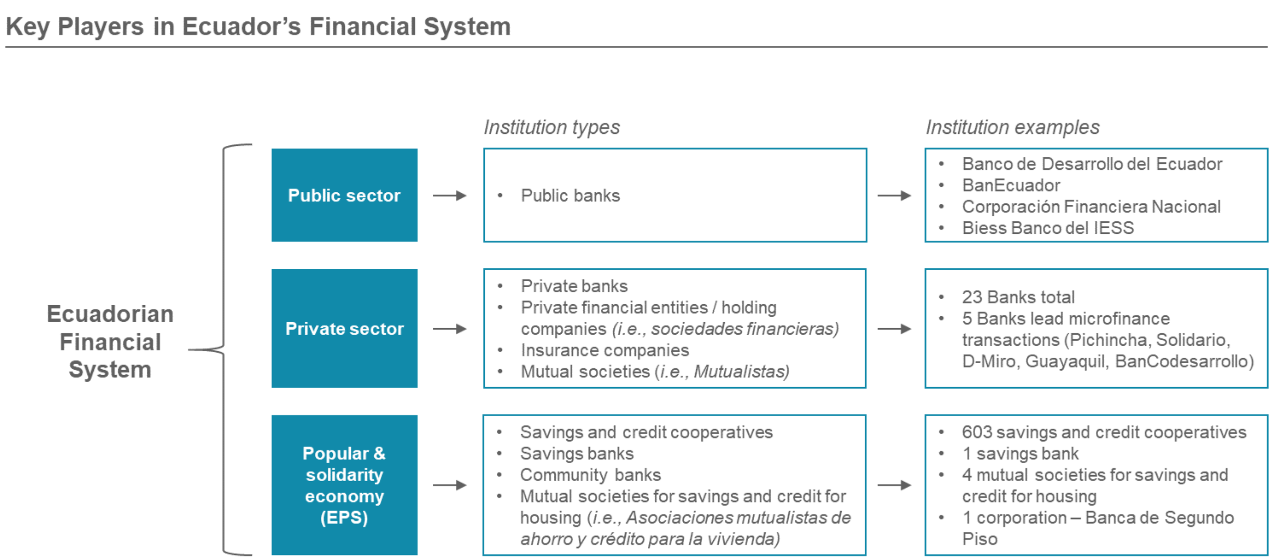
4. SUPPLY OF EDUCATION FINANCING

4.1. OVERVIEW OF THE FINANCIAL SECTOR

4.1.1. STRUCTURE OF THE FINANCIAL SECTOR

As stipulated in article 309 of Ecuador's 2008 Constitution, Ecuador's financial system is composed of three sectors: private, public, and the popular and solidarity economy *(Economía Popular y Solidaria, EPS)*. Figure 5 presents a breakdown of Ecuador's financial system, with the relevant actors in each sector. The *EPS* sector is comprised of institutions that serve priority rural sectors and other sectors that are not attended by private banking. As a result, the state awards institutions in the EPS tributary benefits for serving these populations. Ecuador's financial system is overseen by three bodies – (1) the *Superintendencia de Bancos*, which regulates banks (both public and private), mutual societies, and private financial entities / holding companies; (2) the *Superintendencia de Economía Popular y Solidaria*, which regulates cooperatives and mutual societies for savings and credit for housing; and (3) the *Superintendencia de Compañías, Valores y Seguros*, which regulates insurance companies. These regulatory bodies ensure that financial institutions comply with regulations, play a role in case of liquidity issues, and work alongside Ecuador's Central Bank.

Figure 5: Overview of Ecuador's Financial System



Ecuador has three major banking and microfinance associations, which help further the interests of its members: the Association of Banks of Ecuador (*Asobanca*, its Spanish acronym), the Association of Microfinance Institutions of Ecuador (*Asomif*, its Spanish acronym) and the Network of Development Finance Institutions (*RFD*, its Spanish acronym). *Asobanca* represents the interests of the country's private banks and promotes a favorable ecosystem for their development. On the other hand, *Asomif* and *RFD* focus on strengthening conditions for microfinance. *RFD* is composed of 51 institutions, including banks, cooperatives, and NGOs that specialize in microfinance and popular and solidarity finance. RFD represents the interests of its members and seeks to promote financial inclusion in Ecuador by increasing access to financial services in rural and marginalized urban areas. Similarly, *Asomif* focuses on the specific needs of the microfinance sector and promotes the development of technical norms to facilitate operations and improve the conditions to achieve financial inclusion. Asomif is composed of seven institutions (*Banco Finca, Banco D-Miro, banCODESARROLLO, Banco Vision Fund Ecuador, Solidario Conmigo, Insotec,* and *Fundación de Apoyo Comunitario y Social del Ecuador, FACES*).

4.1.2. REGULATORY AND POLICY FRAMEWORK RELEVANT TO THE FINANCIAL SECTOR

The *Junta de Política y Regulación Monetaria y Financiera* is responsible for drafting relevant public policies, and regulating and supervising money, credit, foreign exchange, finances, insurance, and securities. Currently, Ecuador follows the *Ley General de las Instituciones Financieras*, which was enacted in 2001. This law establishes what operations financial institutions are allowed to carry out and determines the obligations institutions must comply with in order to maintain a healthy financial system.

Ecuador's financial sector is currently governed by the following additional laws:

- Constitution of the Republic of Ecuador – 2008
- Amendments to the Constitution of the Republic of Ecuador – 2015
- Monetary and Financial Organic Code – 2014, modified 2018
- Administrative Organic Code – 2017
- Social Security Law – 2001
- IESS Bank Law – 2009
- Public Services Organic Law – 2010

It is important to note that following Ecuador's 1999 financial and banking crisis, the country adopted the US dollar as its national currency.

4.1.3. CREDIT

Banks continue to play a major role in providing credit, although their share of total assets has decreased in the past decade. In the last 10 years, the number of private banks in Ecuador has remained relatively stable, falling from 25 banks in 2010 to 24 banks in 2020 (23 national and 1 foreign bank).[144] However, the value of assets owned by both public and private banks has increased from USD 21 million in 2010 to USD 46 million in 2019. Despite this increase, the share of assets owned by public and private banks has decreased over the last decade, from 89% in 2010 to 76% in 2019.[145]

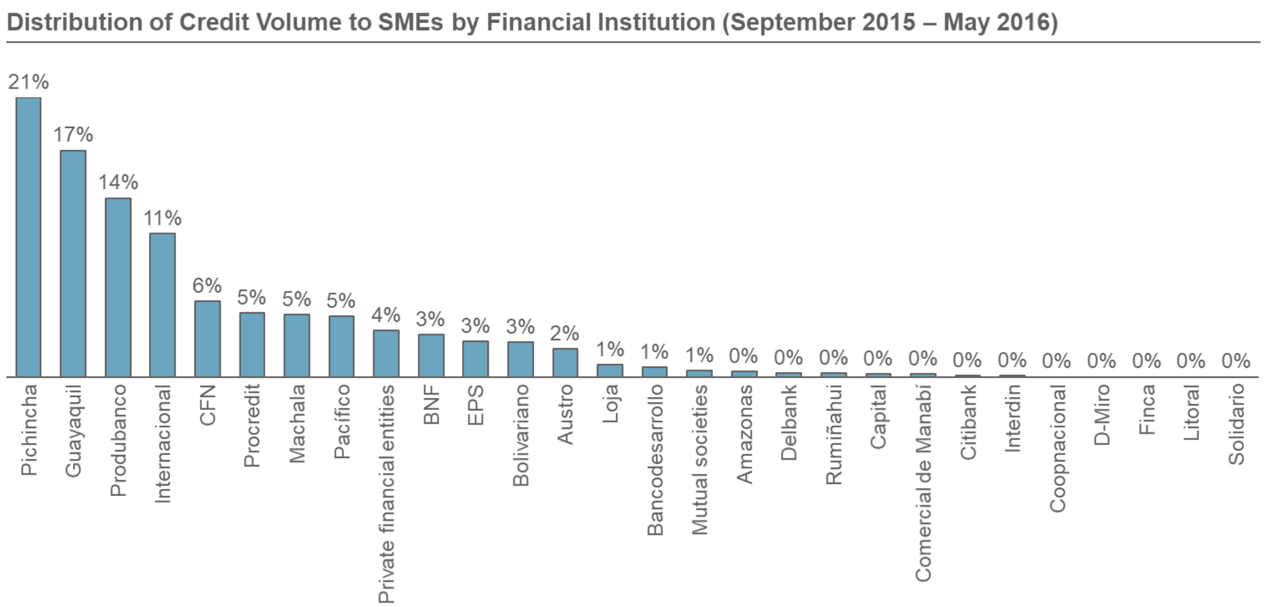
In 2019, USD 32 billion were supplied in credit by public and private banks, 94% of which were supplied by private banks.[146] Average interest rates for commercial credit are 9.7% and 16.8% for consumer credit.[147] In 2019, the overall portfolio delinquency rate averaged at 3.6%.[148] The portfolio delinquency rate is lower for commercial and education loans (mostly higher education), at 2.58% and 1.92% respectively.[149] However, this rate is higher for consumer and SME loans, at 4.83% and 5.52% respectively.[150]

Moreover, there are multiple institutions offering SME credit. The main banks offering financing for SMEs are *Banco Pichincha* (21% of credit volume), *Banco Guayaquil* (17.1%), *Produbanco* (13.5%), and *Banco Internacional* (10.8%), as exemplified in Figure 6.[151] 63% of all SME lending is carried out by these

[144] Tobar-Pesántez, 2020
[145] Tobar-Pesántez, 2020
[146] *Superintendencia de Bancos*, 2019
[147] *El Universo*, 2020
[148] *Superintendencia de Bancos*, 2019
[149] *Superintendencia de Bancos*, 2019
[150] *Superintendencia de Bancos*, 2019
[151] CEPAL, n.d.

four commercial banks and 8.9% of lending comes from public banks (*CFN* and *BNF*).[152] Of all SME credits awarded, 87% are in the form of commercial loans.[153] Commercial SME loans are one of the two most common products used to finance non-state education institutions. More details can be found in the following sub-section. SME loans range from USD 50,000 to USD 25 million, with a 11.83% interest rate.[154] To obtain SME financing, borrowers must present collateral in the form of land, buildings, machinery, or equipment.[155] As mentioned earlier, the delinquency rate for SME loans is 5.52%.[156]

Figure 6: Distribution of SME Credits by Financial Institution (September 2015 – May 2016)[157]



4.2. TRADITIONAL FINANCE FOR NON-STATE EDUCATION

Education finance can be supplied through two overarching instruments: debt and equity. Debt financing includes a) individual school fee loans for parents, b) working capital / construction loans for schools, and c) continuing education finance. Conversely, equity financing refers to funds or corporates that invest in promising areas of education services innovation (e.g., EdTech, Saas textbooks, education management platforms). There is currently limited traditional financing for non-state education in Ecuador, most of which is in the form of debt. Given that there is little evidence financial institutions make equity investments in non-state schools and institutions, the following section will focus on debt financing.

4.2.1. DEBT: LENDING TO PARENTS

In Ecuador, the *Junta de Regulación de Política Monetaria y Financiera* establishes price ceilings for interest rates in accordance with Law 81: *Ley de Regulación del Costo Máximo*

152 CEPAL, n.d.
153 CEPAL, n.d.
154 Zapata Mora, 2018; *El Universo*, 2020
155 Zapata Mora, 2018
156 *Superintendencia de Bancos*, 2019
157 CEPAL, n.d.

Efectivo del Crédito. Due to this, education credits in Ecuador are capped at 9.50%.[158] The 9.50% interest rate cap is applicable for students/parents seeking financing for the following education levels: general basic education, secondary education, higher education, post graduate studies, continuous education, special education, scientific research, military careers, and languages.[159] Numerous financial institutions in the country have argued that this price cap makes education credits unprofitable given that the operational costs are higher than the price set by the government.

Although this low interest rate is problematic for education credits, it is less problematic for lending to enterprises. SME and commercial loans in Ecuador have similar interest rates to education credits, at 9.33 – 11.83%. However, risk for lending to an individual is much higher than lending to an enterprise. Therefore, most banks are unwilling to offer education credits at a 9.50% interest rate, but do offer SME and commercial loans at this rate. SME and commercial loans are less risky since they are usually tied to a business plan, the loan will help increase profits, and guarantees are easier to secure. A guarantee fund also exists for SMEs, which reduces lending risk for banks. Additionally, it is usually more expensive to charge individuals, which increases the cost of the product. As such, a 9.50% interest rate for education credits is unprofitable for financial institutions.

As a result, few specific education-focused financing products exist in banks and MFIs for parents. Rather, most banks and MFIs provide financing for education through consumer loans, which are capped at 17.30%. After reviewing bank and MFI websites and speaking to select financial institutions, we identified three Ecuadorian banks currently offering consumer loans with an education focus for parents: *BanEcuador*, *Fundación ESPOIR*, and *Banco VisionFund*. These credits are mostly used for complementary services, rather than tuition and enrollment fees, however.

Table 8: Education Finance Products for Parents

Bank	Loan Size	Interest Rate	Loan Term	Uses
BanEcuador[160]	USD 50 – 3,000	16.06%	• 24 months • 3-month grace period • Monthly payments • Guarantee for dependent people: signature of debtor and spouse • Guarantee for people with income: personal signature, warrantor signature, and spouse signature	• Enrollment, tuition and other school fees • School supplies, and equipment
Fundación ESPOIR[161]	USD 200-500	17-18%	• 2 - 5 months	• School supplies, shoes, other equipment
Banco VisionFund[162] *(Pilot in Cayambe area)*	Up to USD 1,000	14%	• 9 months	• Enrollment, tuition and other school fees • School supplies, and equipment (e.g., computers)

158 El Universo, 2020
159 Directorio del Instituto Ecuatoriano de Crédito Educativo y Becas, 2010
160 BanEcuador, n.d.
161 Fundación ESPOIR, n.d.
162 Conversation with *Banco VisionFund*

CASE STUDY: FUNDACIÓN ESPOIR

Ensuring Payback through Group Lending

***Fundación ESPOIR*, an Ecuadorian MFI, offers loans for education through consumer loans.** Offering education loans through consumer loans allows *Fundación ESPOIR* to charge a higher interest rate. *Fundación ESPOIR* only offers these education-focused consumer loans to clients who have previously taken out another loan with them, minimizing payback risk. Moreover, *Fundación ESPOIR's* group lending model encourages timely payback due to two factors: (1) if one client does not pay, everyone in their group is responsible for the debt (group guarantee), and (2) clients who do not pay back their education loans are no longer able to access group loans. As a result of the group lending model, *Fundación ESPOIR* has a 99.2% payback rate on its education loans.

Fundación ESPOIR awards over 3,500 consumer loans focused on education at the beginning of every school year. Given its client base, most of these loans are awarded to parents with children in public schools and loans are used to finance additional school expenses, such as school supplies, shoes, and other equipment.

CASE STUDY: OPPORTUNITY INTERNATIONAL

Partnering with Local Institutions to Provide Financing

Opportunity International, a non-profit providing financing for education, partners with local financial institutions to offer education loans in Ecuador. Opportunity International offers both school improvement loans for educational institutions and school fee loans for parents. Currently, Opportunity International is supporting two financial institutions in Ecuador: *Fundación ESPOIR* and *CACMU*. Since beginning its operations in Ecuador 12 months ago, Opportunity International has disbursed a total of USD 3.2 million through 19 school improvement loans and 998 school fee loans.[163] On average, school improvement loans are USD 22,900 in size and school fee loans are USD 1,322 in size.[164] School fee loans have a PAR 30[165] - current (%) – 7.7%.[166]

Additionally, Diners Club, Ecuador's most widely used credit card, has alliances with numerous schools around the country to facilitate school enrollment and tuition payments. Schools give Diners Club complete control over the payment process, which reduces operational costs since schools no longer have to spend time charging fees and reminding parents of payments. On the other hand, the program is beneficial for parents because Diners Club uses a current systems payment, which means that there are no interest rates when paying with a Diners Club card. The card thus becomes an effective tool for regular payment and facilitates the payment process for both parents and educational institutions. Today, however, the Diners Club card is mostly used in upper-middle income schools (above USD 300 in monthly fees).

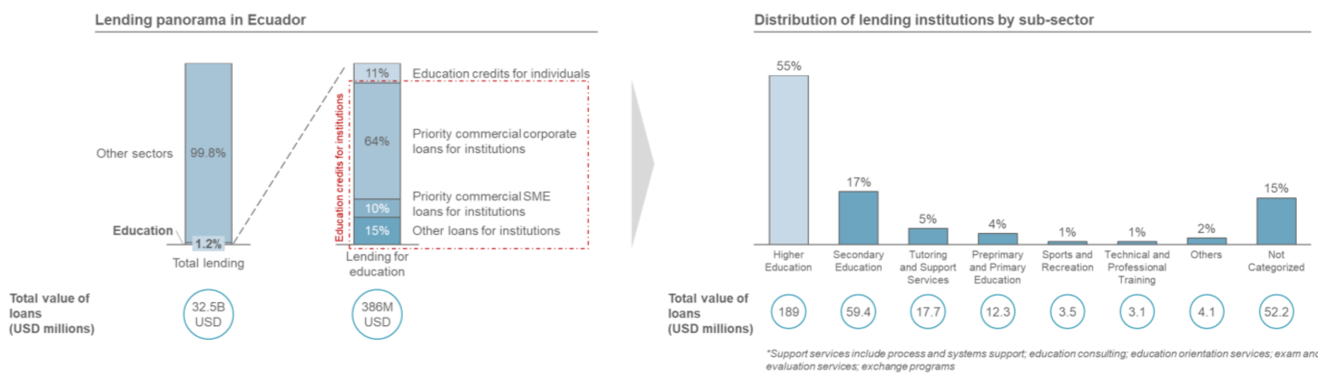
[163] Conversation with Opportunity International
[164] Conversation with Opportunity International
[165] "Portfolio At Risk (PAR) is the percentage of gross loan portfolio that is at risk; PAR 30 is the percentage of the gross loan portfolio that is overdue by more than 30 days"; Source: Loandisk, n.d.
[166] Conversation with Opportunity International

Education financing for individuals (parents/students) is greater for the higher education sector, with six of the country's banks offering education credits for university.[167] In 2019, 66% of all education credits awarded were supplied by *Banco del Pacífico*.[168]

4.2.2. DEBT: LENDING TO INSTITUTIONS

Schools and education related enterprises in Ecuador (e.g., after-school, language programs) are treated as SMEs or commercial entities by most banks and MFIs. As such, no specific products targeting educational institutions have been identified. In 2019, 1.2% of all the credit supplied in Ecuador went towards the education sector, 0.1% of which was in the form of education credits for students, mostly for higher education.[169] The remaining 1.1% of credit was supplied to education-related institutions, amounting to USD 342 million.[170] 72% of these credits were supplied in the form of priority commercial corporate loans, followed by 11% in the form of priority commercial SME loans. [171] Figure 7 shows the distribution of loans by sector, type of loan, and sub-sector. Furthermore, in 2015-2016, only 0.4% of all SME financing in Ecuador went towards the education sector.[172] Interviewed schools that had received financing from banks or other financial institutions stated that loans were mostly used to cover current expenses. One interviewed school received a USD 25 – 30 thousand loan for current expenses. Additionally, the school mentioned that loans were usually too small to make any largescale investments.

Figure 7: Distribution of lending by Sector and Type of Lending 2019[173]



Interviewed banks mentioned they lent to education institutions through commercial and SME loans, however they did not disclose additional information on the products. Interviewed banks did not disclose information on interest rates charged, loan terms, collateral requirement, nor percentage of non-performing loans. However, Ecuador's Superintendency of Banks reports data on the number of transactions by instrument and average loan sizes for each financial institution. This information is presented on the table below for the top five financial institutions lending to education institutions (excluding lending to higher education institutions). These five financial institutions represent 72% of total lending to education institutions (excluding lending to higher education institutions). [174] In total, there are 27 banks lending to education institutions.

[167] Tapia, 2020
[168] *Superintendencia de Bancos*, 2019
[169] *Superintendencia de Bancos*, 2019
[170] *Superintendencia de Bancos*, 2019
[171] *Superintendencia de Bancos*, 2019
[172] CEPAL, n.d.
[173] *Superintendencia de Bancos*, 2019
[174] *Superintendencia de Bancos*, 2019

Table 9: Commercial SME and Business Lending and Microfinance Lending to Education Institutions by Top Five Financial Institutions 2019 (Excluding Lending to Higher Education Institutions)[175]

Institution and Product	Total Lending	Number of Loans	Avg. Loan Size
Banco Pichincha	**USD 7,765,891**	**205**	**USD 37,883**
Commercial – SME	USD 5,337,038	167	USD 31,958
Commercial – Business	USD 2,358,853	27	USD 87,365
Microcredit	USD 70,000	11	USD 6,372
Produbanco	**USD 5,776,921**	**484**	**USD 11,936**
Commercial – SME	USD 4,072,660	418	USD 9,743
Commercial – Business	USD 1,511,466	23	USD 65,716
Commercial – Ordinary	USD 36,472	1	USD 36,472
Microcredit	USD 156,323	42	USD 3,722
Banco Guayaquil	**USD 5,221,566**	**306**	**USD 17,064**
Commercial – Business	USD 2,598,039	34	USD 76,413
Commercial – SME	USD 2,454,927	182	USD 13,489
Microcredit	USD 168,600	90	USD 1,874
Banco Bolivariano	**USD 3,228,551**	**632**	**USD 5,108**
Commercial – Business	USD 2,009,402	105	USD 19,137
Commercial – SME	USD 1,177,027	526	USD 2,238
Commercial – Ordinary	USD 42,122	1	USD 42,122
Banco Procredit	**USD 1,117,572**	**28**	**USD 39,913**
Microcredit	USD 676,740	8	USD 84,593
Commercial – SME	USD 319,870	17	USD 18,816
Commercial – Business	USD 120,000	1	USD 120,000 [176]
Consumer – Priority	USD 962	2	USD 481

An overview of all Ecuadorian financial institutions and their total lending to the education sector is presented below. "Total loans to education sector" includes education credits, as well as SME and commercial loans to educational institutions. An analysis of all banks in the country was conducted based on (1) total lending; (2) total lending to the education sector (education credits plus SME and commercial loans to educational institutions); (3) additional SME loans (excluding SME loans to educational institutions) and consumer loans; and (4) average return on equity (see table below).

[175] *Superintendencia de Bancos, 2019*
[176] This loan was awarded for sports education, while most of the other loans (which are smaller in size) were lent towards primary or secondary education institutions.

Based on the analysis, the following banks could be potential partners for USAID: Guayaquil, Pacífico, Pichincha, Bolivariano, Produbanco, General Rumiñahui, Citibank, Diners Club, Loja, Austro, Bancodesarrollo, Internacional, and Machala. Additionally, during interviews, Diners Club and Banco Vision Fund expressed interest in offering products for the education sector. Banco D-Miro on the other hand stated they offered education credits up to 2013. Following that, the government began regulating interest rates, which made offering education credits unprofitable for the bank. Today, education is not a priority sector for them.

Table 10: Ecuadorian Financial Institutions' Engagement with the Education Sector[177]

Institution	Total Loans	Total Loans to Education Sector	% Education Sector of Total Loans	Total Education Sector, SME, and Consumer Loans	% Education, SME, and Consumer Loans	Avg. ROE 2019	Ranking
Guayaquil	(#4) USD 4.1 B	(#3) USD 81.6 M	(#9) 2.0%	(#2) USD 1.6 B	(#10) 38%	(#3) 16.69%	1
Pacífico	(#6) USD 1.9 B	(#1) USD 128 M	(#3) 6.8%	(#7) USD 240 M	(#19) 13%	(#6) 14.94%	2
Pichincha	(#1) USD 6.6 B	(#2) USD 116 M	(#11) 1.8%	(#1) USD 2 B	(#14) 30%	(#13) 10.67%	2
Bolivariano	(#5) USD 3.5 B	(#4) USD 43 M	(#12) 1.2%	(#4) USD 571 M	(#16) 16%	(#9) 14.49%	3
Produbanco	(#2) USD 5.7 B	(#6) USD 19.0 M	(#21) 0.3%	(#3) USD 847 M	(#18) 15%	(#8) 14.67%	4
General Rumiñahui	(#12) USD 423 M	(#19) USD 777 K	(#22) 0.2%	(#5) USD 303 M	(#3) 72%	(#2) 18.94%	5
Citibank	(#7) USD 1.1 B	(#5) USD 20.6 M	(#10) 2.0%	(#17) USD 20.6 M	(#24) 2.0%	(#1) 22.28%	6
Diners Club	(#22) USD 48.9 M	(#8) USD 11.1 M	(#1) 22.7%	(#18) USD 18.1 M	(#11) 37%	(#4) 15.59%	6
Loja	(#16) USD 200 M	(#15) USD 2.3 M	(#13) 1.2%	(#11) USD 125 M	(#4) 62%	(#7) 14.92%	7
Austro	(#10) USD 747 M	(#10) USD 5.4 M	(#18) 0.7%	(#6) USD 245 M	(#13) 33%	(#16) 6.97%	8
Bancodesarrollo	(#18) USD 95.1 M	(#14) USD 2.4 M	(#7) 2.5%	(#16) USD 43.5 M	(#6) 46%	(#15) 8.22%	9
Internacional	(#3) USD 4.6 B	(#9) USD 7.5 M	(#23) 0.2%	(#8) USD 230 M	(#23) 5.0%	(#10) 13.85%	9
Machala	(#14) USD 338 M	(#13) USD 3.3 M	(#15) 1.0%	(#10) USD 154 M	(#7) 46%	(#17) 6.59%	9
Procredit	(#15) USD 214 M	(#7) USD 12.3 M	(#4) 5.7%	(#13) USD 60.5 M	(#15) 28%	(#25) 0.07%	10
Solidario	(#11) USD 460 M	(#20) USD 537 K	(#24) 0.1%	(#9) USD 155 M	(#12) 34%	(#12) 12.18%	11

177 Superintendencia de Bancos, 2019

Corporación Financiera Nacional	(#9) USD 753 M	(#11) USD 4.7 M	(#19) 0.6%	(#12) USD 114 M	(#17) 15%	(#22) 2.38%	12
Delbank	(#26) USD 13.6 M	(#18) USD 959 K	(#2) 7.1%	(#20) USD 7.5 M	(#5) 55%	(#21) 3.43%	13
Amazonas	(#17) USD 125 M	(#17) USD 1.1 M	(#17) 0.9%	(#14) USD 54.2 M	(#9) 44%	(#24) 0.58%	14
Banco de Desarrollo del Ecuador	(#13) USD 401 M	(#12) USD 4.4 M	(#14) 1.1%	(#23) USD 4.4 M	(#25) 1.1%	(#14) 9.01%	15
Comercial de Manabi	(#25) USD 16.5 M	(#21) USD 458 K	(#6) 2.8%	(#21) USD 7.3 M	(#8) 44%	(#23) 1.09%	16
Litoral	(#24) USD 20.1 M	(#23) USD 174 K	(#16) 0.9%	(#19) USD 15.4 M	(#1) 77%	(#26) -1.18%	17
Coopnacional	(#23) USD 29.2 M	(#16) USD 1.4 M	(#5) 4.7%	(#25) USD 2.1 M	(#21) 7.3%	(#20) 5.37%	18
Capital	(#27) USD 4.9 M	(#25) USD 106 K	(#8) 2.2%	(#24) USD 3.6 M	(#2) 74%	(#27) -23.08%	19
BanEcuador	(#8) USD 898 M	(#24) USD 117 K	(#27) 0.0%	(#15) USD 54 M	(#22) 6.0%	(#18) 6.55%	20
Finca	(#21) USD 66 M	(#22) USD 276 K	(#20) 0.4%	(#22) USD 4.8 M	(#20) 7.3%	(#19) 5.93%	21
Vision Fund	(#19) USD 87.8 M	(#27) USD 68 K	(#26) 0.1%	(#27) USD 68 K	(#27) 0.1%	(#5) 15.45%	22
D-Miro	(#20) USD 80.1 M	(#26) USD 86 K	(#25) 0.1%	(#26) USD 86 K	(#26) 0.1%	(#11) 12.90%	23

CASE STUDY: BANCO VISIONFUND

Increasing student enrollment by providing financing to parents

***Banco VisionFund*, a leading microcredit institution, is providing microcredits to parents as working capital via schools to increase student enrollment.** Recently, *Banco VisionFund* signed an agreement with the Salesian Mission in Ecuador, which finances private schools in the country. Salesian Mission schools identify the most at need families and provide *Banco VisionFund's* microcredits to them. These microcredits are tied to a micro-enterprise and are paid back with company resources. This product enables parents to become more productive and increase their income, and thus diminishes the likelihood that they will transfer their children to public schools. As a result, schools maintain student enrollment levels and make enough income to pay for teacher salaries.

***Banco VisionFund* is also piloting an education-focused consumer loan in Cayambe, in the north of Quito.** These consumer loans are tied to parents' salaries rather than microenterprises and provide up to USD 1,000 for school fees, schools supplies, and electronics, such as computers. The loan is awarded at a 14% interest rate and with a 9-month term. Up to today, 1,000 people have benefited from this product.

4.2.3. EQUITY

Our research has shown that there is limited activity in terms of equity for K-12 education given that Ecuadorian regulations are unfriendly for both investors and entrepreneurs. Investors have argued that current regulations make investment difficult since there are strict requirements on investment vehicles that may be used and on the types of entities that are allowed to invest. For example, CREAS Ecuador, the only impact investor in Ecuador is not registered as a financial institution. As such, it does not have permission to make a profit, which makes investing difficult. Moreover, investments are so scare in the country that around 60% of Ecuadorian startups disappear before their fourth year of existence due to lack of capital and financing.[178] However, there are some angel investors, both national and international, investing in education in EdTech in the country.

The business community has begun to participate in non-state education in recent years. Although historically there has been limited participation from the business community in K-12 education (e.g., supporting education advocacy NGOs, providing technical assistance to schools through foundations), recently numerous start-ups have emerged in the education space, particularly in EdTech and test preparation.[179] Today, there is greater private sector engagement than during the Correa administration, when policies discouraged the participation of civil society and business in education.[180]

[178] Pazmino, 2016
[179] Schneider, Cevallos Estarellas, & Bruns, 2017; IMPAQTO, 2018
[180] Schneider, Cevallos Estarellas, & Bruns, 2017

4.3. BLENDED FINANCE FOR NON-STATE EDUCATION

4.3.1. OVERVIEW OF BLENDED FINANCE IN ECUADOR

According to USAID, blended finance "is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environment results, such as improving infrastructure, education, agriculture, healthcare, and more".[181] According to Convergence, the four most common transaction types are (1) bonds/notes, (2) facilities, (3) funds, and (4) projects.

Blended finance is emerging in Ecuador. Ecuador's FDI policies have actively tried to increase foreign investment in the country, although with mixed results, leading to greater blended finance investments. Ecuador passed the Productive Development Law to bolster investment, has changed tax policies and regulations, and enacted a Law of Incentives for Public Private Partnerships (PPP) and Foreign Investments in 2015. Additionally, given Ecuador's dollarized economy, the country has "few limits on foreign investment and repatriation of profits," only requiring a 5% capital exit tax. Despite growing numbers of blended finance deals, Ecuador still ranks relatively low compared to other Latin American countries. According to the Convergence database, there are 35 deals in Mexico, 29 deals in Colombia, 27 deals in Peru, 24 deals in Guatemala, 22 deals in Nicaragua, 18 deals in El Salvador, and 17 deals in Honduras.[182]

According to the Convergence database, there have been 16 blended finance deals in Ecuador in the last two decades, with a total deal size of USD 1.7 billion (Table 11).[183] Funds are the main type of deal, with 13 out of the 16 deals being funds. Additionally, the OECD estimates that USD 221 million were mobilized by the private sector for development between 2012 and 2015, in the form of guarantees, syndicated loans, and credit lines.[184]

Table 11: Ecuador Blended Finance Transactions

Manager	Vehicle Name	Type	Size	Year	Sectors	Countries
Incofin CVSO	Inconfin Fairtrade Access Fund (FAF)	Fund	USD 57M	2019	Agriculture	Benin, Bolivia, Brazil, Chile, Colombia, Cote d'Ivoire, Ecuador, Guatemala, Honduras, Kenya, Nicaragua, Paraguay, Peru, Tanzania, Uganda
Government of the Netherlands	Sustainable Trade Initiative (IDH)	Facility	USD 164M	2008	Agriculture, Industry & Trade	Belize, Brazil, Burundi, China, Costa Rica, Cote d'Ivoire, Ecuador, Ethiopia, Ghana, India, Kenya, Liberia, Madagascar, Malawi, Mali, Mozambique, Nigeria, Pakistan, Rwanda, Tanzania, Uganda

181 Roddis, 2020
182 Convergence, 2020
183 Convergence, 2020
184 OECD, 2017

EcoEnterprises Fund	EcoEnterprises Fund III (EcoEIII)	Fund	USD 80M	2014	Agriculture	Bolivia, Brazil, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru
EcoEnterprises Fund	EcoEnterprises Fund I	Fund	USD 7M	2000	Agriculture	Belize, Bolivia, Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico, Panama, Paraguay
AlphaMundi Group Ltd	SocialAlpha Investment Fund - Bastion (SAIF Bastion)	Project	USD 12M	2010	General	Ecuador, Kenya, Mexico, Peru, Uganda
Mirova-Athelia (Athelia Ecosphere)	Sustainable Ocean Fund (SOF)	Fund	USD 92M	2016	Agriculture	Bangladesh, Belize, Chile, Colombia, Ecuador, Honduras, Madagascar, Mexico
Global Partnerships (GP)	Microfinance Fund 2008 (MFF '08)	Fund	USD 20M	2008	Financial Services	Bolivia, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru
Global Partnerships (GP)	Social Investment Fund 2010 (SIF '10)	Fund	USD 25M	2010	Financial Services	Bolivia, Ecuador, El Salvador, Mexico, Nicaragua, Peru
Finance in Motion	Eco.business Fund	Fund	USD 373M	2015	Agriculture, Financial Services	Colombia, Ecuador, Peru
Deutsche Bank Group	Essential Capital Consortium (ECC)	Fund	USD 50M	2015	Energy, Financial Services, Health	Argentina, Cambodia, Chile, Colombia, Ecuador, India, Mexico, Peru, Rwanda, Tajikistan, Tanzania
Grassroots Capital Management	Grassroots Business Investors Fund I (GBI-I)	Fund	USD 49M	2011	General	Colombia, Ecuador, Guatemala, India, Indonesia, Kenya, Madagascar, Mozambique, Paraguay, Peru, Rwanda, Tanzania
Bolivian Investment Management (BIM)	LOCFUND II	Fund	USD 80M	2013	Financial Services	Argentina, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru

ProCredit Holding	ProCredit Holding	Company	USD 415M	1998	Financial Services	Albania, Angola, Bolivia, Bosnia and Herzegovina, Bulgaria, Congo, Dem. Rep., Ecuador, El Salvador, Georgia, Ghana, Kosovo, Macedonia, Moldova, Mozambique, Nicaragua, Romania, Serbia, Sierra Leone, Ukraine
Sarona Asset Management	Sarona Frontier Markets Fund 2 (SFMF2)	Fund	USD 150M	2013	Financial Services	Algeria, Colombia, Ecuador, India, Indonesia, Malaysia, Mexico, Morocco, Peru, Tunisia, Turkey
Global Partnerships (GP)	Social Investment Fund 5.0 (SIF 5.0)	Fund	USD 50M	2015	Financial Services	Bolivia, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Peru
Global Partnerships (GP)	Social Investment Fund 6.0 (SIF 5.0)	Fund	USD 75M	2018	Financial Services	Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Ghana, Guatemala, Haiti, Honduras, Kenya, Mexico, Nicaragua, Peru, Tanzania, Uganda

4.3.2. BLENDED FINANCE IN THE EDUCATION SECTOR IN ECUADOR

Blended finance for education is limited. None of the deals on the Convergence platform are in the education sector specifically and just one of the 16 transactions recorded on the platform lightly touches on education:

SAIF-Bastion Impact Debt Fund targets SMEs in key human development sectors, including affordable education. The fund provides debt financing, particularly to women and rural areas.

a) Countries of Focus: Ecuador, Kenya, Mexico, Peru, and Uganda

b) Total Deal Size: USD 12M

The SAIF-Bastion Impact Debt Fund is managed by AlphaMundi. Currently, all of AlphaMundi's investments are made through this fund. 51% of its Latin America portfolio is invested in Ecuador and 11% is invested in education.[185] Portfolio companies in Ecuador include a company that provides micro-loans to low-income people and an agriculture company that produces vegetable chips.[186]

The recorded data from Convergence is consistent with OECD numbers, which indicate that less than 0.3% of all blended finance transactions go towards education.[187]

[185] AlphaMundi, 2020
[186] AlphaMundi, n.d.
[187] OECD, 2017

In addition to recorded blended finance transactions on the Convergence platform and on OECD databases, Ecuador has several public-private partnerships (PPP) and impact funds, and has issued an impact bond. Over the last years, impact investing in Ecuador has been on the rise, presenting an opportunity for increased investment in the education sector. In 2016 and 2017, impact investors invested USD 4.7 billion in Latin America, with Ecuador being the second largest destination.[188] The SAIF-Bastion Impact Debt Fund listed above is an example of an impact fund operating in the country. Other impact funds operating in Ecuador include the Grassroots Business Fund and IMPAQTO. Moreover, *CREAS Ecuador*, Ecuador's first impact fund has expressed interest in working with the education sector, although it has not made any investments to date.[189]

PPP have also been gaining ground in Ecuador as a result of the Law of Incentives for Public Private Partnerships and Foreign Investments (2015). It is estimated that between 2018 and 2021, Ecuador will receive USD 7 billion in PPP investments for the infrastructure sector. Although most PPP have centered around infrastructure projects, several key education PPP have emerged, including the *Fé y Alegría Network* and *Unidos por la Educación Alliance:*

- *Fe y Alegría Network*: Jesuit NGO that manages preschool, primary, secondary, and technical private schools. There are currently 74 institutions in the network. *Fe y Alegría* seeks to improve the quality of education for lower-income citizens. Its partners include the Ministry of Education, foundations, international agencies, civil society, and communities. The PPP is organized as a government subsidy to religious non-state schools. Through the subsidy, the government pays teacher salaries. On the other hand, *Fe y Alegría* receives donations through strategic partnerships with private companies and individuals, and is managed by a Jesuit NGO. Given its mixed financing model, *Fe y Alegría* schools are considered *fiscomisional* schools. Schools in the *Fe y Alegría* Network offer a variety of programs including primary and secondary education, adult and radio education, and teacher training. According to a 2014 study, students in *Fe y Alegría* schools perform as well in tests or slightly better than other schools.[190] More details on *Fe y Alegría* can be found in the case study below.
- *Unidos por la Educación*: Alliance between 15 private sector companies that are financing education in Ecuador. The alliance seeks to generate improvements in school infrastructure, technology, connectivity, education models, teacher training, and schools' relations with their local community. The alliance aims to be the first fund investing in scaling successful school models that will be implemented by foundations and NGOs. To date, the alliance has raised USD 600 thousand.

CASE STUDY: FÉ Y ALEGRÍA NETWORK

Providing low-cost education through a mixed financing model

***Fe y Alegría* is Ecuador's second largest education network**, following the public school network. It educates 31,500 students in 74 institutions across the country. *Fe y Alegría* is a Catholic organization and is a member of the Society of Jesus.

***Fe y Alegría* schools have a mixed financing model composed of public and private funding.[191]** Government funding is used to finance teacher salaries, while private funding finances

[188] Gustafsson-Wright, 2019
[189] *CREAS Ecuador*, n.d.
[190] Patrinos, Barrera-Osorio, & Guáqueta, 2009
[191] Schools with both public and private funding in Ecuador are known as *fiscomisional* schools

other expenses. Depending on the location of the school, private funding comes from school fees, donations, or both. Most rural schools in the network do not charge monthly school fees and private funding comes solely from donations. Urban schools however receive donations and charge up to USD 25 in monthly fees.

***Fe y Alegría* is able to mobilize largescale donations through strong strategic partnerships and through its affiliation with Catholic organizations abroad.** The network partners with both private companies and individuals. Most donations are in kind (i.e., food and health services for students, labor for building infrastructure), although there are monetary donations for scholarships as well.

Ensuring quality teachers is one of *Fe y Alegría's* greatest challenges. Although *Fe y Alegría* has autonomy over the school's management, curriculum, and teaching methods, teachers come from the public sector. As such, the government can withdraw teachers assigned to *Fe y Alegría* schools at any time, increasing teacher rotation. Furthermore, given that teachers come from the public sector, *Fe y Alegría* has had to provide additional teacher training, which is financed through strategic partnerships.

Results-based financing is also on the rise in Latin America, with several Latin American nations having contracted or in the process of designing education focused impact bonds, including Argentina, Chile, and Brazil.[192] Ecuador however does not currently have education focused impact bonds. Although not focused on education, Ecuador also issued the first Sovereign Social Bond in international markets for USD 400 million. The bond will help the government's *Casa para Todos* program, which seeks to provide decent and affordable housing for over 24 thousand medium- and low-income families. Similarly, the Development Bank of Latin America (*CAF*, its Spanish acronym) issued a region wide impact bond for education.[193]

However, macro-level trends suggest it may be challenging to capitalize on the promise of blended finance for non-state education in Ecuador. Education funding remains public sector dominated: approximately USD 2.5 trillion was spent on education in 2010, excluding household spending, of which only USD 3 billion came from private impact investment institutions, who are common participants in blended finance structures.[194] Furthermore, the education sector has been largely neglected so far by blended finance players: the sector constitutes 2% of the total deals and has the smallest average deal size of any target sector. The non-state education sector likely constitutes only a fraction of this, although specific data on the non-state sector is not available.[195] Finally, upper-middle income countries, of which Ecuador is one, attract only 24% of blended finance deals, compared to 48% taken by lower-middle income countries and 26% by low-incomes countries. These figures indicate that non-state education in Ecuador is likely not an obvious immediate focus for blended finance.[196]

192 Gustafsson-Wright, 2019; Environmental Finance, 2020
193 CAF, 2019
194 D. Capital Partners, 2014
195 Convergence, 2018
196 Convergence, 2018

4.4. SUMMARY

Overview of the Financial Sector:

- Banks continue to play a major role in providing credit, although their share of total assets has decreased in the past decade, from 89% in 2010 to 76% in 2019.
- There are multiple institutions offering SME credit. The main banks offering financing for SMEs are *Banco Pichincha* (21% of credit volume), *Banco Guayaquil* (17.1%), *Produbanco* (13.5%), and *Banco Internacional* (10.8%).
- The *Junta de Regulación de Política Monetaria y Financiera* establishes price ceilings for interest rates in accordance with Law 81: *Ley de Regulación del Costo Máximo Efectivo del Crédito.*

Traditional Finance for Non-State Education:

- Education credits in Ecuador are capped at 9.50% interest rate. Numerous financial institutions have argued that this price cap makes education credits unprofitable given that operational costs are higher than the price set by the government. As a result, few specific education-focused financing products for parents exist in banks and MFIs.
- Most banks and MFIs provide financing for education through consumer loans. We identified three banks currently offering consumer loans with an education focus for parents: BanEcuador, *Fundación ESPOIR*, and *Banco VisionFund*. These credits are mostly used for complementary services, rather than tuition and enrollment fees. Opportunity International, a non-profit providing financing for education, also partners with local financial institutions to offer education loans in Ecuador.
- Schools and education related enterprises in Ecuador (e.g., after-school, language programs) are treated as SMEs or commercial entities by most banks and MFIs. No specific products targeting educational institutions have been identified. The most common types of loans for education institutions are (a) priority commercial corporate loans and (b) priority commercial SME loans.
- Interviewed banks did not disclose additional information on the products they offered to education enterprise. However, Ecuador's Superintendency of Banks reports data on the number of transactions by instrument and average loan sizes for each financial institution. This data shows that average SME and commercial business loans to educational institutions range from USD 5,108 – 39,913.
- Although the 9.50% interest rate is problematic for education credits, it is less problematic for lending to enterprises. SME and commercial loans in Ecuador have similar interest rates to education credits, at 9.33 – 11.83%. However, risk for lending to an individual is much higher than lending to an enterprise. Therefore, most banks are unwilling to offer education credits at a 9.50% interest rate, but do offer SME and commercial loans at this rate.
- Interviewed schools that had received financing from banks or other financial institutions stated that loans were mostly used to cover current expenses. One interviewed school received a USD 25 – 30 thousand loan for current expenses. Additionally, the school mentioned that loans were usually too small to make any largescale investments.
- The four banks currently lending the most to education institutions (excluding higher education) are *Banco Guayaquil, Banco Pichincha, Banco Bolivariano*, and *Produbanco*. These four banks, plus *Banco del Pacífico* (which currently offers the most education credits for higher education), could

be potential partners for USAID in offering education finance. These five banks were selected based on an analysis of i) total lending; ii) total lending to the education sector (education credits plus SME and commercial loans to educational institutions); iii) additional SME loans (excluding SME loans to educational institutions) and consumer loans; and iv) average return on equity.

- There is limited activity in terms of equity for K-12 education given that Ecuadorian regulations are unfriendly for both investors and entrepreneurs.

Blended Finance for Non-State Education:

- Bended finance is emerging in Ecuador. Ecuador's FDI policies have actively tried to increase foreign investment in the country, although with mixed results, leading to greater blended finance investments. However, Ecuador still has relatively few blended finance deals compared to other countries in the region.
- According to Convergence, there have been 16 blended finance deals in Ecuador in the last two decades, with a total deal size of USD 1.7 billion.
- Blended finance for education is limited. None of the deals on the Convergence platform are in the education sector specifically and just one of the 16 transactions recorded on the platform lightly touches on education.
- Over the last years, impact investing in Ecuador has been on the rise, presenting an opportunity for increased investment in the education sector. In 2016 and 2017, impact investors invested USD 4.7 billion in Latin America, with Ecuador being the second largest destination.
- PPP have also gained ground in Ecuador as a result of the Law of Incentives for Public Private Partnerships and Foreign Investments (2015). Although most PPP have centered around infrastructure projects, several key education PPP have emerged, including the *Fé y Alegría Network* and *Unidos por la Educación Alliance.*
- Results-based financing (RBF) is also on the rise in Latin America, with Argentina, Chile, and Brazil having contracted or in the process of designing education focused impact bonds. Although Ecuador does not currently have education impact bonds, it issued the first Sovereign Social Bond in international markets. There is an opportunity to further explore RBF for education in Ecuador.

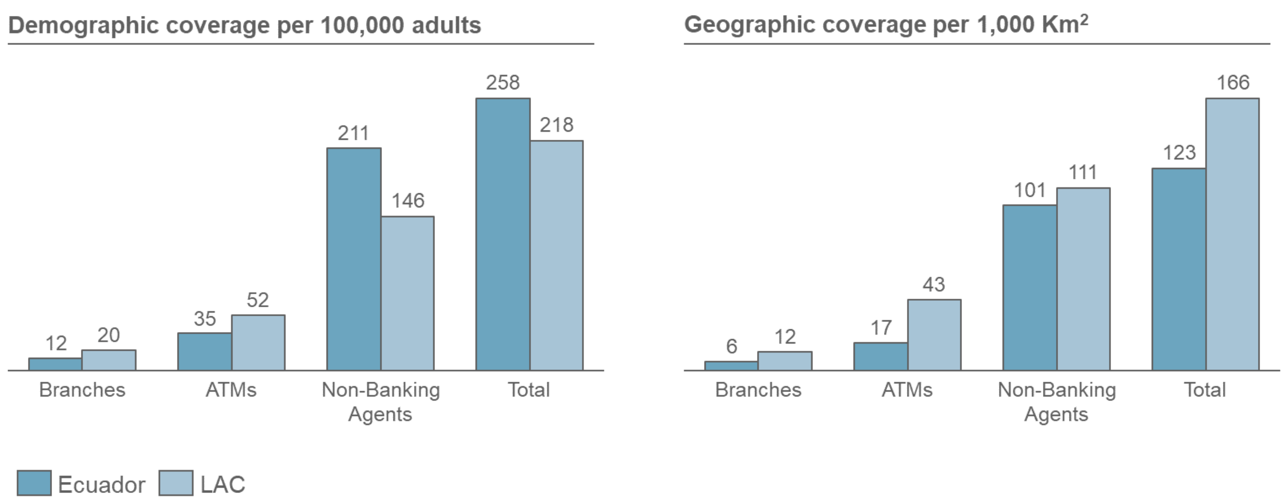
5. FINANCIAL INFRASTRUCTURE

5.1. OVERVIEW OF THE FINANCIAL INFRASTRUCTURE

5.1.1. DISTRIBUTION CHANNELS

Ecuador's distribution channels are comparable to other countries in LAC. Both in terms of demographic and geographic coverage, Ecuador is close to the regional average. By demographic coverage, Ecuador is slightly above the regional average, with a total of 258 access points to the financial system per 100,000 adults, while LAC has an average of 218 access points per 100,000 adults.[197] In terms of geographic coverage, Ecuador is slightly below the regional average, with 123 access points per 1,000 km², while the average in the region is 166. [198]

Figure 8: Distribution channels 2018[199]



5.1.2. PAYMENT SYSTEMS

Ecuador still heavily relies on cash, with only 51% of the population 15 years and older having a bank account. [200] There's unequal access to banking services between genders, with only 43% of females aged 15+ having a bank account, compared to 60% of men.[201] Additionally, only 28% of the population owns a debit card, with levels dropping when accounting solely for the poorest 40% of the population and for the rural population, at 16% and 24% respectively.[202] Similarly, only 9% of Ecuador's population owns a credit card.[203] Regardless of ownership levels, there's low usage of debit and credit cards, with only 14% of the population having used a debit or credit card in the past year.[204] Notably, the use of credit and debit cards for education payments represents an opportunity as a distribution channel as well as short term financing.

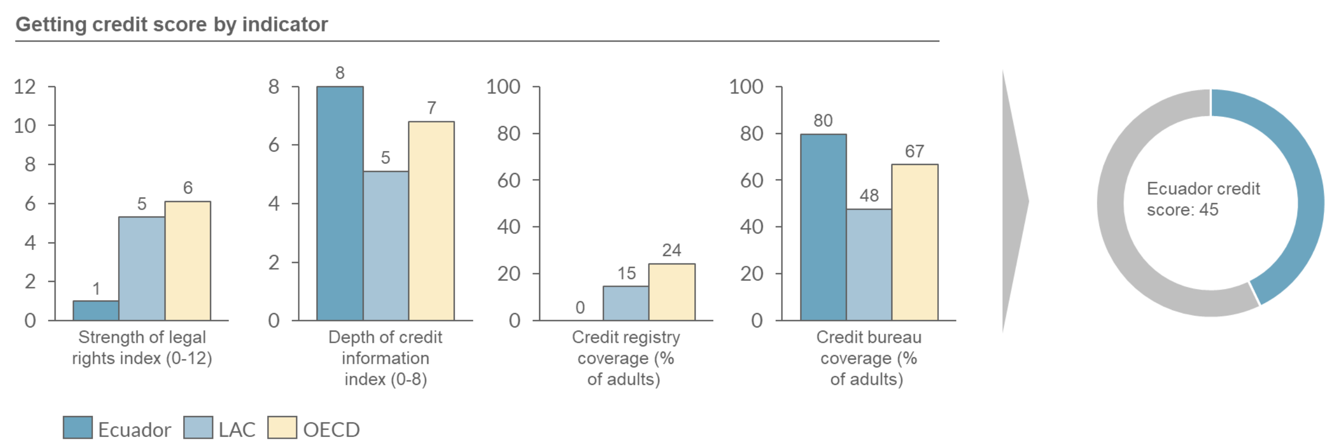
[197] FELABAN, 2019
[198] FELABAN, 2019
[199] FELABAN, 2019
[200] The World Bank, 2017
[201] The World Bank, 2017
[202] The World Bank, 2017
[203] The World Bank, 2017
[204] The World Bank, 2017

Despite low usage of traditional banking services including credit and debit cards, digital payments are emerging in Ecuador. Between 2014 and 2017, the share of the population that had made or received digital payments increased from 24% to 32%.[205] On the other hand, despite government efforts to introduce a state mobile money system, Ecuador has one of the region's lowest mobile money penetration rates, with only 3% of the population having a mobile money account, slightly below the regional average of 5%.[206]

5.1.3. ECOSYSTEM FOR LENDING

Ecuador ranks 119 out of 190 countries in the "Getting Credit" index, with a score of 45 points compared to the regional average of 52 points out of 100.[207] The getting credit index explores two sets of issues—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending.[208] More detail of specific sub rankings is presented in the figure below.

Figure 9: Getting Credit Ecuador Score 2020[209]



5.1.4. CREDIT REPORTING BUREAU

Ecuador has a strong credit bureau coverage, with over 80% of the adult population included – higher than the average of the OECD countries. The system includes a national registry of credit data, which is managed by the Superintendency of Banks. However, this database only records the credit history of a person within the financial sector (i.e., bank, cooperative, mutual).[210] Also, Equifax, a private sector credit bureau with 15 years of experience in the country, develops credit reports that allow financial institutions to make informed decisions based on the credit history and complementary information.[211]

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205 The World Bank, 2017
206 The World Bank, 2017
207 The World Bank, 2020; The World Bank, 2020
208 The World Bank, 2020
209 The World Bank, 2020
210 Tapia, 2020
211 *Confirmado.net*, 2020

Ecuador's credit score information is of high quality. Its level is higher than that of OECD countries, eight out of eight, compared to seven out of eight.[212] According to the Doing Business 2020 report for Ecuador, Ecuador's credit information includes data for firms and individuals, both positive and negative information, and data from utilities and retailers.[213] The credit bureau also distributes at least 2 years of historical data and data on loans smaller than 1% of income per capita.[214] Borrowers have the right to access their data in the credit bureau by law and banks and financial institutions can access borrowers' credit information online.[215] Additionally, credit scores are offered as an additional service to help banks and financial institutions assess the creditworthiness of borrowers.[216] Ecuador's credit bureau covers over 8.6 million individuals and 86,000 firms.[217]

5.1.5. COLLATERAL REGISTRIES

Ecuador does not have collateral registries. The Doing Business 2020 report for Ecuador, as part of its strength of legal rights index, includes three questions related to collateral registries and in all cases, the answer is no. The questions are the following: i) is a collateral registry in operation for both incorporated and non-incorporated entities, that is unified geographically and by asset type, with an electronic database indexed by debtor's name?; ii) does a notice-based collateral registry exist in which all functional equivalents can be registered?; and iii) does a modern collateral registry exist in which registrations, amendments, cancellations and searches can be performed online by any interested third party? [218] Moreover, Ecuador ranks extremely poorly in the strength of legal rights index, with a score of 1 on a scale from 1-12, compared to the regional average of 5.3.[219]

5.1.6. RATING AGENCIES

At the national level, Ecuador has a risk rating ranging from Caa3 with a negative outlook to B- with a stable outlook, indicating high risk of default.[220] There are three rating agencies (Moody's Investors Service, Standard & Poor's, and Fitch Ratings) that establish a country's degree of risk for investors. Recently, Fitch upgraded Ecuador's rating from RD to B- given its completion of a 'distressed debt exchange', which has helped the country attain near-term repayment capacity despite widespread economic challenges and political uncertainty.[221] However, Ecuador still faces significant risk due to its upcoming elections in early 2021.

All financial institutions in Ecuador by law must be rated by a reputable credit rating agency. Under Chapter III of Ecuador's Superintendency of Banks Codified Rules, issuing financial entities must "hire the services of reputable international credit rating agencies approved by the Superintendency of Banks" and must be rated on a scale from E-AAA.[222] Approved credit rating agencies include Ecuability S.A., Bank Watch Ratings, PCR Pacific S.A., and Humpreys S.A.[223] After upgrading Ecuador's sovereign rating, Fitch Ratings also upgraded the ratings of four major financial institutions. *Banco Pichincha* and *Banco Guayaquil* were upgraded from CC to B-, yet were assigned a

[212] The World Bank, 2020
[213] The World Bank, 2020
[214] The World Bank, 2020
[215] The World Bank, 2020
[216] The World Bank, 2020
[217] The World Bank, 2020
[218] The World Bank, 2020
[219] The World Bank, 2020
[220] Trading Economics, 2020
[221] Fitch Ratings, 2020
[222] Pérez, Bustamante & Ponce, 2020
[223] *Superintendencia de Bancos del Ecuador*, 2006

negative outlook due to the economic implications of the COVID-19 pandemic.[224] *Produbanco* and *Banco ProCredit* were also upgraded to B-.[225]

5.1.7. CREDIT GUARANTEES

The government of Ecuador developed a guarantee fund in 2014 to facilitate access to credit for MSMEs, not including the education sector. This credit guarantee is provided by the National Guarantee Fund (*FNG*, its Spanish acronym) with the aim of increasing funding for MSMEs that cannot access financing due to insufficient guarantees. *FNG* partners with the following financial institutions who provide lending using the guarantee: *Banco del Pacífico, Banco General Rumiñahui, Banco Amazonas, Banco Procredit, Banco del Litoral*, and *Banco DelBank*. It has a minimum coverage of USD 2,000 and a maximum of 80% of the total loan size up to USD 500,000.[226] It is aimed at natural and legal people who are considered micro, small or medium entrepreneurs in all kinds of economic activities, except for consumption, housing, public investment, and education.

5.2. SUMMARY

- Ecuador's distribution channels are comparable to other countries in LAC, both in terms of demographic and geographic coverage.
- Ecuador still heavily relies on cash, with only 51% of the population 15 years and older having a bank account. Additionally, only 28% of the population owns a debit card and only 9% owns a credit card. Notably, the use of credit and debit cards for education payments represents an opportunity as a distribution channel as well as a vehicle for short term financing.
- The overall lending ecosystem is weak. Ecuador ranks 119 out of 190 countries in the "Getting Credit" index, with a score of 45 points compared to the regional average of 52 points out of 100. Ecuador's weakest areas are legal rights since the country does not have a collateral registry system and its guarantee fund does not apply to the education sector.
- Lack of access to banking accounts and access to debit/credit cards has limited the use of financial products for education. Ecuador's low rating in the "getting credit" index means that there are challenges for SMEs, including non-state schools and ancillary services when accessing credit.

[224] Fitch Ratings, 2020
[225] Fitch Ratings, 2020
[226] *Corporación Financiera Nacional*, 2020

6. INTERMEDIARIES AND FACILITATORS

6.1. OVERVIEW OF INTERMEDIARIES AND FACILITATORS

6.1.1. STATUS OF MOBILE PAYMENT SYSTEMS

Mobile payments remain underutilized in Ecuador, with only 3% of the population having a mobile money account.[227] As of 2015, Ecuador was the only South American country with legislation on mobile payments, which mandated state control over the system. In 2014, under the government of President Rafael Correa, Ecuador's Central Bank began issuing electronic money.[228] Under this plan, private phone companies and financial institutions were prohibited from participating in the market, with only Ecuador's Central Bank allowed to issue electronic currency and only the state-owned mobile phone company allowed to offer mobile payment services.[229]

The state-led system failed to garner enough users or payments volume, resulting in its closure in 2017. The government expected over 500,000 people to use mobile money in 2015.[230] However, less than 5,000 accounts were opened.[231] At its peak, the system reached USD 11.3 million in account balances, less than 0.046% of the country's money stock.[232] The lack of uptake can be primarily explained by the public's low trust in Ecuador's Central Bank, believing that the Central Bank had a higher risk of default or devaluation.[233] Additionally, the government's monopoly resulted in higher fees, which were inaccessible for the rural and the unbanked population. After the closure of the state-controlled system in 2017, Ecuador opened up the mobile payment market to alternatives from the private sector. In 2018, *Asobanca* introduced a mobile wallet called Bimo, with the aim of increasing financial inclusion and reaching people with no access to financial institutions.

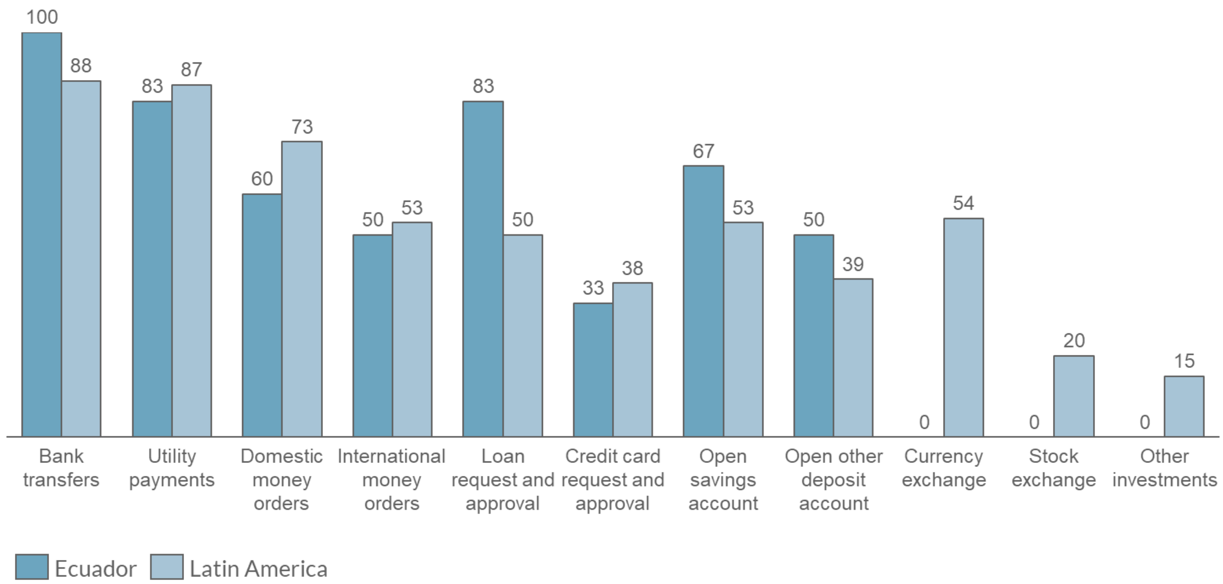
Mobile money does not hold much promise in Ecuador for education payments or loans. Its low penetration and recent history undermines the population's trust in this channel.

6.1.2. STATUS OF DIGITAL FINANCE/FINTECH

Financial institutions in Ecuador have made great advances in digital banking. However, demand for these services remains weak. Although banks have strong service offerings for electronic transactions and requesting credits online, as depicted in Figure 10, Ecuadorian citizens still prefer in-person banking transactions. 83% of the population frequently conducts banking transactions at physical bank branches, while 50% of the population frequently uses online banking.234 Moreover, no Ecuadorian bank reports that more than 60% of its clients use digital banking channels, while 12% of Latin American banks report that more than 60% of their clients are employing this resource.235

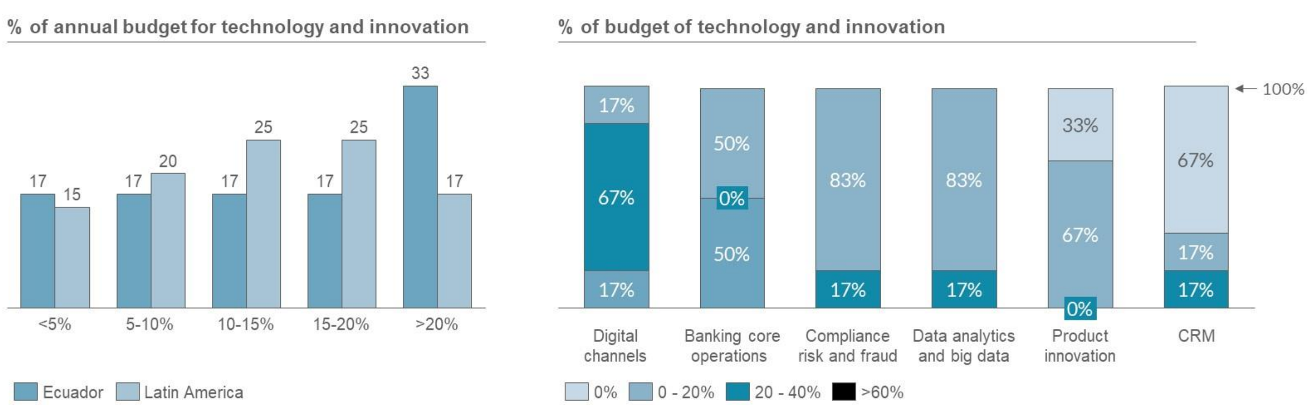
[227] The World Bank, 2017
[228] White, 2018
[229] White, 2018
[230] White, 2018
[231] White, 2018
[232] White, 2018
[233] White, 2018
[234] FELABAN – CAF, 2018
[235] FELABAN – CAF, 2018

Figure 10: Digital Offer From Financial Institutions in Ecuador[236]



Ecuadorian financial institutions invest heavily in technology and innovation. 33% of financial institutions invest over 20% of their budget in innovation and technology, compared to 17% in Latin America. The main areas of investment are digital channels and improving core banking operations, followed by risk and compliance analysis and data analytics and big data (see figure below).

Figure 11: Investment in Technology and Innovation in Financial Institutions in Ecuador[237]



Fintech is an emerging sector and half the financial institutions perceive it as risk to its business model. Fintech in Ecuador is an emerging sector, but compared to other countries in the region is still in early stages. The IDB estimates that in 2018, 3% of Fintech were in Ecuador (34 Fintech), compared to other countries such as Colombia (148) and Peru (57).238 Half of Ecuador's financial institutions consider Fintech a risk, mainly because it reduces intermediation margins and information security.239 To address this risk, financial institutions are taking three main actions: i) developing partnerships with Fintech companies, ii) building in-house programs, and iii) outsourcing services to Fintech companies.

[236] FELABAN – CAF, 2018
[237] FELABAN – CAF, 2018
[238] IDB, 2018
[239] FELABAN – CAF, 2018

6.2. SUMMARY

- Mobile money has low penetration, with only 3% of the population having a mobile money account. Ecuador's recent history with electronic money undermines trust in this channel and its potential uses in the education sector.
- Banks have robust digital service offers (e.g., electronic transactions, requesting credits online) and invest heavily in technology and innovation.
- However, demand for these services remains weak as Ecuadorian citizens still prefer in-person banking transactions. As such, there might be limited uptake if digital products / innovations are developed that target the non-state education sector.
- Fintech is an emerging sector; there is an opportunity for it to add value to the country's educational finance system.

7. OPPORTUNITIES

This section highlights the opportunities for increasing blended finance in the non-state education sector in Ecuador. Identified high potential opportunities are presented below by type of instrument, clearly articulating the stakeholders involved and potential partners that could allow USAID to take action and continue the conversation so as to increase financing to non-state education through blended finance.

7.1. GUARANTEES: RISK-SHARING

- **Rationale:** Financial institutions consider the non-state education sector, especially non-state schools in the low/middle cost range (up to USD 450) not very attractive and risky because i) the schools don't have a guarantee that banks can make effective (i.e., banks don't want to take over the school building due to reputational concerns), and ii) schools have variable cash flows due to lack of consistent payment from parents. Relatedly, parents under financial stress, in particular due to COVID-19, need to access financing to be able to pay for school fees and supplies.

- **Description:** Support development of a guarantee fund for the non-state education sector – at the national or regional level (to diversify risk). The guarantee fund could be available to all financial institutions for loans to the non-state education sector (e.g., to schools for infrastructure investments and to parents for school fees and supplies) and provide a partial guarantee if the borrower defaults.

- **Outcome:** Reduced credit risk for financial institutions, enhanced lending confidence in the non-state education sector and expanded access to financing at more competitive rates and with extended repayment periods.

- **Potential Partners:** Such a facility could be coordinated between USAID and Ecuador's National Financial Corporation, which currently operates the National Guarantee Fund. The National Guarantee Fund partners with banks and credit and savings cooperatives to increase lending to people and institutions considered MMSMEs. However, the education sector is currently not part of the scope of that guarantee fund.[240]

- **Potential Risks:** Low demand from the non-state education sector due to the traditional low engagement of this sector with financial institutions. To mitigate this risk, the guarantee fund should be paired with a broad-based information campaign to build awareness and capabilities so that they can access financing, ideally leveraging the association of private schools as a vehicle to bring together the non-state education sector.

7.2. TECHNICAL ASSISTANCE FOR PRODUCT DEVELOPMENT

- **Rationale:** Some financial institutions expressed a lack of understanding and knowledge on lending to the non-state education sector. This is the case even though several institutions currently lend to non-state schools through SME or commercial loans; or lend to parents to pay for school supplies as part of their consumer loan portfolios. Financial institutions expressed a need for better understanding (1) the business case for providing school loans, (2) what criteria make an education institution a good prospect for providing loans, and (3) under what terms loans should be provided. Also, Opportunity International is already working with two financial institutions (*Fundación ESPOIR*

[240] *Corporación Financiera Nacional*, 2020

and *CACMU*) in the country to increase lending for education. This demonstrates there's appetite for technical assistance for developing products that target the education sector, both for schools and parents.

- **Description:** Provide technical assistance to financial institutions (e.g., banks, MFIs, credit unions) to understand non-state education, to showcase successful examples of products for the non-state education sector working in other countries, and to help them develop specific products for the non-state sector. This technical assistance will be targeted at creating financial products for (a) parents to pay for school supplies and other materials and (b) education institutions through SME loans (i.e., school has to qualify as an SME in terms of income and number of employees)
- **Outcome:** Improved range of products from financial institutions that addresses the needs of the non-state education sector (e.g., products with longer-terms, lower rates, different payment periods) and are attractive to financial institutions.
- **Potential Partners:** USAID could partner with Opportunity International, who is already operating in Latin America and has a long history of developing education financing products and partnering with local financial institutions to provide education financing throughout the developing world. End beneficiaries of the technical assistance could include the following banks, which provide the most lending to the learning sector: *Banco Pichincha* (32%), *Banco del Pacífico* (26%), *Banco Guayaquil* (12%), and *Banco Bolivariano* (11%).[241]
- **Potential Risks:**
    - Regulation capping the interest rate reduce the attractiveness of the education sector given that the maximum interest rate for education credits is 9.5%. This has undermined the willingness of financial institutions to develop specific products for education. To overcome this, technical assistance should demonstrate that using other types of loans that have more flexible interest rates (e.g., SME loan, consumer loans) can be profitable. Moreover, technical assistance can help financial institutions identify related financial needs that are investable (i.e., move beyond providing financing for school fees and instead target financing towards electronics for education, for example).
    - Getting buy-in and interest from financial institutions: Financial institutions have many ongoing priorities and projects running in parallel, and they have never perceived the education sector as an opportunity. To mitigate this risk, USAID and its partner will need to educate financial institutions about the untapped opportunity and existing demand of the non-state education sector in the country.
    - Technical assistance might be ineffective if USAID fails to understand the background of each potential partner and if it fails to tailor assistance to each institution's unique situation. Furthermore, institutional culture is particularly important in effecting change (i.e., innovation, open to change, collaborative spirit, etc.).
    - Low demand from the non-state education sector due to the traditional low engagement of this sector with financial institutions. To mitigate this risk, technical assistance should touch base on how to promote the new products to the non-state education sector.

[241] *Superintendencia de Bancos*, 2019

7.3. DESIGN-STAGE FUNDING FOR INNOVATIVE EDUCATIONAL ENTERPRISES AND ANCILLARY EDUCATIONAL INSTITUTIONS

- **Rationale:** Non-state schools and ancillary services are facing barriers to access traditional financing that would allow them to prove their success, grow, scale their impact and quality, and secure long-term sustainability. Increased funding given directly to educational institutions providing innovative models and to ancillary educational institutions would allow enterprises to prove their success and then scale with commercial financing.
- **Description:** Support educational enterprises at an early stage by funding (a) feasibility studies (e.g., assess how investable a transaction is) or (b) proof of concept (e.g., invest in design and structuring, piloting).
- **Outcome:** Provide proof of concepts for viable innovations in order to get them ready to scale; increase access to financial resources to early stage education enterprises that may seem too risky or complex to pursue for private investors. Funding could go towards enterprises such as education companies offering innovative education models, EdTech, or ancillary education firms.
- **Potential Partners:**
  - Companies offering innovative educational models such as ReinventED Schools, which seeks to finance low-cost schools by having a chain of both low-cost and high-cost schools.
  - Ed-tech companies providing tutoring services, test prep services, and educational management platforms such as Cuestionarix and Idukay.
  - Foundations such as *Fundación Scalesia* who manage schools (i.e., *Unidad Educativa Tomás de Berlanga* in the Galápagos) and who seek to increase educational quality in the country by leveraging international and national funding and investing in teacher training.
- **Potential Risks:**
  - Limited deal flow due to low availability of data on innovative school models or ancillary services and their performance, so as to make informed decisions on which enterprises to support.
  - Early stage companies might be high-risk investments; design-stage funding might not incentivize sufficient private investment.

Additional opportunities include public-private partnerships (PPP) for non-state education and lending to parents using schools as intermediaries. For PPPs, Ecuador's *fiscomisional* schools present an intriguing educational model that mixes state funding to pay for teacher salaries with private funding, particularly from religious organizations (e.g., Fe y Alegria). These schools have the potential to provide quality education at highly subsidized costs. USAID could potentially build on this existing private subsidized model to expand low-cost schools into new markets where there is some willingness to pay and limited presence of public schools. Lending to parents using schools as intermediaries with blended finance capital is another possible solution to increase financing, while ensuring that education loans are in fact used for education. Given that education is a low priority for most Ecuadorian households, providing loans via schools decreases risk for banks and ensures proper usage of education loans.

8. ANNEX

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8.2. STAKEHOLDER LIST OF INTERVIEWS

Organization	Name	Role
Public Sector		
Ministry of Education	Monserrat Creamer	Education Minister
MFI/Banks Associations		
ASOMIF Ecuador	Patricio Chanabá Paredes	Executive Director
Asobanca	José Julio Prado	President of the Directory and Executive Director
Banks/MFI		
Diners Club del Ecuador	Augusta Bustamante	Corporate Social Responsibility Manager
Opportunity International	Andrew McCusker	Head of Education Finance
Banco D-MIRO	Erik Geurts	Deputy Chair of the Board
Fundación ESPOIR	Francisco Moreno	Executive Director
Vision Fund Ecuador	Luis Rios	General Manager
School Associations		
Corporación de Centros Infantiles Particulares del Ecuador	Fabián Vinueza	Vicepresident
Federación de Establecimientos Particulares Laicos del Ecuador (Fedepal)	Karen Mejía	FEDEPAL Representative
Confederación de Establecimientos de Educación Católica del Ecuador (Confedec)	Rómulo López	Confedec Representative
Red de Colegios y Unidades Educativas de la Compañía de Jesús en el Ecuador	P. Fabricio Alaña, SJ	Education Delegate, Ecuador (Red de Unidades Educativas Ignacianas - RUEI)
Schools		
Unidad Educativa Luis Chiriboga Manrique	Msc. Luis Murillo Carranza	Dean
Colegio Tomás de Berlanga Sta Cruz - Galápagos	Caterina Carrasco	Director
Unidad Educativa Particular Amazonas - Lago Agrio	Norma Arízaga	Dean
Enseña Ecuador / ReinventED	Juan Carlos Perez	Founder & Board Member
Fe y Alegría Foundation	Carlos Vargas	National Director Fe y Alegría Ecuador
Liceo Campoverde	Carla Avellan	Assistant Principal
Funders		
Pomona Impact	Richard Ambrose	Managing Partner
IFC	Juliana Guaqueta	Education and Technology Investments
CREAS Ecuador	Corinne Lebrun	Fund Manager
Kiva	Lina Ramírez	Regional Investment Manager LATAM
Acumen Latam Impact Ventures (ALIVE)	Virgilio Barco	Managing Director
Other		
TEKMAN Education	Paula Viteri	Educational Consultant
Universidad del Pacifico	Jimmy Zambrano	Pedagogy Dean

8.3. LIST OF DATA SOURCES AND KEY TERMS FOR LITERATURE REVIEW

Type of source	Source	Keywords
Internet	Google	"Education in Ecuador" "Non-State Education in Ecuador" "Private schools Ecuador" "Blended finance Ecuador" "PPPs in the education sector in Ecuador" "Impact bonds in education Ecuador" "Impact investing in education sector in Ecuador" "Blended finance education Ecuador" "Ecuador subsidized schools" "Ecuador education trends / challenges" "MFI lending Ecuador education" "Lending Ecuador education" "Ecuador education funding / finance" "Scholarships Ecuador private education" "Private / non-state schools Ecuador financing" "Non-state schools Ecuador blended finance" "Ecuador education policies / regulations / reforms" "Ecuador private education policies" "Laws governing private education Ecuador" "Private / public education quality Ecuador" "Ecuador education investments" "Ecuador early childhood education" "Ecuador kindergarden / pre-school financing" "Ecuador extracurricular / after-school services" "EdTech / education platforms Ecuador" "School transportation / related school services" "Teacher training Ecuador financing"
Academic databases	Annual Review	
	Google Scholar	
	BookLick	
	Cambridge University Press	
	JSTOR	
	Oxford Journals	
	ProQuest	
	SCOPUS	
	EBSCOHOST	
International organizations	USAID	
	OECD	
	World Bank Group	
	U.S. Federal Trade Administration	
	UNESCO	
	IADB	
	Convergence	
Statistical databases	World Bank Open Data	"Enrollment rate, total" "Enrollment rate, public / private" "Enrollment rate, primary / secondary" "Literacy rate" "Population projections / growth" "Out-of-school rate" "Ecuador educational performance" "School-aged population" "Birth rate" "Number of educational institutions" "Rural vs. urban enrollment" "Educational performance" "Expenditure in education, % of GDP" "Poverty"
	UN Population Division	
	UNESCO	
	Ministry of Education Ecuador	
	National Institute of Statistics Ecuador	

8.4. LITERATURE REVIEW

INTRODUCTION

The literature review seeks to understand the basic non-state education sector in Ecuador with a focus on financing availability and access. The basic education sector includes pre-school through secondary education, as well as ancillary services, but excludes tertiary and post-secondary / adult education. This document examines the basic non-state education sector in Ecuador by splitting it into three categories which have been informed by USAID's Five Point Blended Finance Framework. The three categories are: Enabling Conditions, Demand for Education Finance, and Supply of Education Finance.

In conducting this research, the consultants reviewed recent studies, reports, and journal articles explicitly related to Ecuador's non-state education sector and/or blended finance, as well as the USAID country development cooperation strategies (CDCS) report. This body of work approximates the totality of literature on the subject of non-state education in Ecuador. There are some areas of this report of great relevance to USAID for which there is little to no literature. For instance, blended finance, a nascent industry in Ecuador, has only been superficially discussed in literature, presumably because there are few examples of it taking place in the country.

In the areas where the academic literature is inadequate, the consultants have sought to be transparent about its limitations. The objective of this literature review is to synthesize learnings from previous research. Moving forward, the consultants will complement the formal literature with interviews with experts in Ecuador to supplement their knowledge base on the subject and will present additional data, statistics, and figures in the final report. As a result, the final market assessment report will fill many of the gaps identified in this literature review. Despite the limitations of the literature, the consultants believe that this synthesis of the literature on non-state education in Ecuador could be of great use to USAID and other relevant actors in the sector.

This document is organized in the following order: the next section, "Scope and Methodology" describes the methodology used to conduct the literature review. The "Literature Review" section constitutes the main body of this document, covering both literature, reports, and secondary data and statistics. Findings are presented and analyzed in this section. Finally, "Moving Forward" presents aspects to consider in the assessment, highlighting both strengths and limitations of the field and areas that need more in-depth examination. The references, annotated bibliography, and Five-Point Framework Diagnostic Tool are attached, as requested.

SCOPE AND METHODOLOGY

The methodology used included systematic searches in academic databases, desk research on regional and international organizations, research on education and access to finance, and an analysis of databases to identify relevant reports, studies, and statistics. The keywords were used both in English and Spanish, and date ranges were set from 2010 to 2020 for academic database and international organization searches. The table below summarizes the data sources and key terms used as part of this literature review.

Table 12: Sources and Keywords

<table>
<tr><th>Type of source</th><th>Source</th><th>Keywords</th></tr>
<tr><td>Internet</td><td>Google</td><td rowspan="18">“Education in Ecuador”
“Non-State Education in Ecuador”
“Private schools Ecuador”
“Blended finance Ecuador”
“PPPs in the education sector in Ecuador”
“Impact bonds in education Ecuador”
“Impact investing in education sector in Ecuador”
“Blended finance education Ecuador”
“Ecuador subsidized schools”
“Ecuador education trends / challenges”
“MFI lending Ecuador education”
“Lending Ecuador education”
“Ecuador education funding / finance”
“Scholarships Ecuador private education”
“Private / non-state schools Ecuador financing”
“Non-state schools Ecuador blended finance”
“Ecuador education policies / regulations / reforms”
“Ecuador private education policies”
“Laws governing private education Ecuador”
“Private / public education quality Ecuador”
“Ecuador education investments”
“Ecuador early childhood education”
“Ecuador kindergarden / pre-school financing”
“Ecuador extracurricular / after-school services”
“EdTech / education platforms Ecuador”
“School transportation / related school services”
“Teacher training Ecuador financing”</td></tr>
<tr><td rowspan="9">Academic databases</td><td>Annual Review</td></tr>
<tr><td>Google Scholar</td></tr>
<tr><td>BookLick</td></tr>
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<tr><td>SCOPUS</td></tr>
<tr><td>EBSCOHOST</td></tr>
<tr><td rowspan="7">International organizations</td><td>USAID</td></tr>
<tr><td>OECD</td></tr>
<tr><td>World Bank Group</td></tr>
<tr><td>U.S. Federal Trade Administration</td></tr>
<tr><td>UNESCO</td></tr>
<tr><td>IADB</td></tr>
<tr><td>Convergence</td></tr>
<tr><td rowspan="5">Statistical databases</td><td>World Bank Open Data</td><td rowspan="5">“Enrollment rate, total”
“Enrollment rate, public / private”
“Enrollment rate, primary / secondary”
“Literacy rate”
“Population projections / growth”
“Out-of-school rate”
“Ecuador educational performance”
“School-aged population”
“Birth rate”
“Number of educational institutions”
“Rural vs. urban enrollment”
“Educational performance”
“Expenditure in education, % of GDP”
“Poverty”</td></tr>
<tr><td>UN Population Division</td></tr>
<tr><td>UNESCO</td></tr>
<tr><td>Ministry of Education Ecuador</td></tr>
<tr><td>National Institute of Statistics Ecuador</td></tr>
</table>

LITERATURE REVIEW

This section offers a review of the literature and data available on the enabling conditions for non-state basic education, the landscape of actors requiring financing and of those offering financing for the sector.

ENABLING CONDITIONS:

ECUADOR'S GOVERNMENT HAS A STRONGLY REGULATED NON-STATE EDUCATION SECTOR

Regulatory background

Since 2006, Ecuador's education policies have sought to strengthen the public education system, after a decade of operating on a largely privatized and commercialized education system (1996 – 2006). In 2006 the Ministry of Education drafted the Ten-Year Education Plan 2006-2015 (Plan Decenal de Educación), which centered on strengthening the country's public education system. This plan became the education proposal of President Rafael Correa, who took office in 2007. Under this plan, the government sought to 1) increase access to public education by eliminating barriers of entry and b) increase the supply of public education.[242] Through this, Ecuador aimed to achieve universal basic education. During Correa's administration, the 2008 Constitution was also adopted, which had additional reforms for the education sector. After 2015, Ecuador developed a new 2016-2025 Ten-Year Plan.

To increase access to education, the government (a) eliminated enrollment fees[243] and instead offered free education, (b) disbursed USD 50 per month to people living below the poverty line who sent their children to school, and (c) provided textbooks to all students and uniforms and meals to those with the greatest need.[244] Similarly, the government focused on increasing the supply of public education by (a) improving school infrastructure and materials; (b) increasing the number of teachers; and (c) building more schools, particularly where there were supply and demand gaps.[245] As a result of the Education Plan and subsequent policies, pre-school and general basic education became mandatory, reaching near-universalization.[246] Public spending on education, as a share of GDP, also rose from 4.3% in 2009[247] to 5.0% 2015 (although still falling short of the government objective of spending 6% of GDP).[248]

In particular, Ecuador's 2008 constitution focused on strengthening the quality of public teachers by improving their working standards: "Article 349. The State shall guarantee, for the teaching staff… job security, modernization, ongoing training, and teaching and academic improvement, as well as fair pay".[249] The law also regulates salaries and promotions and established a performance evaluation system.

Despite achieving increased access to public education, the Presidency of Rafael Correa greatly hampered non-state education. His anti-neoliberalism rhetoric, the reforms enacted in accordance with the Ten Year Plan, and the 2008 Constitution, although advocating for equity in education, stifled private education.[250] For example, Article 28 of the constitution states that "education should respond to the public interest, and will not be at service of individual and corporate interests".[251] In addition, President

[242] Cevallos Estarellas, 2015
[243] Note: Prior to 2006, parents had to pay approximately USD 25 when enrolling their children in a public school; Source: Hermida, 2014
[244] Cevallos Estarellas, 2015
[245] Cevallos Estarellas, 2015
[246] Cevallos Estarellas, 2015
[247] Note: Earliest date with data available
[248] World Bank Indicators, 2015
[249] Schneider, Cevallos Estarellas, & Bruns, 2017
[250] Gomez, 2019
[251] Isch Lopez, 2011

Correa sought to halt educational reforms that could potentially segregate the population, including the creation of charter schools.[252]

Consequently, the regulatory framework for private education became extremely rigid, with stringent requirements and price controls, which has made it difficult for private schools to thrive. To determine the price ranges that non-state schools can charge, schools are classified according to several metrics, including facility size and quality and number of students and teachers. The government frequently freezes tuition through presidential decrees (e.g., during the 2019 economic downturn and 2020 COVID-19 pandemic) and has prohibited schools from suspending students who have not paid their dues. In total, Ecuadorian schools face 8 prohibitions by law, including the inability to sell uniforms and materials or to select specific suppliers for such.[253] In addition, regulation is uncertain, as it is characterized by frequent policy and restriction changes. Most importantly, in 2011, Ecuador prohibited for-profit schools in the private education sector, as part of the *Ley Orgánica de Educación Intercultural*.[254]

Moreover, the government has actively imposed sanctions on private schools. The most common breaches are irregular enrollment fees, exceeding the spending limit on required school supplies, and charging for additional expenses.[255] Sanctions range from small warnings to closing down institutions. As a result, many private schools have been forced to either lower their prices or shut down entirely, hampering education in the country.

Today, Ecuador's education system is administered through a decentralized system that consists of 9 zones, 140 districts, and 1,142 education circuits. There are a total of 16,000 educational institutions.[256] 77.7% of students are enrolled in urban schools, while 22.3% of students attend schools in rural areas.[257] As of 2017, Ecuador reached 97% net enrollment for general basic education in urban areas and 94.6% net enrollment in rural areas, indicating that much can still be done in rural areas.[258] Providing educational services in rural areas has been more challenging given lower connectivity and greater population dispersity. 76.4% of general basic education students attend public schools, 17.7% of students attend private schools, and 5.9% of students attend schools with mixed financing, meaning institutions receive both public and private funding (fiscomisional, in Spanish).[259] Most 'fiscomisional' schools are religious schools that receive subsidies to pay teacher salaries.

Quality of non-state education

Although education coverage has greatly improved in the country, education quality is still low compared to other countries. Ecuadorian students still perform weakly in the TERCE[260] assessment. According to the latest results (2015), Ecuador ranked below average or average among Latin American countries in all test categories.[261] Similarly, the latest PISA[262] assessment (2017) shows mixed results: Ecuadorian students ranked below the regional average in mathematics and slightly above the regional average in reading and science.[263] According to PISA results, 71% of Ecuadorian students have poor performance in mathematics.[264] Moreover, Ecuador is one of the countries that has the largest gender gaps in mathematics, with boys scoring 20 points higher, the equivalent of a difference of one year of

[252] Isch Lopez, 2011
[253] El Telégrafo, 2019
[254] Inter-American Development Bank, 2018; Ministerio de Educación, 2017
[255] El Telégrafo, 2019
[256] Ministerio de Educación , 2020
[257] Instituto Nacional de Evaluación Educativa, 2018
[258] Instituto Nacional de Evaluación Educativa, 2018
[259] Instituto Nacional de Evaluación Educativa, 2018
[260] Note: Tercer Estudio Regional Comparativo y Explicativo de la Calidad de la Educación en América Latina
[261] Organización de las Naciones Unidas para la Educación, la Ciencia y la Cultura, 2016
[262] Note: Programa para la Evaluación Internacional de Alumnos
[263] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[264] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019

schooling.[265] Similarly, PISA results indicate that students from lower socioeconomic levels have lower scores and have little probability of improving their scores.

Moreover, national and international assessments of non-state education quality are mixed. Scholars have argued that "non-state education has taken advantage of the gaps in Ecuador's public infrastructure and service provision system to offer education at a higher cost and without guaranteeing higher quality".[266] Given this low non-state quality, it is not surprising that the education reforms and the greater focus on public education over the last two decades have managed to closed the gap in quality between the public and private sectors.[267]

A study conducted by Ecuadoruniversitario.com in 2014 corroborates this point. The study concluded that although private school students overall perform better in the "Ser Estudiante" assessment, if one compares students of similar socioeconomic levels, rather than comparing public school students and private school students aggregately, the difference in results is zero. This means that the difference in the scores of public and private school students is due to economic differences and not to higher quality in private institutions.[268] The study used official data from the National Institute of Educational Evaluation (INEVAL) and compared the scores of 48,000 students who took the 2013 "Ser Estudiante" assessment.

Ecuador's government has noted, however, that there are still public institutions who lag behind non-state schools in education quality. This is mostly due to the quality of teachers.[269]

Despite these findings, the PISA assessment indicates that private schools have higher quality in some subjects. In reading, private school students scored 63 points higher than their public school peers, which translates to a difference of one year of schooling.[270] However, consistent with Ecuadoruniversitario.com's analysis, the PISA assessment also finds that for mathematics and science differences in public and private student scores diminish when considering for socioeconomic status.[271]

Demand for education

The demand for basic K-12 education in Ecuador has increased over the past decades. This is driven by two factors: 1) population growth: the population between 0-19 years increased from over 4 million in 1980 to over 6 million in 2020[272] and 2) increase or high enrollment rates in the last decade: enrollment rates in preprimary grew from 40% to 66%[273], primary enrollment rates have remained stable at over 90%[274] since the 1990s, and enrollment in secondary education rose from 56% to 85%[275].

Over the next decade, the demand for education is expected to keep growing as a result of rising incomes and population growth, until Ecuador reaches its maximum population of people aged 0-19 years in 2030 (6.5 million 0-19 year olds).[276] Over the past decade, Ecuador's population has been growing at an average rate of 1.6% per year.[277] Multidimensional poverty in Ecuador has also decreased

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[265] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[266] Benalcázar, 2017
[267] Benalcázar, 2017
[268] Ecuadoruniversitario, 2014
[269] La Nación, 2016
[270] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[271] Bos, Westh Olsen, Vegas, Viteri, & Zoido, 2019
[272] United Nations Department of Economic and Social Affairs, Population Division, 2019
[273] World Bank Indicators, 2018
[274] World Bank Indicators, 2018
[275] World Bank Indicators, 2018
[276] United Nations Department of Economic and Social Affairs, Population Division, 2019
[277] United Nations Department of Economic and Social Affairs, Population Division, 2019

over the past decade, from 27.2% of the population in 2009 to 16.9% of the population in 2017.[278] From 2030 onwards, there will be a decline in the demand for education as the population gets older, the fertility rate continues to decrease (from over 6 children per woman in 1950 to 2.5 in 2016)[279] and as the population aged 0-19 years declines to levels seen in the 1980s by 2100.

DEMAND FOR EDUCATION FINANCE:

NON-STATE SCHOOLS AND ANCILLARY SERVICES DO EXPRESS DEMAND FOR PRIVATE FINANCING

Educational institutions

The educational landscape is diverse, composed of a network of institutions with unique value propositions and operational models. The Brookings Institution analyzes educational institutions through two lenses: the type of education provider and the type of financing the institution receives.[280] The type of education provider can fall into one of three categories: state, non-state not-for-profit, and non-state for-profit. The type of financing can either be public or private. In addition, schools can be further segmented by both the quality of the education they provide as well as their overall cost of attendance, which can range from low-cost or subsidized to high-cost or market-rate.

According to the Ministry of Education, the number of non-state education institutions decreased from 8,000 in 2009-2010 to 4,000 in 2019-2020[281]. Just in the city of Guayaquil, approximately 1,000 schools closed from 2010-2017.[282] The institutions most affected are small, low-cost schools.

Low-cost schools in Ecuador have monthly fees that range from USD 1-50. Although there's no official database of low-cost schools, Quito and Guayaquil have registries of the number of schools with monthly fees ranging from USD 1-150. In Quito, there are 450 schools with fees falling under this range, while there are 465 schools in this fee range in Guayaquil.[283]

Ecuador also has a variety of high-quality, high-cost schools with monthly fees ranging between USD 608-2051. In Quito, there are 12 schools falling in this range, while Guayaquil has 46 schools.[284] These schools include a variety of services in their monthly fees including transportation, life and accident insurance, as well as ample opportunities in the arts and sports. School infrastructure can include features such as state-of-the-art science laboratories (e.g., robotics), auditoriums, and dedicated classrooms for dance, painting, and music. Parents have also cited high-caliber security as an important service provided by these schools.

In addition to non-state school closures, the share of primary school enrollment in non-state institutions has also been decreasing since 2005, when it reached 29%. However, this figure slightly improved from 23% in 2015 to 24% in 2018.[285] The share of secondary school enrollment in non-state institutions has also been steadily decreasing -- from 33% in 2009 to 26% in 2018.[286] The shift from private to public education can be partially explained by increased government assistance, such as free uniforms, books, and lunch.[287]

[278] Instituto Nacional de Evaluación Educativa, 2018
[279] World Bank Indicators, 2018
[280] Steer, Gillard, Gustafsson-Wright, & Latham, 2015
[281] Ministerio de Educación, 2020
[282] Gomez, 2019
[283] Primicias, 2020); Ministerio de Educación, 2020; El Comercio, 2019
[284] Primicias, 2020); Ministerio de Educación, 2020; El Comercio, 2019
[285] World Bank Indicators, 2018
[286] World Bank Indicators, 2018
[287] El Telégrafo, 2014

The situation has only worsened as a result of the economic repercussions of COVID-19, with enrollment in public schools increasing 6.5% in June 2020, when the school year began on the coast.[288] In addition to decreased enrollment in non-state institutions, the Ministry of Education established limits on enrollment and monthly fees for institutions providing virtual education or homeschooling models during and after COVID, at 65% and 30% of the original cost, respectively.[289] The government has also mandated that private schools must reduce their monthly fees by up to 25% for all parents who can demonstrate they have lost their jobs or have reduced incomes.[290] Similarly, the government has prohibited schools from suspending students who have not paid their fees, for up to six months. [291] This might result in further school closures.

Despite these downward trends, demand for private education remains strong in Ecuador's large cities with 39% of all students enrolled in school in Quito attending private schools and 44% in Guayaquil.[292]

Parents

According to Opportunity International, 44% of low-income parents have borrowed to pay for their children's education in the past two years and 31% of low-income bank clients in Ecuador would take out a school fee loan.[293]

Ancillary services and other education-related enterprises

In addition to formal educational institutions (i.e., schools), the education sector is made up of an ecosystem of related companies and services. Education related enterprises include school transportation, food catering, extracurricular/after-school activities (e.g., sports, arts), bookstores, publishers, language academies, distance learning providers, test preparation companies, Ed-Tech companies, hardware providers, teacher training institutes, and academic and administrative software. Examples of the status of fast-growing education-related sectors in Ecuador are presented below.

<u>School transportation:</u> in Ecuador there are 13,000 school buses[294] that serve both public and non-state institutions. The sector is regulated by the Ministry of Education, which establishes operating and contracting requirements.[295] In Quito, there are over 92 school bus operators and 49 in the city of Cuenca.[296] Cooperativa Union is one of Quito's largest players, with over 50 years of experience in the market. COVID-19 has paralyzed the school transportation sector in Ecuador, resulting in lost business for operators. As of September 2020, only 24% of school buses maintained their operating contracts.[297] Additionally, most buses that maintained their operations have had to slash down fees as a result of the pandemic. The transport sector, in general, is one of the hardest hit by the economic effects of COVID-19. Access to financing is also difficult as it's considered a risky sector by financial institutions.[298]

<u>Test preparation:</u> To attend college, Ecuadorian high school students must pass a National Education Evaluation Exam. Each year approximately 450,000 students take the exam[299], however many are not prepared to succeed. In 2017 for instance, 170,000 students failed the exam.[300] Moreover, spots in

[288] Olsen, 2020
[289] Ministerio de Educación, 2020; Trujillo, 2020
[290] El Universo, 2020
[291] El Universo, 2020
[292] Inter-American Development Bank, 2018
[293] Opportunity International, 2018
[294] Silva, 2020
[295] Ministerio de Educación, 2018
[296] Metro Ecuador, 2019; El Universo, 2019
[297] Silva, 2020
[298] Silva, 2020
[299] Ramos, 2020
[300] Metro Ecuador, 2017

public universities are limited and are awarded to students based on their test scores. As a result, students are pressured to perform extremely well. Although prep courses exist in cities, they are expensive and difficult to access in peri-urban and rural areas.

Companies such as Cuestionarix have emerged, addressing gaps in the market, namely a) affordability and b) availability. Cuestionarix offers an online test prep platform that uses interactive, personalized and flexible methods, at an accessible price.[301] As of June 2018, Cuestionarix is the largest online education community in Ecuador, teaching over 360,000 students. Cuestionarix seeks to reach an additional 12 million unattended students in Latin America who are unable to adequately prepare for national evaluations and other similar tests.

Moreover, Cuestionarix highlights how local companies can design creative organizational models to surpass financing obstacles. Cuestionarix has an innovative legal model, choosing to register the company in the United States to avoid local regulatory challenges. As part of its operating model, Cuestionarix incentivizes employees by offering them stock options so they can have a stake in the company. Although setting up this type of venture is legal in Ecuador, including third-party shareholders is challenging in practice. As a result, Cuestionarix was registered in the United States and operates under a binational structure. Exploring innovative legal models, such as registering in the United States, also facilitates financing given that "investment is easier and more viable through a company registered in the USA."[302]

Academic and administrative software: There are more than 16,000 educational institutions in Ecuador, most of which are small institutions that don't have the financial muscle or capabilities to access education management platforms.[303] As a result, they rely on manual processes for teaching and school management. In addition, software companies also face challenges to scale and provide services to the education sector. Companies such as Idukay have emerged throughout Ecuador to address this challenge. Idukay is an education management platform that automates communication within schools and improves processes and interaction between professors, students, administrators, and parents.

Companies in this sector have struggled to obtain financing given their limited tangible assets. Financing is not only difficult to attain, but processes tend to be long (e.g., it took Idukay six months to obtain a loan; loan for 5 years at 9% interest).[304]

Teacher training: In 2008, Ecuador's Ministry of Education began prioritizing teacher training to improve the quality of the country's public education. Teacher training became mandatory for all public school teachers. Between 2010 and 2018, over 113,000 teachers received in-service teacher training, with approximately 10,000 teachers being trained per year from 2015-2018.[305] In-service teacher training is imparted by the Comprehensive System for the Development of Education Professionals (SIPROFE). To conduct trainings, SIPROFE partners with universities and pedagogical institutes. These programs require a yearly investment of USD 2.7 million and cost between US 28.5 – 38.5 per hour.[306] Most courses range from 20 – 40 hours in duration and teachers are required to take a variety of courses. However, the World Bank has argued that in-service teacher trainings have not been properly designed to adequately address skills gaps.[307] As such, there's an opportunity for financing improvements in the

301 IMPAQTO, 2018
302 IMPAQTO, 2018
303 Ministerio de Educación , 2020
304 IMPAQTO, 2018
305 Angel-Urdinola & Burgos-Dávila, 2019
306 Angel-Urdinola & Burgos-Dávila, 2019
307 Angel-Urdinola & Burgos-Dávila, 2019

design and quality of trainings. There are also additional opportunities in the provision of online trainings, particularly given the current COVID-19 situation, and trainings for private school teachers.

In general, educational entrepreneurs in Ecuador have struggled to receive financing given that "there are no options for credit without collateral…, lots of requirements, and [that] there are limits to early-stage entrepreneurs. It's not efficient and the process takes a long time."[308]

SUPPLY OF EDUCATION FINANCE:

LIMITED OFFER OF TAILORED EDUCATIONAL FINANCE FROM TRADITIONAL SOURCES OF FINANCING, AND INNOVATIVE FINANCIAL MODELS FOR NON-STATE EDUCATION ARE YET TO BE EXPLORED

Traditional Finance

Education finance can be supplied through two overarching instruments: debt and equity. Debt financing includes a) individual school fee loans for parents, b) working capital / constructure loans for schools, and c) continuing education finance. Conversely, equity financing refers to funds or corporates that invest in promising areas of education services innovation (e.g., EdTech, Saas textbooks, education management platforms). There is little evidence financial institutions make equity investments in non-state schools and institutions. As such, the following literature will focus on debt financing.

There is currently limited traditional financing for non-state education in Ecuador, most of which is in the form of debt. Few specific education-focused financing products exist in banks and MFIs for parents. Rather, most banks and MFIs provide financing for education through consumer loans. However, after reviewing bank and MFI websites, we identified two Ecuadorian banks currently offering K-12 education credits for parents: BanEcuador and Fundación ESPOIR.

- BanEcuador Crédito Consumo Educativo: Offers up to USD 3 thousand at 16.06% interest to parents to be used for enrollment, tuition and other school fees, school supplies, and equipment.[309]
- Fundación ESPOIR: Offers education credits from USD 200-500 to be paid back in 2 - 5 months.[310]

Similarly, six out of the country's 22 banks offer education credits for higher education.[311]

On the other hand, schools and education related enterprises are treated as SMEs by most banks and MFIs. No specific products targeting educational institutions have been identified. The main banks offering financing for SMEs are Banco Pichincha (21% of credit volume), Banco Guayaquil (17.1%), and Produbanco (13.5%).[312] In 2015-2016, only 0.4% of all SME financing in Ecuador went towards the education sector.[313]

Opportunity International, a non-profit providing financing for education by partnering with local financial institutions also operates in Ecuador. Opportunity International offers both school improvement loans for educational institutions and school fee loans for parents. Currently, Opportunity International is supporting two financial institutions in Ecuador: Fundación ESPOIR and CACMU. Since

[308] IMPAQTO, 2018
[309] BanEcuador, n.d.
[310] Fundación ESPOIR, n.d.
[311] Tapia, 2020
[312] CEPAL, n.d.
[313] CEPAL, n.d.

beginning its operations in Ecuador 12 months ago, Opportunity International has invested USD 1.5 million.[314]

In addition, although historically there has been limited participation from the business community in K-12 education (e.g., supporting education advocacy NGOs, providing technical assistance to schools through foundations), recently numerous start-ups have emerged in the education space, particularly in EdTech and test preparation.[315] Insofar as credit is offered to related education services (e.g., after-school, language programs), it is typically in the form of startup capital or SME loans. Today, there is greater private sector engagement than during the Correa administration, when policies discouraged the participation of civil society and business in education.[316]

Blended Finance

According to USAID, Blended finance "is the strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environment results, such as improving infrastructure, education, agriculture, healthcare, and more".[317] According to Convergence, the five most common transaction types are (1) bonds/notes, (2) companies, (3) facilities, (4) funds, and (5) projects.

Bended finance is emerging in Ecuador. According to the Convergence database, there have been 16 blended finance deals in Ecuador in the last two decades, with a total deal size of USD 1.7 billion (Table 2).[318] The main deal type are funds, with 13 out of the16 deals being funds. Additionally, the OECD estimates that USD 221 million were mobilized by the private sector for development between 2012 and 2015, in the form of guarantees, syndicated loans, and credit lines.[319]

Table 13: Ecuador Blended Finance Transactions

Investor	Vehicle Name	Type	Size	Year	Sectors
Fairtrade International	Inconfin Fairtrade Access Fund (FAF)	Fund	57M	2019	Agriculture
Government of the Netherlands	Sustainable Trade Initiative (IDH)	Facility	164M	2008	Agriculture, Industry & Trade
The Nature Conservancy (TNC)	EcoEnterprises Fund III (EcoEIII)	Fund	80M	2014	Agriculture
The Nature Conservancy (TNC)	EcoEnterprises Fund I	Fund	7M	2000	Agriculture
AlphaMundi Group Ltd	SocialAlpha Investment Fund - Bastion (SAIF Bastion)	Project	12M	2010	General
Mirova-Athelia (Athelia Ecosphere)	Sustainable Ocean Fund (SOF)	Fund	92M	2016	Agriculture

314 Conversation with Opportunity International
315 Schneider, Cevallos Estarellas, & Bruns, 2017; IMPAQTO, 2018
316 Schneider, Cevallos Estarellas, & Bruns, 2017
317 Roddis, 2020
318 Convergence, 2020
319 OECD, 2017

Global Partnerships (GP)	Microfinance Fund 2008 (MFF '08)	Fund	20M	2008	Financial Services
Global Partnerships (GP)	Social Investment Fund 2010 (SIF '10)	Fund	25M	2010	Financial Services
KfW	Eco.business Fund	Fund	373M	2015	Agriculture, Financial Services
Deutsche Bank Group	Essential Capital Consortium (ECC)	Fund	50M	2015	Energy, Financial Services, Health
Grassroots Capital Management	Grassroots Business Investors Fund I (GBI-I)	Fund	49M	2011	General
Bolivian Investment Management (BIM)	LOCFUND II	Fund	80M	2013	Financial Services
ProCredit Holding	ProCredit Holding	Company	415M	1998	Financial Services
Sarona Asset Management	Sarona Frontier Markets Fund 2 (SFMF2)	Fund	150M	2013	Financial Services
Global Partnerships (GP)	Social Investment Fund 5.0 (SIF 5.0)	Fund	50M	2015	Financial Services
Global Partnerships (GP)	Social Investment Fund 6.0 (SIF 5.0)	Fund	75M	2018	Financial Services

Blended finance for education in particular is limited. None of the deals are in the education sector specifically and just one of the 16 transactions recorded on the Convergence platform lightly touches on education:

SAIF-Bastion Impact Debt Fund: targets SMEs in key human development sectors, including affordable education. The fund provides debt financing, particularly to women and rural areas.

c) Country Focus: Ecuador, Kenya, Mexico, Peru, and Uganda
d) Total Deal Size: USD 12M

The SAIF-Bastion Impact Debt Fund is managed by AlphaMundi. Currently, all of AlphaMundi's investments are made through this fund. 51% of its Latin America portfolio is invested in Ecuador and 11% is invested in education.[320] Portfolio companies in Ecuador include a company that provides micro-loans to low-income people and an agriculture company that produces vegetable chips.[321]

The recorded data from Convergence is consistent with OECD numbers, which indicate that less than 0.3% of all blended finance transactions go towards education.[322]

In addition to recorded blended finance transactions on the Convergence platform and on OECD databases, Ecuador has several public-private partnerships (PPP) and impact funds, and has issued an

[320] AlphaMundi, 2020
[321] AlphaMundi, n.d.
[322] OECD, 2017

impact bond. Over the last years, impact investing in Ecuador has been on the rise, presenting an opportunity for increased investment in the education sector. In 2016 and 2017, impact investors invested USD 4.7 billion in Latin America, with Ecuador being the second largest destination.[323] The SAIF-Bastion Impact Debt Fund listed above is an example of an impact fund operating in the country. Other impact funds operating in Ecuador include the Grassroots Business Fund and IMPAQTO. Moreover, CREAS Ecuador, Ecuador's first impact fund has expressed interest in working with the education sector, although it has not made any investments to date.[324]

PPP have also been gaining ground in Ecuador as a result of the Law of Incentives for Public Private Partnerships and Foreign Investments (2015). It is estimated that between 2018 and 2021, Ecuador will receive USD 7 billion in PPP investments for the infrastructure sector. Although most PPP have centered around infrastructure projects, several key education PPPs have emerged, including the *Fé y Alegría Network* and *Unidos por la Educación Alliance:*

Fe y Alegría Network: Jesuit NGO that manages preschool, primary, secondary, and technical private schools. Fe y Alegría seeks to improve the quality of education for lower-income citizens. Its partners include the Ministry of Education, foundations, international agencies, civil society, and communities. The PPP is organized as a government subsidy to religious non-state schools. Through the subsidy, the government pays teacher salaries. Although Fe y Alegría selects its teachers, they are subject to government regulations. Schools in the Fe y Alegría Network offer a variety of programs including primary and secondary education, adult and radio education, and teacher training. According to a 2014 study, students in Fe y Alegría schools perform as well in tests or slightly better than other schools.[325]

Unidos por la Educación: Alliance between 15 private sector companies that are financing education in Ecuador. The alliance seeks to generate improvements in school infrastructure, technology, connectivity, education models, teacher training, and relation with local communities. The alliance aims to be the first fund investing in scaling successful school models that will be implemented by foundations and NGOs. To date, the alliance has raised USD 600 thousand.

Results-based financing is also on the rise in Latin America, with several Latin American nations having contracted or in the process of designing education focused impact bonds, including Argentina, Chile, and Brazil.[326] Ecuador however does not currently have education focused impact bonds.

Although not focused on education, Ecuador also issued the first Sovereign Social Bond in international markets for USD 400 million. The bond will help the government's Casa para Todos program, which seeks to provide decent and affordable housing to over 24 thousand medium- and low-income families. Similarly, CAF issued a region wide impact bond for education.[327]

MOVING FORWARD

The literature review of the non-state education sector in Ecuador provides insightful information that will serve as a starting point for the market assessment report. This work provides an overview of the current state of the non-state education sector, potential financing needs of non-state education actors, barriers in the supply of finance, and gaps in knowledge.

This piece of work must be thought of as a preliminary overview, not as a definitive guide to non-state education in Ecuador. That is, having an understanding of where the key gaps in the literature are on this

[323] Gustafsson-Wright, 2019
[324] CREAS Ecuador, n.d.
[325] Patrinos, Barrera-Osorio, & Guáqueta, 2009
[326] Gustafsson-Wright, 2019; Environmental Finance, 2020
[327] CAF, 2019

subject will inform the consultants' focus for the final report that will follow this literature review, and will also serve as context for future researchers.

The absence of substantial academic literature and country specific reports on both Ecuador's non-state education sector and on blended finance in the country has limited the scope of the information presented. Moreover, the limited number of blended finance databases made it difficult to adequately compare different blended finance mechanisms. As such, significant information gaps still need to be filled through further research. Key information gaps include obtaining an in-depth understanding of the difference in educational quality between the public and private sector, which is likely due to the government's frequent changes in evaluation metrics and differences between national and international assessments, understanding how different non-state education players currently finance their operations, further assessing how government policies have stifled investment in non-state education, and measuring teacher quality in the non-state sector, particularly in low-cost schools.

Through our review of literature on non-state education in Ecuador, the consultants identified several promising pathways for future analysis:

1. There is a nascent entrepreneurial ecosystem, with startups emerging in ancillary education services such as EdTech and test prep, which presents interesting investment opportunities.
2. Next, the market for investing in education, although still at an early stage, is promising. There's appetite for lending in the education sector, with impact investing on the rise in the country and with several financial players already offering products for education. The key challenge remains in encouraging financial institutions to design financial products for non-state education or tailor existing products to adequately provide financing for the sector. Additionally, regulatory challenges remain in the financial sector, which is important to further assess.
3. Finally, it is worth exploring financing "fiscomisional" schools, which tend to be higher quality than low-cost non-state schools. Given the stringent policy environment towards non-state schools, investors might face a friendlier investment environment in "fiscomisional" schools.

Given the large number of blended finance deals in the country, there's a potential role for USAID to facilitate the deployment of education finance products via financial institutions through the use of blended finance tools (e.g., technical assistance, concessional financing debt or equity, and guarantees).

Going forward, the consultants will seek to fill key data gaps and identify opportunities that would allow USAID to explore additional innovative financing methods in Ecuador.

As mentioned above, this review is intended to serve as a preface to a broader report that will attempt to fill many of the gaps identified here via interviews. Among those gaps are: blended finance; factors informing school performance; the business case for ancillary actors; specific implications of regulations; and others.

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This policy research paper argues that although Ecuador has made significant investments in teacher training over the past decade, in-service teacher trainings have not been properly designed to adequately address skills gaps. The paper uses data from student and teacher assessments to provide recommendations on how to improve the design of in-service teacher training programs. Additionally, the paper argues that although Ecuador has improved its efforts to conduct student and teacher evaluations, these evaluations are rarely used to develop teacher trainings. The paper concludes that using the results from evaluations could potentially improve teacher training programs.

Benalcázar, M. (2017). *Educación privada versus educación pública en el Ecuador.* Revista Publicando. From https://revistapublicando.org/revista/index.php/crv/article/view/577/pdf_398

This study analyzes and determines the qualitative aspects of Ecuador's education system. Through a documentary and bibliographical review, this paper assesses the quality of education in public and private schools. The information was classified and evaluated using the Analysis-Synthesis method. The study finds that the national education system greatly improved as a result of the Ten Year Education Plan. After evaluating the Ten Year Plan, Benalcázar finds that the plan's initial goals were fulfilled. Most importantly, the study concludes that the difference in academic performance between students from public and private schools is not due to differences in quality and infrastructure between public and private schools. Rather differences in test scores result from differences in the socioeconomic levels of the students.

Bos, M., Westh Olsen, A., Vegas, E., Viteri, A., & Zoido, P. (2019). *PISA-D Ecuador: ¿Se Pueden Cerrar las Brechas de Aprendizaje que Existen en el País?* Banco Interamericano de Desarrollo. From https://publications.iadb.org/publications/spanish/document/Nota_PISA_17_Ecuador_Se_pueden_cerrar_las_brechas_de_aprendizaje_que_existen_en_el_pa%C3%ADs_es_es.pdf

This report provides an overview of Ecuador's results in the PISA-D assessment. The report concludes that Ecuador's results are close to the regional average. However, Ecuador must improve its academic performance and close learning gaps between genders and socioeconomic groups. The report argues that to do so, greater investment and attention must go towards marginalized groups. The report's key findings include: (1) there's still much to be done so that Ecuadorian students attain basic competency levels, (2) Ecuador is one of the countries that has the largest gender gaps in mathematics, (3) students from lower socioeconomic levels have lower scores and have little probability of improving their scores. Moreover, the report argues that the difference in performance between public and private schools is one year of schooling.

Cevallos Estarellas, P. (2015). *The Strange Case of Ecuador's Education Reform.* The Dialogue. From https://www.thedialogue.org/blogs/2015/08/strange-case-ecuador/

This report offers an in-depth review of Ecuador's Ten Year Education Plan (2006-2015), which was implemented between 2007 and 2013. Cevallos Estarellas argues that the government adopted policies in three categories: 1) policies to restore state control over the education system, 2) policies to universalize enrollment, and 3) policies to improve the quality of education. As a result of these policies, governance, access, and quality of education drastically changed in Ecuador. Cevallos Estarellas argues that the policies enacted under the Ten Year Education Plan resulted in greater state jurisdiction over the education system, improved enrollment in both general basic education and upper secondary school, and improved enrollment among historically marginalized groups, indigenous peoples and Afro-Ecuadorians. However, he argues that results are inconclusive with respect to improved educational quality.

Gomez, P. (2019). ***Ecuador Fails Students, Educators with Tuition Price Controls.*** **Econ Americas. From https://econamericas.com/2019/09/ecuador-tuition-price-controls/**

This paper argues that President Moreno's decree of freezing tuition and registration fees hampered education quality. Furthermore, the paper argues that Ecuador suffers from a rigid regulatory framework that makes it difficult for private institutions to thrive. As a result of the rigid policies and price controls set by the government, many institutions have been forced to lower their prices or close. This paper argues that both of these measures have hampered education quality in Ecuador since they have left private schools without funds to innovate and make investments.

Gustafsson-Wright, E. (2019). ***It takes more than 2 to tango: Impact bonds in Latin America and the Caribbean.*** **Brookings Institution. From https://www.brookings.edu/blog/education-plus-development/2019/02/15/it-takes-more-than-2-to-tango-impact-bonds-in-latin-america-and-the-caribbean/**

This work gives a comprehensive overview of impact bonds in Latin America. Out of the 136 impact bonds in the world, only 4 are in Latin America. Three of these are social impact bonds (two in Colombia and one in Argentina) and one is a development impact bond (Peru). The paper argues that impact bonds are an effective tool to resolve the complex problems facing the region. Moreover, Gustafsson-Wright argues that impact bonds are an adequate tool to be deployed in Latin America since (1) results based/contingent financing already exists in the region, (2) there's good data availability and quality, (3) there's a robust impact investing sector, and (4) there's a strong culture of social innovation. Gustafsson-Wright does argue however that four key challenges has impeded the social impact market from growing faster: (1) legal obstacles, (2) macroeconomic instability, (3) political uncertainty, and (4) unfavorable tax policies.

Hermida, P. (2014). ***Who Benefits from the Elimination of School Enrolment Fees? Evidence from Ecuador.*** **SciELO. From http://www.scielo.org.co/scielo.php?script=sci_arttext&pid=S0120-35842014000200003**

This paper assesses the effects of eliminating enrollment fees in Ecuador. Hermida uses propensity score matching to estimate the impact of eliminating enrollment fees on dropout rates among primary and secondary school children. Hermida concludes that the initiative had non-negligible and positive effects on the likelihood of students staying in school one year after the initiative was implemented. The paper argues that male, urban, and higher-income students benefitted the most from this intervention; while the intervention had no effect on female, rural, or lower-income students. Hermida concludes that the difference between paying and non-paying students with regards to staying in school is around 2-4%. Hermida also concludes that there is greater disparity in continuation rates among secondary school students, with even greater effects for those who are male.

IMPAQTO. (2018). ***The Second Wave: Promoting a Second Decade of Impact Investing in Frontier Markets in Latin America.***

This report serves as a framing document to introduce the impact investing sector in Latin America, and subsequently provide an analysis of the sector. Specifically, the report describes the state of impact investing in Latin America, and considers the role of medium-sized markets such as Ecuador in playing a meaningful role in the sector's development in the region. The report also identifies key challenges facing the development of the sector, both from the perspective of entrepreneurs and investors, then subsequently examines major opportunities for addressing those challenges, including regulatory reform and the use of innovative financial instruments. It also performs in-depth "spotlight" analyses on promising enterprises in the region and considers the role that a robust impact investment sector can have on their growth.

Instituto Nacional de Evaluación Educativa. (2018). ***La educación en Ecuador: Logros Alcanzados y Nuevos Desafíos; Resultados Educativos 2017-2018.*** **From https://www.evaluacion.gob.ec/wp-content/uploads/downloads/2019/02/CIE_ResultadosEducativos18_20190109.pdf**

This public sector report traces the major achievements and challenges facing education in Ecuador, informed by two scores of two key exams. The report begins by outlining the context in Ecuador, including the socioeconomic circumstances surrounding the country's educational challenges. It then explores the educational sector specifically and identifies key indicators that speak to the successes and failures of the system at large. The report then applies those indicators in an analysis that is centered on the Ser Estudiante and Ser Bachiller exams. This analysis is subsequently complemented by results from the Survey of Associated Factors, which provides additional context to the results of the exams. Finally, the report identifies a set of recommendations that would strengthen the educational sector in the country, including a greater focus on improving the educational systems to which ethnic minorities have access and addressing the rural-urban gap in education quality.

Inter-American Development Bank. (2018). ***Private Schooling in Latin America, Trends and Public Policies.***

This report assesses the policies Latin American countries have implemented to incorporate private schools into the education system and to help parents make choices on education services. The report notes that although Latin America is one of the regions with greatest private school offering, there's little information on policies that regulate private schools. The report assesses the state of private education in Latin America by reviewing census data and administrative records and evaluates policies that regulate the private sector. Policies are evaluated based on their design, implementation, and impact on efficiency and equity. The report then presents a set of recommendations on how to introduce finance and regulations into the private education sector. The report's main findings include: (1) financing policies that are tied to regulations on the quality of education that institutions provide, and that consider family and school context, have a positive effect on student performance and equity and (2) most countries do not use standardized test results to provide incentives for schools, parents, and teachers.

Isch Lopez, E. (2011). ***Las actuales propuestas y desafíos en educación: el caso Ecuatoriano.*** **SciELO. From https://www.scielo.br/scielo.php?pid=S0101-73302011000200008&script=sci_arttext&tlng=es**

This paper represents a high-level overview of the education landscape in Ecuador, framed by the incentives and interests facing key stakeholders in the sector. It begins by providing a background to the political and cultural context surrounding the current state of the education sector. In doing so, it traces the regulatory shifts that have affects the sector and the sector's resultant changes. The paper's analysis is robust, providing an in-depth examination at the key articles in relevant laws that have impacted the education sector. The paper then examines specific government actions that reflect underlying biases and interests and attempts to explain how these forces have affected the country's education sector. It concludes with a brief about moving the sector forward.

Olsen, A. S. (2020). ***COVID-19 and the transition from private to public education in Ecuador.*** **Inter-American Development Bank. From https://blogs.iadb.org/educacion/en/covid-19-and-the-transition-from-private-to-public-education-in-ecuador/**

This paper provides an overview of the effects of COVID-19 on the education sector in Ecuador, highlighting four key data points: (1) migration from public to private institutions has already started, with enrollment in public institutions having increased 6.5% in June 2020; (2) assuring quality of education is difficult given the limited number of teachers; (3) the transition will be most noticeable in large cities where 88% of the country's private schools are located. The paper highlights key challenges that might arise due to this transition. Most importantly, given the limited number of spots in the public system, guaranteeing access to all students might become a challenge. Additionally, the new virtual reality will require a more individualized learning model, which is complicated by decreases in the number of teachers.

Opportunity International. (2018). ***EduFinance Market Knowledge Lending Opportunities in Ecuador.***

This report summarizes education lending opportunities in Ecuador. The report focuses on the Manabi province in Ecuador. The report finds that currently most parents pay for their children's education using family income, followed by receiving financial support from family and friends to cover education costs. The study finds that 44% of parents have borrowed to pay for their children's education, that 14% of parents are interested in learning more about education lending products, and that 31% of bank clients would take out a loan to pay for school fees (if this loan was a product specifically for education).

Organización de las Naciones Unidas para la Educación, la Ciencia y la Cultura. (2016). *Informe de resultados: Tercer Estudio Regional Comparativo y Explicativo.*

This report presents the results of the third regional comparative and descriptive study (TERCE), which was conducted in 2013. The TERCE is a standardized test that was administered to primary students in 15 Latin American countries and the Mexican state of Nuevo León. The TERCE assessment provides information on efficiency, a key dimension to education quality, and identifies the major gaps in education performance between students from different backgrounds. This report focuses on educational performance results, and assesses averages, and variance between results. The TERCE goes beyond evaluating student performance, also looking at learning processes. Moreover, the TERCE takes into account community, family, and student context, which are key determinants of student performance.

Over 67,000 third to sixth grade students were evaluated in the TERCE in the following academic disciplines: reading, writing, mathematics, and sciences. The report concludes that the countries that consistently perform above the regional average are Chile, Costa, Rica, and Mexico.

Patrinos, H., Barrera-Osorio, F., & Guáqueta, J. (2009). *The Role and Impact of Public-Private Partnerships in Education.* World Bank. From http://documents1.worldbank.org/curated/en/453461468314086643/pdf/479490PUB0Role101OFFICIAL0USE0ONLY1.pdf

This nearly 100 page paper provides an overview of public-private partnerships in education. The paper begins with a set of definitions, seeking to lay the groundwork for a discussion about the evolving role of public-private partnerships in the education sector. It lays out the distinct elements inherent to public-private partnerships, and then explores the international landscape for this structure of agreement: it provides data on distinct models of public-private partnerships and performs a set of case studies on a set of countries with experience incorporating public-private partnerships in their education sectors. The paper then identifies a way forward towards developing a conducive environment for the development of public-private partnerships in education, including identifying common shortcomings in regulatory landscapes and institutional designs. It concludes with the presentation of a framework for conceptualizing these partnerships in education and proposing a role for multilateral institutions like the World Bank.

Roddis, S. (2020). *Literature Review: Blended Finance in the Non-State Education Sector.* USAID. From www.usaid.gov

This literature review begins by recognizing the importance of providing equal access to high-quality education and how there have been successful global efforts to increase education enrollment. It then defines and provides context for blended finance, including the institutions, instruments, and market conditions needed to facilitate its success. Finally, it describes how blended finance differs from alternative strategies for funding non-state education.

It also reviews the supply and demand for education at every stage. It explains that blended finance deals in non-state education can not only increase access to education but also improve quality. It provides a map of evidenced blended finance instruments and outcomes where it describes key blended finance deals, including their type and result. One of the conclusions of the report is that even though there is not enough evidence of blended finance deals to draw general conclusions, improving the quality of education is impossible to achieve without adequate resources.

Schneider, B., Cevallos Estarellas, P., & Bruns, B. (2017). *The Politics of Transforming Education in Ecuador: Confrontation and Continuity, 2006-17.* From https://riseprogramme.org/sites/default/files/inline-files/Bruns%20The%20politics%20of%20transforming%20education%20in%20Ecuador%206.11.2017.pdf

This paper explores the educational reforms of the presidencies of Alfredo Palacio (2005-2007) and Rafael Correa (2007-2017). During these four terms, the government achieved largescale improvements in education coverage and quality. From 2006-2013, Ecuador achieved the largest learning gains in Latin America in reading and second-largest gains in math. Spending on basic general education, as a share of GDP, also quadrupled during this period. Additionally, during this time period, the government made significant reforms to teaching policy, including (1) higher standards for new teachers and teacher training, (2) a promotion system based on performance rather than years of service, and (3) job dismissal after performing poorly in multiple evaluations.

The authors argue that although the reforms were controversial, the government benefitted from key factors that enabled it to enact them, including (1) strong public support given public belief that the education sector was in crisis and an effective communication strategy that built sympathy for the government, (2) presidential support, (3) continuity in the reform team throughout different presidential terms, and (4) the commodity boom of the 2000s. The paper concludes that there are few public details about how the reforms were implemented and that their sustainability is uncertain under Lenín Moreno's government. Despite these challenges, the paper argues that there are key lessons to be learnt from the Ecuadorian experience for other countries who wish to improve education quality by improving teacher quality.

For more information contact:
Amanda Fernandez
Executive Director, CATALYZE
amanda.fernandez@thepalladiumgroup.com

www.usaid.gov/catalyze