

Investment Opportunity: The Malengo 2024 Cohort

Transformative Income Gains Through International Educational Migration

Executive Summary

Malengo seeks to deliver transformative income gains for young people from low-income countries through international educational migration. We currently enable Ugandan secondary school graduates who could not otherwise afford university to complete an English-speaking degree at German universities. We accompany students through their higher education journey with both mentoring and financial support. We use income share agreements (ISAs) as a funding model, which protects students from risk and is self-sustaining.

To continue to scale Malengo's life-transforming impact, **we are raising \$14.4M in investments to support 400 students from Uganda to study in Germany starting in 2024. We expect these investments to generate earnings increases (net of ISA repayments) averaging 1,500% for each student, making Malengo one of the most cost-effective poverty alleviation programs available. Investors will invest directly in students aggregated via a special purpose vehicle, with estimated annualized returns of 7–15% depending on student terms and model assumptions. The closing date for this investment round is December 31, 2023.**



The 120 Malengo 2023 students at orientation in Kampala, Spring 2023

Migration as Poverty Alleviation

More than 600M people worldwide live on less than \$2.15 per day. Even the most successful anti-poverty programs in low-income countries, such as cash transfers, increase incomes by only 10–30%.¹ In contrast, incomes in high-income countries exceed those in low-income countries by **10–20 times** for similar jobs. Thus, international migration can deliver transformative income increases.²

International migration is also beneficial for the origin and destination communities: low-income countries benefit from remittances to family members, more investment in, and exports from, home countries, and greater local investments in education in reaction to migration opportunities.³ On the destination side, many high-income countries experience aging populations, skills shortages, and job vacancies in the millions, and therefore require migration.⁴

Malengo Facilitates Educational Migration

Malengo gives young people from low-income countries access to these opportunities by enabling them to apply for and complete a Bachelor's degree at a European university. Students receive **financial support** towards application and travel costs and their living expenses for the first year,

¹ Egger et al., 2022; Banerjee et al., 2015

² See research by Clemens, Pritchett, and country salary levels for jobs requiring equivalent skills.

³ An unprecedented global demographic transition means that the labor force of the Global South is growing faster than local economic growth can absorb. Currently, nearly 12M African youth enter the workforce each year, and compete for only 3M new jobs (African Union, 2022).

⁴ Analysis by Labor Mobility Partnerships, 2023

after which they support themselves with part-time jobs. In both origin and destination countries, we also provide **mentorship** to help students navigate the application process and university experience, and the job search process during and after graduation.

Malengo provides funding to students through **responsibly-designed income share agreements (ISAs)**: After graduating, students make repayments back to Malengo. Importantly, our **ISAs are structured with the best interest of students in mind**: students only repay if they earn above a threshold (in the 2023 cohort, €27,000/year), regardless of where they live. Rather than fixed amounts, they pay a percentage of their earning for a specified period (in the 2023 cohort, **between 7 and 14% of their earnings** for between 5 and 10 years; the low end of these ranges applies if they return to their country of origin). ISAs are attractive because they **protect the student from risk and allow them to make life choices freely**.

In addition, **ISAs make Malengo's model sustainable**: each student's repayments can fund future students, multiplying the impact of each philanthropic dollar. Alternatively, investors can make capital available for ISAs and earn returns. In the context of educational migration, ISAs are not an alternative to credit, but a way to unlock capital and opportunities that could not otherwise exist.

Current Status and Impact

Malengo sent two pilot cohorts of students from Uganda to Germany (6 in Fall 2021, 17 in Fall 2022). All of these students are currently in Germany and making progress towards their degrees.

- Students come from low-income families, living on **\$1.40 per person per day** (\$42 per person per month) before program entry.
- After 11 months, students have been earning enough (\$905/month after tax) in part-time jobs to **more-than-cover their living expenses** including student housing. This represents a 2,200% increase relative to their consumption prior to the program (1,000% after taking prices into account).
- While studying, students send an average of **\$120 per month to their families** in Uganda, representing a **110% increase** in the remaining family members' income.
- All current Malengo students expect to **graduate within 4 years**; the current average (and median) grade is 2.5 (1=best, 4=pass, 5=fail).
- As of 2023, Malengo has raised **\$2.7M of donations** and **\$3.5M of investor capital**. Amongst others, Malengo is supported by the **Global Development Incubator**, **Unorthodox Philanthropy**, and the **Livelihood Impact Fund**.

The Fall 2023 cohort, consisting of 120 students, was selected amongst 1,200 applicants in 2023. The students are currently on their way to Germany. Random selection of this cohort from the top 240 applicants is enabling an unprecedented **randomized controlled trial** on the impact of educational mobility on individual, family, and home community outcomes.

Projected Long-Term Impacts

Starting salaries for university graduates in Germany are around \$44,000/year, compared to an average annual income of \$1,750 in Uganda. We estimate that average incomes of students **will increase by over 1,500%, net of ISA repayments, relative to what they would otherwise earn**. Income gains for students plus repayment of finance translates to an annual rate of return **of 16.7% for 30 years** after program entry. By comparison, we estimate that the returns to unconditional cash transfers over the same time period is 1.6%. **The program is thus about 10 times more cost-effective than cash transfers**, and through remittances and investment the income gains to students are distributed to their families and communities in Uganda.

Evidence on Repayment Discipline and Defaults

Income share agreements are now a widely used and reliable instrument to enable students to fulfill their educational goals, while at the same time delivering returns to investors. For example, our partner organization Chancen eG operates the world's oldest student finance ISA program (25

years) with German private universities. Across both German and non-German students, Chancen eG assumes a **default rate of less than 5%** and has had zero defaults since expanding out of a single university in 2016. In fact, their program projects such reliable returns that they issue public bonds for their capitalization. Malengo's current model, with lower-cost public universities, does not require nearly the same repayment rates to deliver our estimated returns, but because we also operate in the German context, we will not be surprised by levels of repayment discipline and default that are better than our model's conservative assumptions.

Germany and the entire EU has an Open Banking regime, allowing easy access to students' financial information, and enabling direct withdrawals of ISA repayments from their bank accounts. Enforcement of financial obligations in Germany is straightforward because each individual must be registered with local authorities at their place of residence and has a unique tax ID.

Malengo's ISA contract was developed by the same law firm as that of Chancen eG. To determine repayments, students are contractually obligated to provide income statements and tax returns to Malengo. Repayments are automatically deducted from students' bank accounts. Current data from monthly stay-in-touch payments suggests **high repayment discipline**. As of July 2023, **Malengo has 99% compliance** on the monthly €10 payments that each student has to make. As mentioned, **current students have already found part-time jobs** and are sending remittances home, and **96% of current students expect to graduate within 4 years**.

Investing in Malengo's 2024 Cohort

Investors seeking both high impact and high potential return can participate in the success of Malengo's students by making capital available for ISAs. **We are now raising \$14.4M** to enable **400 students** from Uganda to study in Germany. Malengo is committed to advancing gender equality and **50% of this cohort will be women**.

We are targeting a closing date of **December 31, 2023**. Investments are made in student ISA contracts through a special purpose vehicle, which gives investors access to the upside. As soon as students pass the minimum income threshold, they begin monthly repayments, which are transferred to the investor minus a management fee. Our model estimates **annualized returns of 7–15%**, net of fees, depending on the student ISA terms and assumptions about how many students do not graduate, or return home and earn below the minimum threshold. The term of the investment is 15 years, with yearly payouts to the investor as students make repayments. There is no guaranteed minimum repayment or interest, but investors have full ownership of any possible upside of the student repayments. Thus far with Malengo cohorts, we have observed a determination to succeed that cannot be matched by other students for whom this is not a once-in-a-lifetime opportunity. **The minimum investment is \$250,000**. We are seeking initial interest in the offering and will follow up with terms and documents for those interested.

Eligibility

For US-based investors, participation is open to **verified accredited investors** under US securities laws. Investments will be made pursuant to disclosure and subscription materials we provide to accredited investors. **Investors in other jurisdictions can contact Malengo to discuss eligibility**.

More information

Interested individuals should contact the CEO, Johannes Haushofer, at

johannes.haushofer@malengo.org, or COO, Jess

Fullerton, at jessica.fullerton@malengo.org. More details on the financial model, including underlying assumptions and student performance to date, can be provided upon request.



"Malengo has not only changed my life but also the lives of the community I lived in. The school children in my community now feel like they can also dream big and achieve those big

dreams, and this was all because Malengo chose me to be part of the program so they work even harder than before. On the other hand, Malengo restored my hope to be successful like I dreamt before." — **Rose Ritah Nakafu**

Bioengineering, Rhine-Waal University of Applied Sciences; Malengo Class of 2022