To Leave No One Behind

Case Brief

Social Impact Incentive Financing for Little Thinking Minds

Authors

Nisha Ramachandran, Arushi Terway, and Archana Mehendale

Introduction

Little Thinking Minds (LTM), an educational technology (EdTech) company, provides Arabic language learning opportunities for private school students from kindergarten to Grade 12 (K–12). LTM plans to expand its reach to children in public schools across the Middle East and North Africa (MENA) region by utilising an innovative financing approach known as Social Impact Incentives (SIINC). More specifically, LTM aims to improve access to its Arabic language literacy digital platform and facilitate additional learning gains for targeted public-school students between 2024 and 2026, thereby helping LTM increase its market share and work towards financial sustainability.

SIINC is an innovative financing approach implemented by the Impact-Linked Financing Fund (ILFF) through its ring-fenced fund[1] for education called the Impact-Linked Fund for Education. In SIINC arrangements, enterprises receive financial incentives from an outcome funder in exchange for generating measurable social impact. These incentive payments from funders are made only after predefined outcomes have been independently verified by a third-party evaluator on behalf of the outcome funder. The financial incentive serves as a reward and can be used by the enterprise as it likes. A key condition of SIINC agreements is that the enterprise must secure additional repayable investment from an external private or commercial investor in the form of debt, equity, convertible debt or similar repayable instruments.

The Impact-Linked Fund for Education was established under the aegis of the Impact-Linked Finance Fund (ILFF) – a Dutch foundation created by Roots of Impact and iGravity – as an impact capital provider and knowledge hub for the practice of impact-linked finance. The Impact-Linked Fund for Education was created with funding from the Swiss Agency for Development and Cooperation (SDC) and the Jacobs Foundation. ILFF's mission is to provide access to capital for high-impact enterprises that generate social impact through their business activities (ILFF, n.d.-a). Within the Impact-Linked Fund for Education, through the SIINC financial instrument, ILFF aims to provide "better terms for better impact" to market-based education enterprises to improve access to quality educational services for marginalised or underserved populations in the MENA and West Africa regions (ILFF, n.d.-b). The SIINC will provide incentives to Little Thinking Minds to achieve social outcomes,[2] after independently verifying the achievement of pre-defined impact metrics.

Background

Language proficiency in low- and middle-income countries is an area of great concern, as nearly half of children in these countries are unable to read and comprehend a text by age 10 (World Bank, 2022). This literacy challenge is particularly acute in the MENA region, where 59% of children cannot read and understand age-appropriate text by the age of 10. The linguistic complexity of Modern Standard Arabic taught in schools, in comparison to

1. A ring-fenced fund is a financial structure in which funds are protected for a specific purpose and thus segregated from other funds so that the protected funds cannot be used for other purposes. This separation ensures that the funds are dedicated solely to their intended use, which provides investors and stakeholders with transparency and security.
2. In this case brief, the terms "social outcomes," "social impact outcomes," "educational outcomes" and "outcomes" are meant to convey specific positive changes that enterprises would be financially rewarded for achieving. These outcomes are pre-identified and predefined for every SIINC contract in consultation with the relevant enterprises. These outcomes could include improving enrolment and retention or achieving student learning outcomes.

various local dialects in different countries, further creates barriers to implementing instructional methodologies and curricula that adequately align with the needs of Arabic-speaking students (Gregory et al., 2021).

The Arabic script itself contributes to literacy challenges within the language. There are many different forms of letters and extensive use of diacritics (i.e. signs that denote differences in pronunciation) in a phonologically inconsistent way (Saiegh-Haddad & Joshi, 2014). The Classical form of Arabic is the language of the Qur'an and is predominantly used for written communication, whereas the Modern form serves as the spoken language within communities – these distinctions, however, are not absolute. The Modern form is occasionally featured in folk poetry, songs and children's books, whereas the Classical form can be spoken, for example, in speeches or news broadcasts, and teachers may use this form to speak with students. Several linguistic characteristics significantly differentiate the two forms, including their inventories of consonants and vowels, grammatical cases, vocabularies and basic word orders (Saiegh-Haddad & Joshi, 2014).

The World Bank's 2019 flagship report on education in MENA highlighted the need to modernise pedagogy and leverage technological solutions to improve the delivery of foundational skills for children in the region. Digital learning platforms with adaptive technology have the potential to tailor individualised instruction beyond simple text by incorporating videos and games. Additionally, mobile technology could broaden access to textbooks and other multimedia learning resources in regions where traditional materials are scarce (World Bank, 2019).

While donors and governments have recognised the need to invest in high-quality technological tools to improve Arabic learning, many low- and middle-income countries in the region face funding shortages when allocating adequate learning resources to public schools. Governments in the MENA region have modestly increased their per capita spending on education from USD 2,501 in 2012 to USD 2,988 in 2021 (World Bank & UNESCO, 2023). In prioritising access to education, governments in many countries have made public schools free, contributing to high enrolment rates. However, insufficient investments in improving the quality of education in public schools, including literacy, have also pushed many families to supplement their children's education with private tutoring, making learning outcomes reliant on household wealth and the ability to pay for educational services (Rizk & Hawash, 2020).

Little Thinking Minds' Approach

Little Thinking Minds (LTM), a for-profit EdTech company founded in 2004, aims to improve access to Arabic language learning for students attending private schools in the MENA region. The company primarily provides services to K–12 students and offers Arabic-language literacy-learning tools aimed at improving learning outcomes, advancing literacy skills, and increasing social and cultural connectedness. Headquartered in Jordan, LTM operates in 10 countries across the MENA region. By 2024, more than 320,000 consumers utilised LTM's web- and app-based learning platforms across over 800 schools, including public schools serving low-resource and refugee populations (LTM, n.d.).

LTM's platform 'gamifies' Arabic literacy and fluency skills for young learners. The platform contains books obtained by LTM from external award-winning children's publishers along with additional learning materials developed in-house by LTM, including reading materials, videos, quizzes and assessments. It also offers four other digital products:

- I Read Arabic: designed for native Arabic–speaking children aged between 4 and 16 years old;
- I Start Arabic: specifically designed for non-native speakers aged 4–16 years old;
- KG Arabic: created to promote early childhood literacy for children approximately 3–6 years old; and
- Arabic Assessments: a benchmark assessment platform to gauge improvement in Arabic skills throughout the year.

The digital platform divides interactive content into age-appropriate learning levels and is accessible to teachers and students on tablets or mobile devices, both online and offline. In addition to providing material for students, LTM develops training resources for teachers and creates detailed reports that measure improvement and provide suggestions for student feedback and remediation. The various learning levels available on the platform allow teachers to identify the challenges students face and support their progress in tackling them.

LTM has garnered regional and global recognition in recent years for its EdTech Arabic literacy solutions. In 2015, LTM secured funding from All Children Reading: A Grand Challenge for Development for the "Qysas (Stories): An Arabic Levelled Digital Library for Every Classroom" project. This initiative aimed to improve early-grade literacy skills in Arabic for students in Jordan during the 2016–2017 academic year. The World Economic Forum identified LTM as being among the 100 Arab start-ups shaping the 4th Industrial Revolution. Additionally, LTM was named one of the 2020 and 2021 Elite 200 at the Global Silicon Valley Cup Competition, which is represented by top global EdTech start-ups. LTM was also a finalist at the 2024 EdTech Awards. One of LTM's solutions also led to its selection as a finalist in MIT's Solve Global Challenges 2022. In 2023, LTM won the E-learning Innovation Award from Saudi Arabia and the Social Impact Award from Sharjah Entrepreneurship (LTM, n.d.).

An evaluation of the Qysas project in Jordanian public schools, as measured by the Early Grade Reading Assessment, revealed significant improvements in early-grade literacy particularly among female students. A randomised controlled trial compared changes in learning outcomes from 2016 to 2017 between intervention schools (285 students) and comparison schools (251 students). The evaluation concluded that students participating in the Qysas project achieved markedly higher gains than those who did not. In addition to identifying learning advancements, the evaluation also emphasised high levels of student engagement with the digital platform; on average, each student attended 42 out of 44 sessions and read approximately 105 out of 145 books.

Teacher feedback corroborated these findings, indicating that students enjoyed the interactive and engaging nature of e-books and demonstrated improved reading skills (School-to-School International, 2017).

In the coming years, LTM aims to further expand its reach to public-school students while enhancing its digital learning platform. Moreover, LTM plans to strengthen its technology integration with highly secure management systems for public schools aligned with legal regulations while localising and adding new content to meet the contexts of emerging markets, upgrading technology infrastructure to accommodate the anticipated scale-up and aligning the platform with global privacy, security and inclusion standards.

LTM's Revenue Model

As of now, LTM has primarily financed its interventions through a fee-for-service model involving annual platform subscriptions. Three types of subscription models are available for the platform:

Table 1: LTM Revenue Model

Subscription Model	Description	Percentage of Total Revenue
Business to business (B2B)	Schools buy large subscriptions to the platform for their students	60%
Business to government (B2G)	Governments buy subscriptions for schools, and, through these schools, access is given to students	39%
Business to consumer (B2C)	Parents purchase subscriptions for their children	1%

Source: Data extracted from ILFF internal review documents in 2024

The primary source of revenue for LTM comes from subscriptions to the platform purchased by private schools for their students. The remainder is derived from subscriptions paid for by the governments for the use of the platform in their schools or projects with governments to establish literacy platforms. A comparatively much smaller percentage of revenue comes from parents who purchase subscriptions for their children. Most B2B students are from private schools that charge higher tuition fees. Public-school students in the B2G segment represent the second-largest group (44%), contributing 39% of the revenue. Funding for LTM interventions in the B2G segment comes from third parties, donors or the education ministries of partner countries. LTM cross-subsidises its services for public schools by using the revenue earned from private schools, which helps address the cash flow challenges of working in the B2G segment. The B2C segment accounts for 1% of revenue generation, with individual users in the United States constituting 2% of the overall user base.

The current revenue model, which is divided across the three segments, is inadequate for LTM's goal of expanding service delivery to more students in public schools, particularly in lower-income countries, while remaining profitable. LTM needs further financial investments to tailor its programme and monitoring systems to better serve public-school student populations. This includes creating localised educational content that is culturally sensitive and relatable, developing material that is aligned with the challenges and aspirations of the target group and training teachers on the effective use of the platform within classrooms.

SIINC: A Financial Approach to Reaching Low-Income Populations

As an Impact-Linked Finance instrument, the SIINC rewards enterprises raising investments with incentive payments to achieve pre-defined social outcomes. As designed by the ILFF, the SIINC financing approach has the potential to reward LTM for delivering its intervention to public-school students, who largely come from low-income households. The ILFF aims to use SIINC to incentivise market-based educational enterprises, such as LTM, to enhance access and learning for marginalised populations while achieving financial sustainability by attracting repayable private/commercial external investment. SIINC utilises a blended financing model, harnessing public and philanthropic funds from donors like SDC and the Jacobs Foundation to drive impact, with the expectation that this will aid LTM in attracting additional private and commercial investments. This approach can potentially enable LTM to reduce its reliance on donor or grant funding while developing a profitable business model that ensures long-term financial sustainability.

In 2024, LTM entered into an agreement with ILLF to receive SIINC financing for the following key performance indicators (KPIs):

1. Additional public-school students onboarded to the LTM platform.
2. Average Arabic learning gains made by public-school students using the LTM platform.

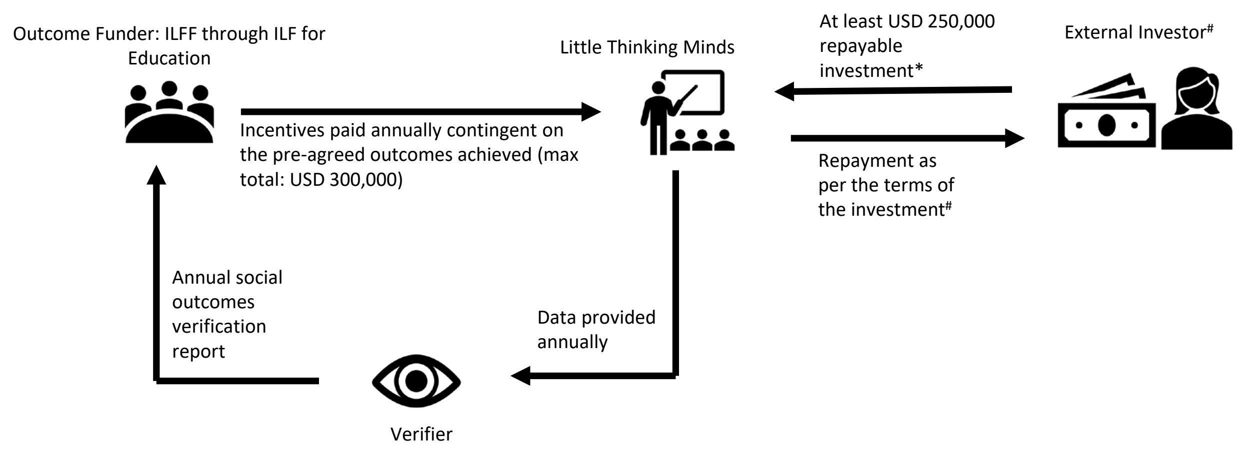
Two essential conditions are tied to SIINC financing for LTM:

- LTM must raise a minimum of USD 250,000 in repayable investments from private/commercial investors.
- ILFF will disburse SIINC payments only after LTM demonstrates that it has met predefined impact metrics.

The SIINC Structure for LTM

The SIINC structure for LTM is explained in Figure 1. At the outset, the SIINC contract requires LTM to raise a minimum of USD 250,000 in repayable investments from external investors. LTM is free to carry out its intervention to achieve the required outcomes as it deems fit. Through the help of an independent verifier, ILFF will annually measure outcomes achieved based on key performance indicators and reward LTM up to a maximum of USD 300,000 over a three-year period (2024–2026). The repayment of investments to external investors is outside the purview of the SIINC contract, and LTM can use any of its revenue streams to repay its investors.

Figure 1: Structure of the Social Impact Incentive for Little Thinking Minds



*Precondition of the Little Thinking Minds SIINC contract
Relationship with the external investor and the terms of repayment are outside SIINC contract. Repayment may be made by Little Thinking Minds through any of their available revenue streams

Source: Adapted by the authors from Roots of Impact, n.d.

As SIINC is a results-based financing instrument, incentive payments are linked to key performance indicators (KPIs), which are predefined and independently verified. Table 2 indicates that the majority of the incentive payment (70%) is associated with LTM demonstrating enhanced access for additional public-school students to its digital platform. The remaining 30% of the incentive payment is allocated for LTM to demonstrate improvements in Arabic language–learning gains for public-school students utilising their learning platform.

Table 2: Distribution of SIINC Payments across KPIs

KPI Metric	Weighting (%)	Incentive Amount (USD)
Metric 1: Public-school students onboarded onto the platform	70%	210,000
Metric 2: Average Arabic learning gains	30%	90,000
Total		**300,000**

Source: Data extracted from ILFF internal review documents in 2024

Although Metric 1 is not a time-sensitive metric, ILFF payments will be determined by the number of additional students onboarded onto the platform each year. The total payment for this metric is capped at USD 210,000.

For Metric 2, ILFF and LTM will use the first year to establish a baseline for average learning levels among public-school students using the LTM platform. They will also refine the specific progression metric that will demonstrate average learning gains in years 2 (2025) and 3 (2026). The ILFF will make payments for KPI Metric 2 at the end of years 2 and 3, provided that the targeted learning gains are achieved.

The ILFF acknowledges that LTM requires initial capital to make specific improvements in service delivery and tailor interventions for public-school students, including specialised content development, teacher training, engagement with government officials, technology integration with government online portals, programme development and so on. As a result, the ILFF will provide initial capital amounting to USD 30,000 at the start of the contract to address cash flow challenges. This amount will be deducted from SIINC incentive payments should LTM achieve agreed-upon outcomes. If these outcomes are not achieved, LTM will be required to pay this amount back to ILFF.

Discussion

This results-based financing model contrasts sharply with traditional input-based financing, in which funders typically dictate how service providers should utilise the funds for predetermined activities. Under the SIINC, LTM has the flexibility to adapt spending and implementation strategies based on evolving needs and priorities to achieve predefined outcomes. To maximise their SIINC payments, LTM would need to carefully evaluate the potential impacts and risks associated with each activity, focusing resources on those most likely to achieve the desired outcomes of access and learning gains. SIINC distinguishes itself from impact bonds by directly incentivising LTM – the value creator – to drive impact, whereas impact bonds reward investors for generating impact.

LTM could derive several benefits from successfully implementing its interventions in public schools in MENA and receiving SIINC payments. It could:

- Receive financial rewards for serving public-school students in low-income contexts, in which students and their families or governments are typically less able to afford the subscription costs compared to those in private schools;
- Generate evidence of the impact of the intervention on both increased access to digital platforms and learning gains in Arabic language literacy for public-school students;
- Utilise an increase in diverse users to help improve the LTM platform;
- Demonstrate a track record for scaling in public schools and a higher chance of securing B2G contracts after successful SIINC;
- Improve profit margins through potential economies of scale and reduce development costs for potential B2G contracts in future; and
- Attract additional investors and donors by showcasing additional revenue flow through the SIINC.

Conclusion

The SIINC financing approach offers LTM an opportunity expand its Arabic language–learning platform to public-school students throughout the MENA region, thereby addressing critical literacy gaps in low- and middle-income contexts. By linking financial incentives to measurable learning outcomes, SIINC aims to motivate market-based education enterprises like LTM to prioritise both accessibility and effectiveness. The SIINC is expected to enhance an enterprise's risk–return profile[3], making it more attractive to commercial investors who expect financial returns. By derisking investment, SIINC could help mobilise private capital for high-impact enterprises operating in underserved markets. SIINC payments act as financial rewards, giving the enterprise the flexibility to prioritise social impact while maintaining financial sustainability and growth potential (Roots of Impact, n.d.).

Further research on the use of the SIINC mechanism at LTM is necessary to gather empirical evidence on whether, how and under what conditions the SIINC financing approach may contribute to these potential impacts on LTM's programming. In-depth qualitative insights from a diverse range of stakeholders, including LTM staff, schoolteachers, administrators and impact investors, could enrich the understanding of the support conditions beyond financing that must be present for successful implementation. Future research could also shed light on how the SIINC, compared to input-based financing approaches, enables LTM to improve educational outcomes, achieve better financial efficiency and attract additional private and public investment to scale their programmes for low-income student populations. It will also be important to understand whether and how the digital technology employed by LTM would contribute to improving Arabic literacy in the MENA region, as proposed by donors (World Bank, 2019) and if it influences government priorities and funding decisions on the use of digital technology to improve learning in public schools. With LTM delivering its services in multiple schools across various countries, additional research could also help clarify how implementation activities would need to vary according to the population.

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3. A way investors measure the risk of losing the money in an investment against the probability of gaining a financial return on that investment.

About the Project

This case brief is a product of the Innovative Financing for Education to Leave No One Behind project. It was developed for the research component examining the Impact-Linked Fund for Education, which is implemented by the Impact-Linked Finance Fund and funded by the Jacobs Foundation and the Swiss Agency for Development and Cooperation. The research was conducted by NORRAG – Geneva Graduate Institute and Centre for Excellence in Teacher Education – Tata Institute of Social Sciences. Please visit www.norrageducation.org/ife for more information and resources on the topic of Innovative Financing for Education.

Disclaimer

This case brief is primarily based on publicly available secondary data sources and funding application material submitted to the Impact-Linked Finance Fund by the enterprise. The aim of the publication is to synthesise existing information about the financing mechanism and its specific application in the education sector, much of which may be produced by the organisation that has developed or is managing the financing mechanism. It does not preclude the necessity of conducting additional research to obtain a deeper understanding of the evolving design and implementation of the mechanism, as well as its benefits and challenges, especially regarding its contribution to access, quality and equity in education.

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GENEVA GRADUATE INSTITUTE

NORRAG GLOBAL EDUCATION CENTRE

Chemin Eugène-Rigot, 2
1202 Geneva, Switzerland
+41 (0) 22 908 45 47
norrag@graduateinstitute.ch

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