

Innovative finance for education

Report summary – Ministry for Europe and Foreign Affairs

November 2022



Agenda

- 1 Context and objectives of the study
- 2 The remaining challenges towards achieving the SDG4
- 3 Definition and added value of innovative finance
- 4 Main obstacles in mobilising innovative finance for education
- 5 Case studies of innovative finance mechanisms
- 6 Recommendations to further leverage innovative finance for education

1. Context and objectives: outlining the key role of innovative finance to support SDG4

Key facts & figures



250 million+
6 to 18 years old children still out of school worldwide¹



170 million+
people lifted out of poverty if all students in LICs acquired basic reading skills²



20 million more
secondary school girls out of school due to the Covid-19 pandemic



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Genesis and rationale for the study



Initiator

The **Leading Group on Innovative Financing for Development**, an informal network of development actors initiated in 2006 by **France, Chile, Brazil and Spain** to support the achievement of the SDGs through innovative finance mechanisms



Rationale

Objective to **update the observations of the two previous studies** (2010 and 2012) in light of the consequences of the **Covid-19** crisis and **outline the potential role of innovative finance** in supporting the SDG4 targets



SCOPE OF THE STUDY

1. Identifying remaining challenges in primary and secondary education in the post-pandemic context
2. Outlining key trends and providing recommendations to better leverage innovative finance for education
3. Analysing specific education challenges of Niger, Guatemala and Bangladesh

¹In 2018. ²2021 Data

Sources: UNESCO | Global Business Coalition for Education | Malala Fund

2. Remaining challenges: progress is still needed in terms of access, quality and infrastructure development in order to fully achieve the targets of the SDG4

Four main challenges remain towards reaching the SDG4



Lack of access to education

~1/5 of the 6–18-year-olds not enrolled in school¹



Lack of quality education

50% of all pupils who had completed primary education globally did not reach the basic reading level²



Unequal access to education

3 in 4 girls complete lower secondary education globally. In LICs, less than 2/3 of girls complete primary education and only 1 in 3 complete lower secondary school³



Lack of equipment and adequate education infrastructure

68% of primary schools without access to electricity in LICs and 56% of primary schools in Sub-Saharan Africa without basic access to water⁴



US\$200 Bn

Annual funding gap in LMICs in the education sector



US\$15.9 Bn

Annual global aid allocated to education³

3. Definition and added value of innovative finance

Innovative finance refers to a range of approaches and instruments designed to **raise additional funds for development** characterised by:

1. **complementarity to official development assistance**
2. **predictability**
3. **stability**

KEY BENEFITS OF INNOVATIVE FINANCE



IMPROVE SUSTAINABILITY

Play a transitional role by catalysing investments that the private sector can scale and replicate even after the exit of donor capital

Support and de-risk investments in high-impact sectors that require innovation in products and services to reach underserved segments of the population

STIMULATE INNOVATION



IMPROVE EFFECTIVENESS

Ensure that donations and investments have a real impact and that resources are used in the most efficient way possible

Catalyse flow of private capital into emerging sectors to advance the growth, capacity, and sophistication of businesses and solutions

SCALE SOLUTIONS



3. Overview of innovative finance transactions in the education sector

KEY TRENDS



Innovative finance remains **underdeveloped in the education sector** as compared to other sectors

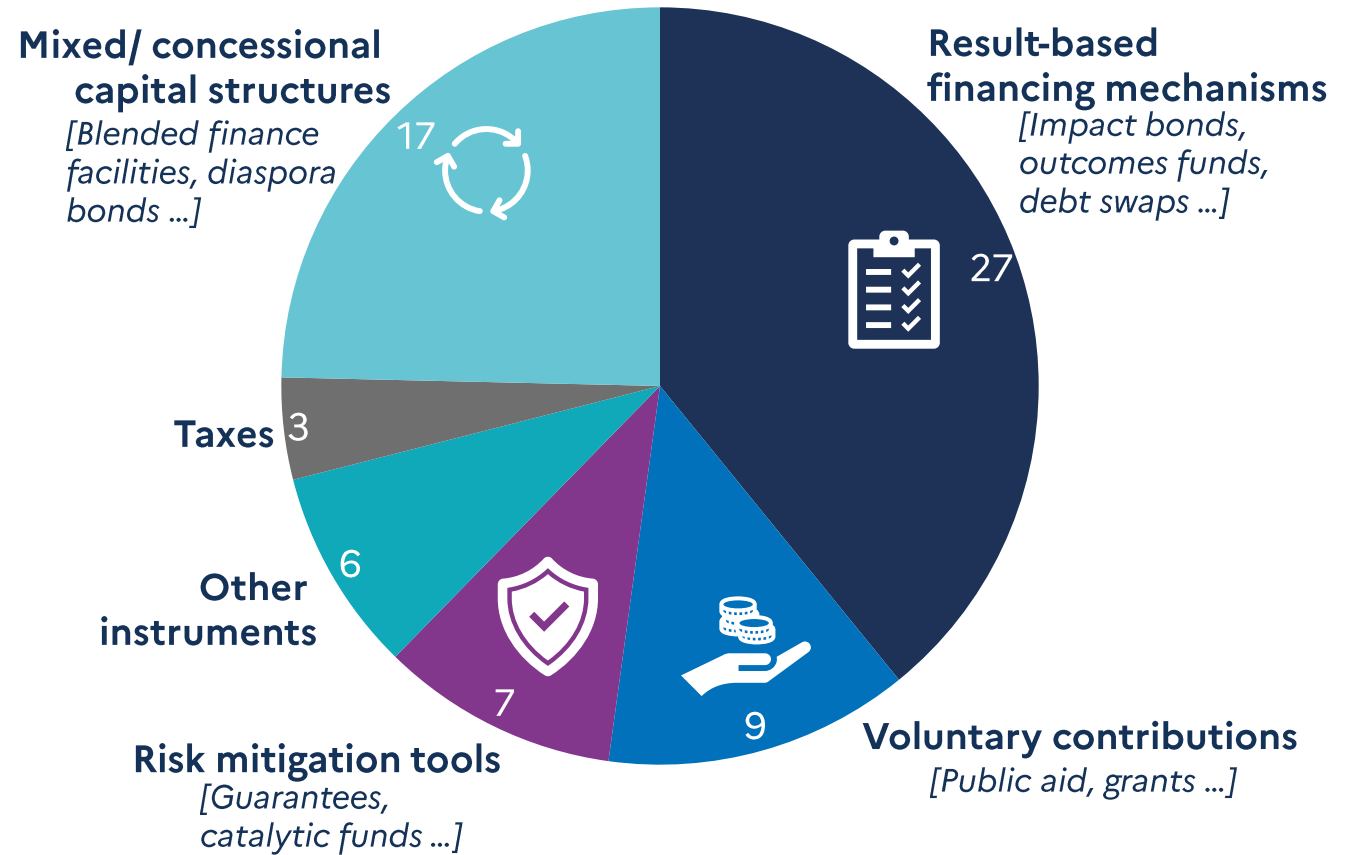


US\$21 billion of financing mobilised across 69 education-focused initiatives








US\$0.5m to several billions ticket size range of innovative finance transactions in education

Distribution of innovative finance initiatives in education by instrument category



4. Main obstacles in mobilising innovative finance for education

-  **Education** remains a **state prerogative** for both planning and financing, potentially resulting in **counterparty risks** in certain contexts
-  **Few investable models** exist in terms of potential **return on investment**, **project maturity** and **capital absorption** due to the non-commercial nature of education
-  **Long timelines** for the **materialisation of education outcomes** are incompatible with both commercial investors' timelines and donors' commitments
-  Relatively **small ticket size** as compared to the **high structuring costs** likely to discourage investors in search of large or more profitable transactions
-  High **fragmentation of stakeholders** in need for **working capital** make it difficult to efficiently allocate available capital
-  **Lack of evidence base** on innovative finance models in education is likely to undermine attractiveness of these transactions among commercial investors



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5. Zoom on Result-based Finance (RBF) models - Case study #1: Performance-based grants



Definition

Grants provided upon achievement of pre-agreed objectives by the recipient

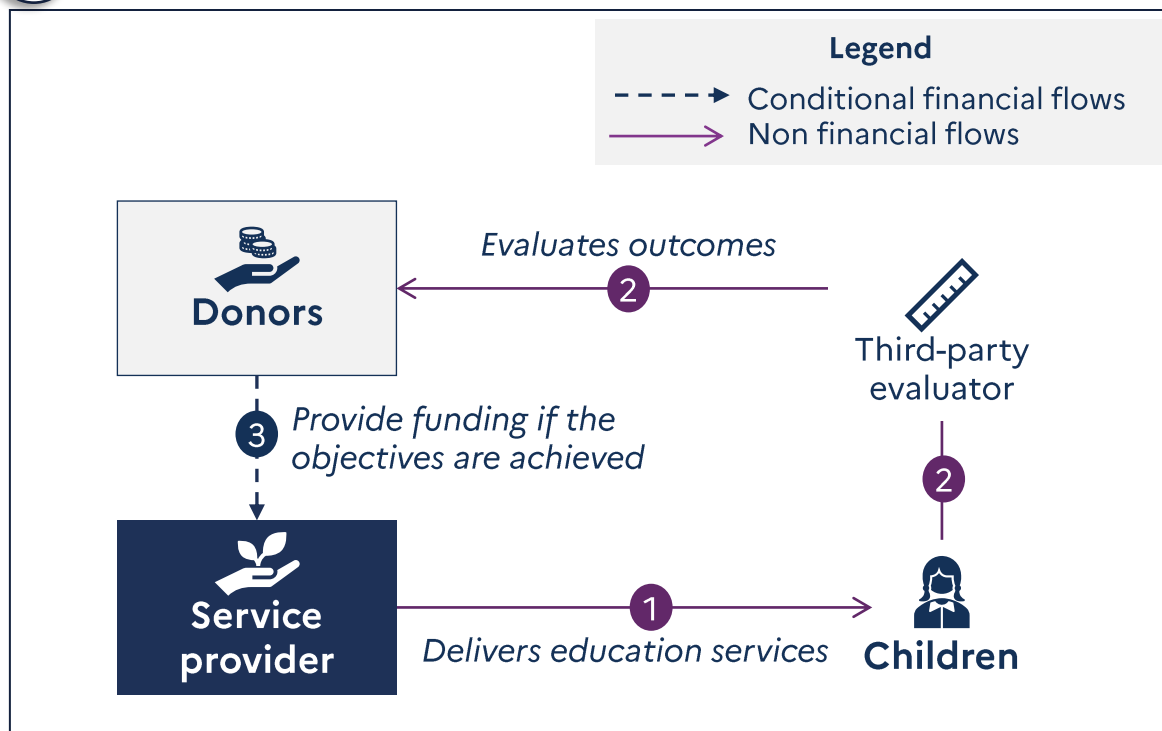


Applicability

Suited for contexts where education providers need to be incentivised to increase effectiveness of their interventions, and therefore particularly appropriate to finance interventions targeting a better quality of education.



Operational structure



Key considerations



- Improve value-for-money for donors
- Allow a flexible allocation of funds to a variety of public and private actors (e.g., NGOs, schools, local governments...)
- Incentivise outcomes-oriented & transparent methods
- Allow evidence generation and the development of a knowledge-base



- As donations, do not attract new capital sources
- Require solid information systems to monitor and report on outcomes
- Availability of working capital is a prerequisite at recipient level

Examples

- The Common Fund for Education in Niger¹
- Result-based Grants for public primary schools in Cameroun

¹Le Fonds Commun Sectoriel de l'Education

5. Zoom on RBF models - Case study #2: Impact Bonds

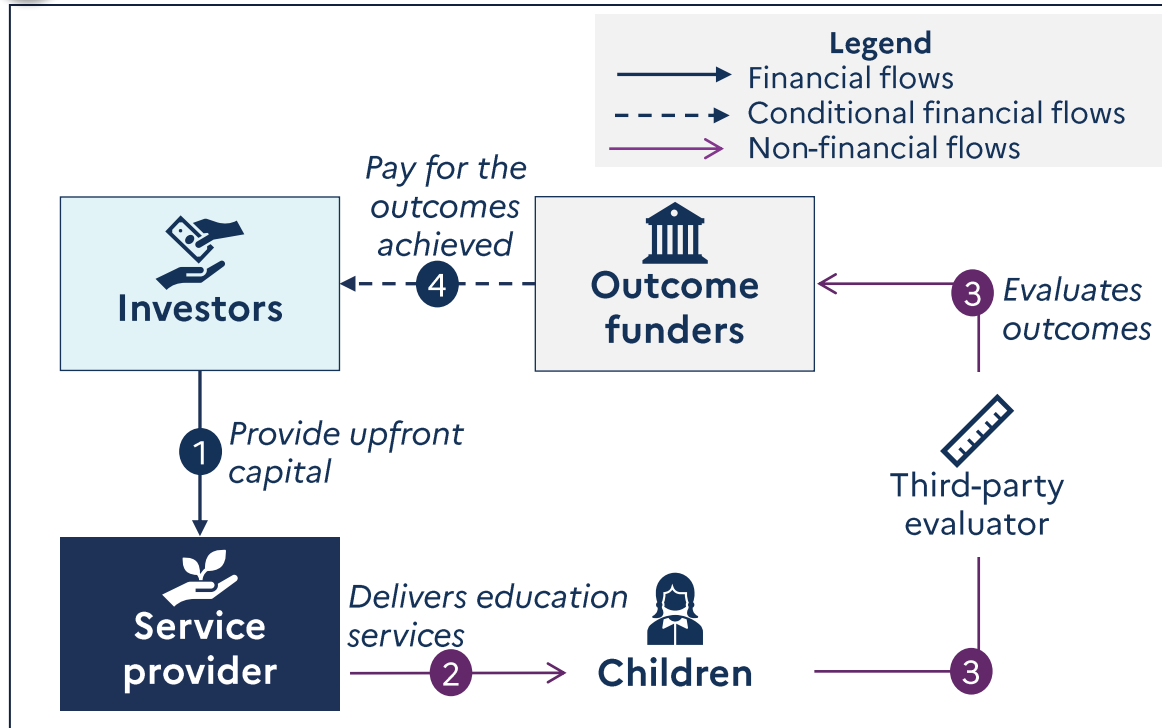


Private investors provide upfront capital to a service provider, and are reimbursed with a potential financial return upon achievement of pre-agreed outcomes

Applicability

Adapted to support the implementation of interventions which innovative and experimental nature implies uncertainty regarding the effective materialisation of target outcomes and/ or for which pre-financing is needed.

Operational structure



Key considerations

- +**
 - Clearly link spending to outcomes quantified by ~1-3 indicators
 - Optimise risk allocation & effectiveness of the intervention by transferring the execution risk to investors who are rewarded in case of success
 - Support service providers' innovations and allow to prove the relevance and the efficiency of their solutions ahead of scale-up
- - Solid M&E system needed to assess the outcomes achieved
 - Long term sustainability relies on a strong collaboration with the governments and their willingness to sustain funding at exit
 - Complexity in the structuring of the instrument leads to a high transaction cost as compared to the amounts mobilised

Examples

- Educate Girls and Quality Education DIBs in India
- Early Childhood development SIB in South Africa

5. Zoom on mixed capital structures - Case study #3: International Finance Facility for Education



Definition

Multi-donor financing facility for education dedicated to increasing LMICs' funding capacities for the education sector

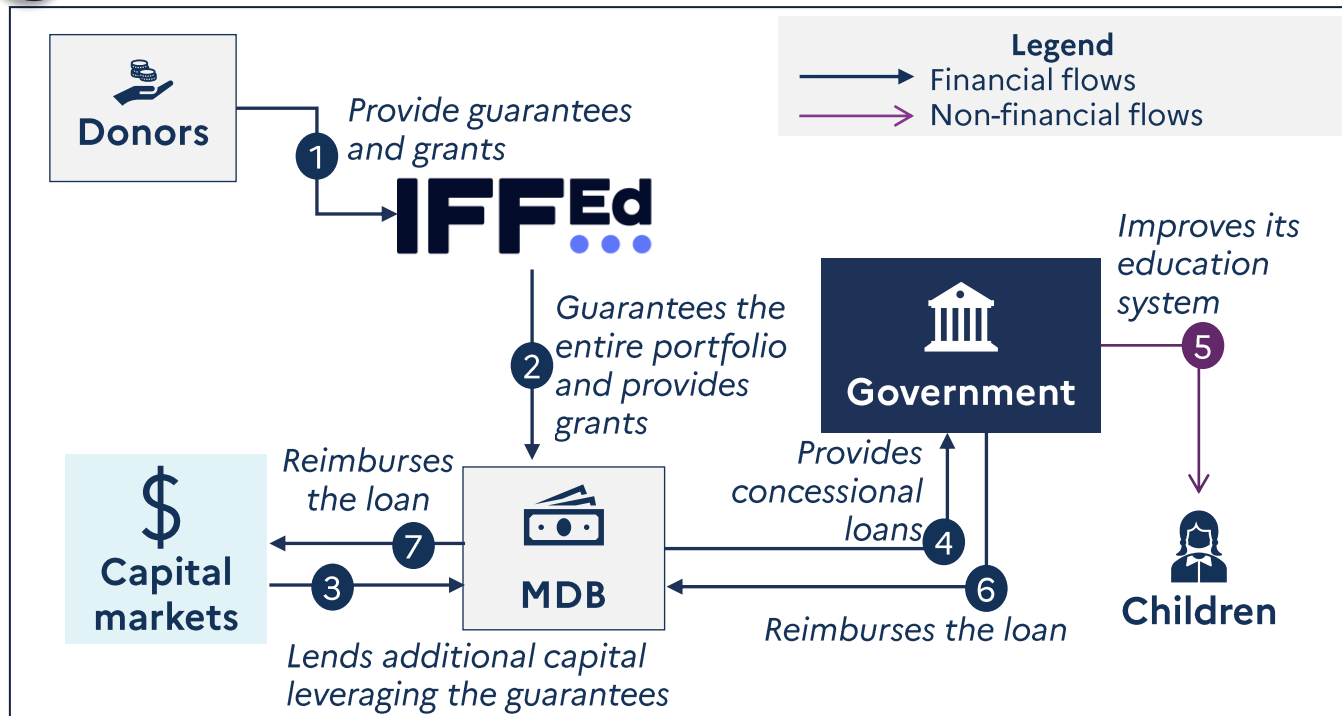


Applicability

Aimed at addressing the financing need faced by Middle Income Countries which are not eligible to public aid/ grants usually attributed to Low Income Countries and therefore provide them with capital at more favourable terms (vs. commercial terms).



Envisioned operational structure



Key considerations



- Addresses both Middle Income Countries' ineligibility to public aid and their difficulty to access capital on the market (e.g., low credit ratings)
- Transforms the recipient's practices by instilling a culture of results and transparency
- Streamlines coordination between lender and borrower
- Provides debt-financing to actors who cannot access it on markets



- As it is a loan, the borrower needs to be relatively credit-worthy which excludes many contexts
- Requires solid capacities & information systems at national level to monitor and report on outcomes

6. Key recommendations to further leverage innovative finance for education

3 main recommendations to further leverage innovative finance in support to the **SDG4**



Innovative finance can help **support national governments towards longer-term planning and financing** of education

- Flexibility and adaptability allowing for a targeted allocation of resources
- Reporting standards requiring both capacity building and transparent monitoring
- Result-based component of the instruments likely to incentivise governments' ownership



Innovative finance allows to **attract additional capital** towards education in a **context where international aid is decreasing**

- Opportunity to blend multiple sources of capital pooled into financing facilities with a larger funding potential
- Optimisation of risk allocation likely to attract more commercial investors
- Potential to support new business models and innovation in the education space (EdTech)



Innovative finance enables to **allocate resources more efficiently**

- Potential to align interests of multiple stakeholders towards common objectives
- Opportunity to link funding to concrete education outcomes



Study conducted by KOIS on behalf of the Ministry for Europe and Foreign Affairs as the permanent Secretariat for the Leading Group on Innovative Financing for Development