

A Proposal to Create the International Finance Facility for Education

A proposal to create a new International Finance Facility for Education

Current Status¹

A key recommendation in the Education Commission’s Learning Generation report is to create an International Finance Facility for Education (IFFEd). The Facility is an investment mechanism that uses guarantees and buy-downs to mobilize additional financing for education. It could help ensure that the world’s children and youth benefit from an unprecedented opportunity to deliver on the Sustainable Development Goals’ (SDGs) financing theme “from billions to trillions” by helping to mobilize over \$13 billion annually for education by 2020.

The Challenge

By 2030, if current education investment trends hold, more than 800 million of the world’s 1.6 billion young people will lack the skills necessary for employment. This includes 200 million out-of-school children and youth, and 400 million who will not be on track to achieve even the most basic primary level skills. This crisis will have major repercussions, as education is fundamental to the development and growth of all countries and indeed the achievement of all the SDGs.

In its report, the Commission presented detailed analysis of reforms and other measures that would be required to change course. If all countries accelerate progress at the rate of the world’s 25 percent fastest education improvers, it would be possible, within a generation, to get all young people learning and attain the education SDG.² Achieving this objective requires the total annual investment for education (domestic and international, public and private) in countries currently classified as low- or middle-income to be scaled up from 6 percent of their GDP to 8.5 percent of GDP on average, or from \$1.2 trillion annually to \$3 trillion (in constant prices) between now and 2030.

The Commission’s proposed financing plan is based on the principle that the primary responsibility for financing pre-primary, primary, and secondary education lies with domestic governments. But even assuming increased domestic resource mobilization in line with the ambitious recommendations of the Commission, and greater allocation of domestic funds to

¹ Document prepared April 2017

² SDG 4: “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.”

education to almost 20 percent of total public spending, the need for a major boost in international support still exists. Despite this need for more external financing however, analysis by the Commission shows that support has been lagging – education’s share in total Official Development Assistance (ODA) has declined from 13 to 10 percent over the past decade. Currently, ODA for education in low-income countries is only \$12 per child and less than \$10 per child in Sub-Saharan Africa, hardly enough to pay for a textbook.

The Compact

To achieve the Learning Generation vision, the Commission recommends a financing compact with countries. Low- and middle-income countries would agree to reform their systems for results and increase domestic public expenditure on education from an average of about 4 percent of GDP today to 5.8 percent of GDP by 2030. In return, the international community would increase its financing from about \$16 billion per year today to some \$90 billion by 2030.

ODA will have to play a critical role in delivering on the compact, but it alone will not be enough. Even if ODA as a share of donor GDP increases from about 0.3 percent today to 0.5 percent, and if allocation to education rises from 10 percent to 15 percent of total ODA, there will still be an external financing gap in low- and middle-income countries of about \$10 billion by 2020 and more than \$20 billion by 2030.³ **The proposed IFFEd would help to bridge these gaps.**

The countries most vulnerable to education funding shortfalls will be the lower-middle-income countries which will account for 80 percent of the external financing gap by 2030. These countries comprise the largest numbers of out-of-school children, refugees, and displaced populations. With increasing concerns about security, stability, and social cohesion, demand for education is high. However, there is little grant financing available to meet these demands, and other options – from development bank financing at 3.5 percent interest to capital markets at 8 percent interest – are perceived by many lower-middle-income countries to be too expensive given sector characteristics.

³ This gap does not include additional external finance that is urgently needed to address education in emergencies.

The Precedents

To address the education financing challenge, the Education Commission has drawn from experiences of other innovative plans which have used a combination of capital leverage and a compact between different parties. These include the Heavily Indebted Poor Countries (HIPC) initiative, which offered 38 of the world's poorest countries \$100 billion in debt relief, and the International Finance Facility for Immunisation (IFFIm) initiative, which has mobilized more than \$5 billion of funding for Gavi, the Vaccine Alliance. The results speak for themselves. In the case of the IFFIm, by front-loading inoculations for children, the lives of millions of children have been saved.

The proposal for IFFEd also draws upon recent experiences of leveraging financing through the World Bank's Middle East and North Africa Facility and use of bilateral guarantees in multilateral lending to Iraq and Egypt. These examples highlight a growing interest among donors to explore new and effective ways to expand development finance.

The Proposal

The IFFEd would create a consortium of public and private donors and international financial institutions including the World Bank and Regional Development Banks, working in concert to raise additional financing for education and ensure it is spent more effectively. The Facility would bridge the gap and create attractive financing packages for low- and middle-income countries, and emergencies. In lower-middle-income countries, the IFFEd would **multiply** the international resources allocated to education through guarantees and innovative capital leveraging of the multilateral development banks (MDBs), and **incentivize** borrowing for education through buy-downs of non-concessional loans. In low-income countries, the IFFEd would work with its donor and implementing partners to ensure greater **prioritization** of education and better **distribution** of scarce (in particular grant) resources.

- **Lower-Middle-Income Countries (LMICs).** The LMICs will have very large needs for international finance, rising to \$23 billion by 2020 and \$71 billion by 2030. While grant financing will remain critical in these countries, it will be practically impossible for donors to provide grant financing for all these needs. Hence, the IFFEd would find ways to create additional financial capacity in those institutions that have the ability to **multiply** donor resources further. The most obvious institutions to do this are MDBs. Using their balance sheets under certain conditions, MDBs could leverage funding provided by donors through the IFFEd by several times. The Facility would use donor guarantees as quasi-capital to help

expand the lending capacity of the MDBs.⁴ In addition to expanding capacity, the IFFEd would also provide **incentives** for countries to use the financing for education by blending grants with MDB loans (i.e., buying down the loans) to create a more affordable financing package that would resemble the terms of concessional loans offered to lower-income countries.

Initial estimates show that by using about \$2 billion in guarantees and about \$2.5 billion in buy-downs, the IFFEd could leverage around \$10 billion in additional concessional financing per annum for LMICs by 2020. In other words, for every \$1 provided in guarantees and grants, the Facility could leverage between \$2 and \$3 into direct investment depending on the cost of buy-downs, the need for paid-in guarantees, and the risk assessment of rating agencies.

- **Low-Income Countries (LICs).** Financing needs for LICs could be met with grants and MDB concessional financing if **education receives greater priority** and financing (including grants and MDB concessional financing) is **appropriately distributed**. By 2020, LICs would require a total of \$9 billion in grant resources or some 40 percent of total education ODA. Currently only 25 percent of total education ODA is allocated to LICs, compared to 48 percent in health and 35 percent in agriculture. The IFFEd would encourage bilateral donors (using bilateral and multilateral channels) to increase education's share of ODA to 15 percent and allocate at least one third to low-income countries to ensure their needs are met. It is vital that grant funds such as the Global Partnership for Education (GPE), with its focus on low-income countries, help deliver this goal.

Another critical source of financing for education in LICs are the concessional windows of the MDBs that can provide resources at more than 50 percent grant equivalent to LICs and some eligible lower-middle-income countries. As part of the IFFEd design, mechanisms or incentives would be developed to help ensure that education benefits from current opportunities within MDBs to expand their concessional financing.⁵ **By encouraging MDBs to allocate 15 percent for education, and pushing for further expansion and/or front-**

⁴ If the Facility guarantees a portion of the principal and interest obligations on a portfolio basis, the MDB will be able to give out additional education loans over and above those derived from its existing capital base.

⁵ For example, the World Bank has recently restructured its balance sheet and successfully completed its 18th replenishment which will enable it to grow its overall concessional window by 50 percent in the next three years.

loading of future concessional financing, the IFFEd would aim to mobilize an *additional* \$3.5 billion of concessional financing from MDBs by 2020.

- **Emergencies.** Through better prioritization and allocation, as well as guarantees and buy-downs, potentially using grants from the Education Cannot Wait (ECW) fund, the IFFEd could also strengthen current systems and leverage new finance for emergencies. In addition, the IFFEd could explore converting the IFFEd financing to grant terms by developing capital payoff schemes for countries hosting large numbers of refugees.

The Commission estimates that the IFFEd could leverage over \$13 billion per year for LICs, LMICs, and emergencies in 2020, complementing rising bilateral financing available to these countries and largely filling the financing gap.

Because it is a finance facility, the governance and administration of the IFFEd can be minimal and agile. It would be aligned with the quality enhancement processes of the MDBs and other partners who would be the implementing agencies. The IFFEd would require a minimum number of staff. The governance is currently under development but key tasks under consideration include: identification of developing countries joining the facility using a simple set of criteria (including a quality national plan where possible prepared with the support of the Global Partnership for Education (GPE), commitment to reform, debt sustainability, etc.), and approval of financing of education programs without duplicating existing processes of preparation and implementation by partner institutions.

Coherence Within the Education Financing Architecture

The IFFEd will complement, not replace, the existing education financing architecture. It aims to augment existing bilateral and multilateral financing including by UN organizations such as UNICEF as well as sector-specific funds such as the GPE and Education Cannot Wait. Each of these education-specific funds would play a distinct and complementary role:

- **GPE.** The GPE works with the lowest-income countries with the largest needs for grant finance (relative to their total education spending) to develop and implement effective education sector plans and help fill the external financing gap. It also aims to help crowd-in more financing by offering to match new concessional or donor grant finance, thereby helping to reach the recommended target of 15 percent for education and to concentrate a larger share of grant funds in low-income countries. While it cannot fill the large financing needs of lower-middle-income countries, the GPE could play a critical role in supporting the

development of education sector plans in those countries.

- **IFFEd.** The IFFEd would aim to bridge the large and growing financing needs of lower-middle-income countries by generating new and currently unavailable concessional finance through guarantees and buy-downs. It would provide financing based on results-based country compacts, where possible developed with the support of the GPE. While it would not directly finance low-income countries, it would work with its donor partners and the MDBs to ensure the needs of low-income countries are met.
- **ECW.** The ECW fund bridges resource needs in crisis situations in low- and middle-income countries. It provides support and funding to prioritize education at the onset of a crisis and connects governments, humanitarian actors, and development efforts to deliver education. It would work with both the GPE and the IFFEd to ensure longer-term education financing needs are met and resilience is built into the education system.

About the Commission

The International Commission on Financing Global Education Opportunity (the Education Commission) is a major global initiative co-convened by the Prime Minister of Norway, the Presidents of Malawi, Indonesia, and Chile, and the Director-General of UNESCO. Chaired by UN Special Envoy for Global Education and former UK Prime Minister Gordon Brown, the Commission's members include former heads of state, Nobel Laureates, and leaders from education, business, economics, development, health, and security. The Commission is working to develop a compelling investment case for securing every child's right to a quality education – the civil rights struggle of our generation. In September 2016, the Commission presented its *Learning Generation* report to the UN Secretary-General calling for the largest expansion of educational opportunity in history as the pathway to achieving Sustainable Development Goal 4: “Ensure inclusive and quality education for all and promote lifelong learning.”

The Commission proposes a Financing Compact between developing countries and the international community to create the **Learning Generation** – a vision for getting all young people learning within a generation. The Commission believes it is possible to ensure quality education for the world's children and youth if countries transform the performance of education systems, unleash innovation, prioritize inclusion, expand financing, and are supported to accelerate progress to match the world's top 25 percent fastest education improvers. Under the Financing Compact, countries committed to investing and reforming their education systems will be supported by the international community with financing and other forms of support. In entering this partnership, countries and the international community are held accountable for their joint commitments.

Read the Commission's report *The Learning Generation: Investing in education for a changing world*: www.report.educationcommission.org

