IFFEd DESIGN PROPOSAL
WITH TECHNICAL ANNEXES

The International Finance Facility for Education

the Education Commission

the
Education
Commission

IFFEd
International Finance Facility for Education

Design Proposal
with
Technical Annexes

July 1, 2018

The establishment of a Multilateral Development Bank (MDB) investment mechanism for education is a key recommendation of the International Commission on Financing Global Education Opportunity (the Education Commission). It was first presented in the Commission's Learning Generation report which was produced based on extensive research and consultation with a wide variety of stakeholders including policy makers, civil society, private actors and youth.

This design proposal for an International Finance Facility for Education (IFFEd) was developed by a team of Education Commission experts in close consultation with the Multilateral Development Banks (MDBs), a Technical Working Group on the design of IFFEd, recipient countries as well as civil society. Consultations to advance the establishment of IFFEd will continue in the coming months. The proposal will serve as a basis to develop the IFFEd governance agreements and an approach paper for the credit rating agencies. The participation of any entity in IFFEd remains subject to the finalization of the relevant agreements and the approval of its participation in accordance with the entity's procedures.

This document has been produced by the Education Commission, which is responsible for its contents.

Please direct any questions to Liesbet Steer: lsteer@educationcommission.org

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Executive summary

The International Finance Facility for Education is a groundbreaking way to finance education in countries around the world. By multiplying donor resources and motivating countries to increase their own investments, the Facility will unleash new funding streams for education. The Facility has the power to help tens of millions of children and youth go to school and prepare for the future of work.

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We are in the midst of a global education crisis.

A quarter of a billion of the world's children and young people are out of school, and millions more are not learning even when in school. Without a dramatic change in course, **more than 800 million boys and girls will not have the basic secondary level skills** needed to thrive or participate in the workforce of 2030. In an increasingly interconnected global economy, the social, economic, environmental, and security-related costs of failing to give young people the skills they need will affect us all.

Change needs to start now if we are going to create a global education system that works for everyone – a system that creates a stable, economically strong, and socially responsible future. We need to raise new resources, cut waste, and ensure that every dollar delivers real learning.

Through bold new thinking and action, it *is* possible to get all young people into school, learning, and obtaining the right skills within one generation.

Governments will need to raise their ambitions. Low- and middle-income countries need to reform their education systems and invest more in the future of their children, increasing the share of national income going to education from an average of 4% to nearly 6% between now and 2030. But even with their best efforts, a large funding gap will still exist. This gap will rise to nearly $40 billion in 2020 and $90 billion in 2030.

More and better international aid for education is part of the solution but it cannot be the only solution. Even if education aid as a share of national income doubled and education rose as a priority from 10% to 15% of overall Overseas Development Assistance (ODA) by 2030, there would still be a funding gap. Too little international support will reach lower-middle-income countries (LMICs) – home to the vast majority of the world's poor and more than half the number of children and young people in developing countries – a total of 700 million boys and girls.

The International Finance Facility for Education (IFFEd) was developed to respond to this challenge. The central purpose is to increase the capacity of the MDBs to provide more financing for education in countries committed to investment and reform. IFFEd will use contingent financial commitments (e.g. in the form of guarantees) provided by contributor countries to address MDBs' capital constraints, allowing them to mobilize more financing in capital markets and deploy this additional financing for education. IFFEd will also use grants to soften financing terms to make educational investment more affordable. In this way, IFFEd will incentivize LMICs to use MDB financing for investments in education.

IFFEd is based on an innovative approach that allows it to generate new and additional funding for education: it would fill a financing gap that, at present, no one is filling. Estimates suggest that in its initial phase, the Facility could unlock $10 billion in new funding for education from the international community.

IFFED is a pioneering instrument shifting away from an international financing architecture that relies largely on grants to an approach that combines innovative multilateral financing with grants and increased domestic investment. It will provide efficient, affordable, scaled up and sustainable financing for results:

- **Efficient.** IFFEd will be a financing mechanism *working through the MDBs* as implementing agencies, thereby harnessing their considerable advantages to leverage financing efficiently and deliver development assistance.

- **Affordable.** IFFEd will use grants to *soften financing terms* making financing packages (grants and loans) more attractive and affordable for educational investment, in particular for LMICs.

- **Scaled-up.** IFFEd aims to double *financing delivered by the MDBs* to LMICs and provide at least $10 billion in additional education financing in an initial phase.

- **Sustainable financing for results.** Investments mobilized through IFFEd will be *aligned with education sector plans and driven by results*. As a facility working through existing MDBs, it will also complement other initiatives (Global Partnership for Education, Education Cannot Wait) working in concert to deliver universal educational opportunity.

IFFEd's business model is based on an innovative financing structure that takes advantage of MDBs' capacity to leverage financing. MDBs can borrow in capital markets and provide financing equal to several times their paid-in capital while retaining their AAA rating. However, with respect to education, MDBs face two challenges: insufficient capital to attain the SDGs and, for structural reasons, a low demand for non-concessional financing for education.

IFFEd will address both constraints through (i) **Portfolio insurance**: IFFEd will insure the MDBs' loan portfolios as a tool to generate additional financing capacity; and (ii) **Grant mechanism**: IFFED will help reduce the price of education financing by providing a share of the funding as a grant (achieving lower effective interest rates) so that LMICs will be more likely to seek multilateral funds for education.

IFFEd will target both goals simultaneously to achieve the maximum impact on education and learning. It will increase the quantity of education financing offered as well as the demand from lower-middle-income countries by providing grants for an agreed share of the financing packages.

Lower-middle-income countries (LMICs) are where the vast majority of the world's poor live, where the number of children out of school or not learning is the greatest, and where the largest number of displaced and refugee children now reside. As LMICs undergo the transition from low- to middle-income status, their access to grants and cheaper financing from bilateral donors and multilateral banks falls, yet tax revenues are unable to rise sufficiently to compensate for the decline in this critical source of development financing – thus creating a financing gap. IFFEd's new – and less costly – stream of finance will respond to the urgent financing needs in LMICs and address this "missing middle." Alternatives such as market-based finance are too expensive, especially to invest in education.

To achieve maximum impact, country access to IFFEd will require: (a) a national education sector plan or an equivalent credible strategic framing document, (b) the ability to sustainably utilize additional lending through the MDBs, (c) a country agreement to increase or maintain its domestic education budget to align with international standards, and (d) increasingly integrating results-based approaches into the financing packages to achieve nationally owned targets (consistent with the Paris Declaration on Aid Effectiveness).

Low-income countries could also benefit. By providing a new and highly leveraged alternative solution for affordable financing for lower-middle-income countries through IFFEd, space could be created to allocate more grant financing to low-income countries. The Commission recommended that a much greater share of education grants and highly concessional aid, currently at just 25%, should be allocated to low-income countries, corresponding with their educational need, limited financing capacity and a demonstrated willingness to invest and reform. Moreover, greater prioritization of education within the MDBs could also have positive spill-over effects for low-income countries. By encouraging MDBs – and in particular the World Bank with its recent 50 percent increase in the size of its concessional window – to allocate a greater share of their overall lending to education, financing for low-income countries could be further increased. Allocations for education within the Banks concessional windows could – like is proposed for LMICs – also be further stimulated by blending other grants with these sources of finance, thereby improving overall terms.

IFFEd was presented by UN Secretary-General António Guterres to the G20 and was acknowledged in the **2017 G20 Joint Leaders' Declaration** with a recommendation for further development. Momentum is building for 2018 to be a game-changing year for education, and the establishment of IFFEd will help bring the ambitious but undeniably critical goal of quality education for all within reach.

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The design package that follows explains **why** IFFEd was developed as an ambitious but crucial response to the global learning crisis and sets out **what** kind of financing (efficient, affordable, scaled-up, and sustainable) IFFEd will make available to countries committed to education investment and reform. The document also details **how** IFFEd's business model will work; and **who** (countries and programs) will benefit from IFFEd's support. It concludes with IFFEd's proposed governance structure and its theory of change.

A series of technical annexes are included with details on the following:
Annex 1: Financial business model
Annex 2: Approach to estimate the grant share in an IFFEd financing package
Annex 3: Legal and governance structure
Annex 4: Programming steps and allocation of funds
Annex 5: Indicative results framework
Annex 6: International financing architecture for education
Annex 7: Comparative advantages of MDBs in development financing
Annex 8: Principles for design of IFFEd
Annex 9: List of lower-middle-income-countries with lending windows

PART 1 - Design Overview

I. Why - The Need and the Vision

A. The Need for an International Finance Facility for Education

In a world convulsed by conflicts, natural disasters and humanitarian emergencies, it is easy to forget that we are in the midst of a global education crisis.

The International Commission on Financing Global Education Opportunity (the Education Commission)[1] estimated that in low- and middle-income countries today only one-half of the primary school-aged children and about one-quarter of secondary school-aged children are on track to complete primary/secondary school and reach minimum benchmarks of learning levels as measured by international learning assessments. The recent World Bank World Development Report also underlines these facts, and calls the learning crisis a *moral* crisis.

Progress is so slow that half of the world's children could be left behind by 2030. If current trends continue, by 2030, more than half of the world's 1.6 billion children – a total of 800 million boys and girls – will not achieve or not be on track to achieve the basic secondary level skills needed for employment and to fully participate in society.[2]

Stubborn inequalities persist. Despite progress, large gaps remain between the experience of girls and boys in certain parts of the world, which makes clear the critical need for special actions to help girls. Gaps also exist between the experience of rich and poor children. Across low- and middle-income countries, there is, on average, a 32 percent gap between children in the top income quintile completing school as compared to children in the bottom income quintile.[3] The situation is most acute for the poorest girls. For instance, in Pakistan, only 4% of the poorest females complete lower secondary, compared to 19% of the poorest boys. Moreover, 30% of girls in rural areas complete lower secondary, compared to 49% of boys in rural areas.[4]

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[1] The International Commission on Financing Global Education Opportunity, comprised of current and former heads of state and government, government ministers, five Nobel laureates, and leaders in the fields of education, business, economics, development, health, and security, was set up to reinvigorate the case for investing in education and to chart a pathway for increased investment in order to develop the potential of all of the world's young people. The Commission's work builds upon the vision agreed to by world leaders in 2015 with the UN Sustainable Development Goal for education: to ensure inclusive and equitable quality education by 2030 and promote lifelong learning opportunities for all. It brought together research and policy analysis to identify the most effective and accountable ways of mobilizing and deploying resources to help ensure that all children and young people have the opportunity to participate, learn, and gain the skills they need for adulthood and work in the 21st century.
[2] For further details on projections see report by the Education Commission (2016). "The Learning Generation. Investing in Education for a Changing World."
[3] REAL (2016). Overcoming Inequalities Within Countries to Achieve Global Convergence in Learning. The Education Commission. Background Paper for *The Learning Generation*.
[4] UNESCO World Inequality Database on Education (WIDE).

There are 11 million refugee boys and girls and 20 million children displaced in their own countries. About 75 million children have their education disrupted due to disaster or conflict.

The crisis situation is particularly problematic because education is fundamental to solving almost all other major global challenges of our time. Education builds human capital, which translates into economic growth, and is the most effective pathway for individuals to enjoy more productive, fulfilling, and prosperous lives. In its report *The Learning Generation*, the Education Commission projected that significant improvements in learning would raise GDP per capita in today's lower-income countries by 70 percent by 2050, as compared to current trends. New estimates of global wealth confirm that human capital accounts for almost two-thirds of global wealth and as countries achieve higher levels of economic development, human capital wealth clearly dominates.[5]

Beyond the impact on economic headline figures, education is either directly or indirectly critical for the achievement of all the Sustainable Development Goals, including those related to health, employment, gender equality, and quality of life. Around one-third of the reductions in adult mortality in the past few decades can be attributed to gains in educating girls and young women. Education also increases security. Evidence strongly suggests that increasing secondary school enrollment and literacy rates decreases the probability of civil war, and every additional year of schooling reduces an adolescent boy's risk of becoming involved in conflict by 20 percent.[6]

These wider benefits are also captured in the recent *World Development Report* on education (see table 1).

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[5] Lange, G.; Q. Wodon & K. Carey Eds. 2017. The Changing Wealth of Nations 2018. Building a Sustainable Future. World Bank.
[6] Education Commission (2016). The Learning Generation. Investing in Education for a Changing World.

Table 1. Examples of education's benefits[7]

	Individual/family	Community/society
Monetary	Higher probability of employment Greater productivity Higher earnings Reduced poverty	Higher productivity More rapid economic growth Poverty reduction Long-run development
Nonmonetary	Better health Improved education and health of children/family Greater resilience and adaptability More engaged citizenship Better choices Greater life satisfaction	Increased social mobility Better-functioning institutions/service delivery Higher levels of civic engagement Greater social cohesion Reduced negative externalities

Changing demographics and rapid technological change are expected to exacerbate the crisis. Improving the quality of education is becoming even more important and urgent in this context. For example:

- Based on current trends, 2.5 billion people will live in Africa by 2050, including more than 1 billion young people.[8] Limited economic opportunities and weak education in high-population growth regions will lead to increased global migration.[9]
- Up to half of the world's jobs – around 2 billion – are at risk of automation in the coming decades. In Kenya and China, 80 percent of current jobs could be automated. Jobs will be replaced by other jobs that require higher skills. Already 40 percent of employers globally have difficulties finding the skills needed.[10]

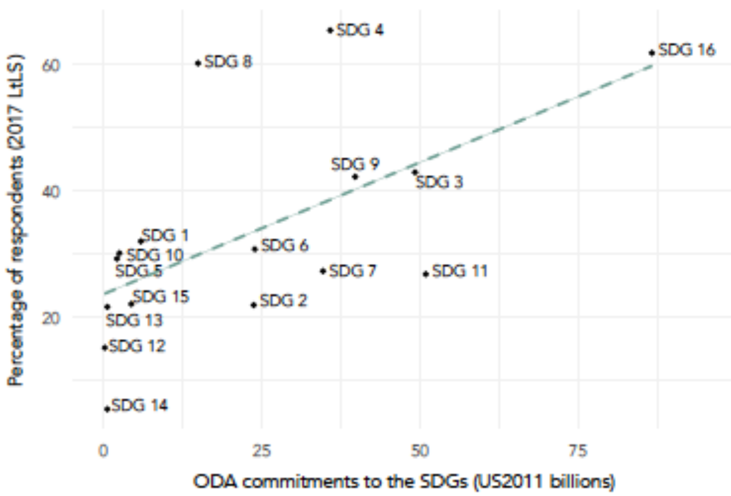
Education will be a crucial determinant of whether these defining trends will create opportunity or entrench inequality. Individuals with stronger skills can take better advantage of new technologies and adapt to changing work.[11] Countries that invest and transform their education systems will reap huge benefits that far outweigh the costs. They will gain economic advantages that come with an educated workforce with the skills necessary to compete in the 21st century economy.

This has been recognized in recent surveys of national leaders in which education is considered the top priority for development among all the SDGs by more than 65% of all respondents, the highest of any SDG (see figure 1).

[7] World Bank. 2018. *Learning to Realize Education's Promise*, World Development Report, Washington, D.C.
[8] UNICEF. 2014. "Generation 2030: Africa." UNICEF Division of Data Research and Policy: Brussels.
[9] International Organization for Migration (IOM). 2010. "World Migration Report 2010: Building Capacities for Change." IOM: Washington, D.C.
[10] ManpowerGroup. 2015. "Talent Shortage Survey 2015." Manpower Group: Milwaukee.
[11] World Bank. 2018. *Learning to Realize Education's Promise*, World Development Report, Washington, D.C.

However, despite repeated calls for greater priority for and attention to the education crisis, domestic reforms and investment have fallen short of what is needed and international attention has weakened. Education's share of international assistance dwindled from 13 percent to 10 percent between 2002 and 2015. Multilateral and bilateral aid from official donors amounts to just $12 billion per year in 2015, with only about 70 percent actually reaching developing countries. This contrasts with the growing share for health rising from 15 to 18 percent and now standing at $21 billion annually, not including large contributions from private philanthropists of several billions more.[12] This has led to a relative underinvestment in education by international donors as illustrated in figure 1.

Figure 1. Relationship between the priorities of donors, as revealed through their ODA spending between 2010-2013, and the priorities of national leaders from the 2017 Listing to Leaders Survey



Note: This figure shows the relationship between the perceived priority of each SDG on the Y-axis (as measured by the percentage respondents who selected the SDG as one of their top 6 priorities in the 2017 LTLS), and the total amount of official development assistance (ODA) allocated to a given SDG between 2000 and 2013 on the X-axis.

Source: S. Custer et al. (2018). Listening to Leaders 2018. Is Development Cooperation Tuned-In or Tone-Deaf. AidData. A Research Lab at William & Mary.

There is some good news. Between 2015 and 2016, education rose again in the priority list of donors and reached a level of more than $13 billion.[13] The proposed International Finance Facility for Education could provide a further impetus to increase international investments in education.

[12] Education Commission (2016). The Learning Generation. Investing in Education for a Changing World.
[13]

B. The Vision of the International Finance Facility for Education

The Education Commission estimates that all children in low- and middle-income countries could have access to quality pre-primary, primary, and secondary education within a generation if all countries accelerate progress to the pace of the 25% fastest education improvers. It would require all countries to transform their education systems by strengthening performance, fostering innovation, prioritizing inclusion and increasing finance. Low- and middle- income countries would also need to raise their total investment (from all sources) by 2030.

The Commission envisions a new education financing structure that would enable the world to realize what it calls the "Learning Generation" – a generation where all children are in school and learning. This structure has three basic building blocks:

- More and better domestic investment
- Increased international aid
- A new funding instrument to multiply donors' impact

The first building block involves low- and middle-income countries ramping up their own commitments for education. Low- and middle-income countries would reform their systems and increase domestic public expenditure for education from about $1 trillion today to about $2.7 trillion, or rising from an average of 4 to 6 percent of GDP between now and 2030. Public funds are allocated in a way that prioritizes lower levels of education and focuses on the poor (progressive universalism) to ensure that all parents – irrespective of income – can afford to send their children to school. However, even if poorer countries augment their investments in education and improve the performance of their education systems, a financial shortfall will persist. The total costs are far above what education budgets (and households) in these countries will be able to cover. The remaining gap to be covered by external resources will rise to nearly $40 billion in 2020 and $90 billion in 2030.

That's why the second building block in education finance – increasing education's share of international aid from 10 percent today to 15 percent by 2030 – is critical. This growth would happen at the same time that all donor countries augment their aid budgets to gradually approach the target of spending 0.7 percent of gross national income on aid, and channel more of that funding through multilateral organizations. Yet, even under the most optimistic scenarios of domestic resource mobilization and increased aid through existing channels, there would still be an education financing gap of at least $10 billion in 2020 and $20 billion in 2030. This gap will affect lower-middle-income countries with limited access to aid the most. More and better international aid for education is needed but it cannot be the only solution.

The third building block to fully finance education is greater leveraging of the Multilateral Development Banks (MDBs), as well as other sources of innovative finance, to harness new and additional resources. The International Finance Facility for Education (IFFEd) will multiply donor resources and create new funding for education by harnessing the untapped potential of Multilateral Development Banks (MDBs). It adds value by creating new and additional resources to finance education in countries that need it most.

IFFEd aims to mobilize efficient, affordable, scaled-up and sustainable financing through the MDBs to help close the international financing gap – in particular in lower-middle-income countries. It will increase the capacity of MDBs to do more for education in countries committed to investment and reform.

Together with countries and other international partners, IFFEd will contribute to the transformation of the current education cycle and the creation of a global education system that works for everyone – a system that creates a stable, economically strong, and socially responsible future for generations to come.

C. IFFEd will Add Value to the International Architecture

The International Finance Facility for Education will fill a financing gap that, at present, no one has the remit or means to fill.

The Commission's vision for the international education financing architecture is as follows:

Low Income Countries (LICs): LICs should be primarily financed through grants and concessional financing. While LICs – the poorest of the poor – have traditionally faced some of the greatest barriers to education, recent developments have made it easier for them to get financing. Low-cost financing has grown thanks in part to the World Bank's $75 billion replenishment, of its financing available to low-income countries which allows for a 50 percent increase in financing for LICs through grants and favorable lending terms. In addition, many donors are giving greater priority to the poorest countries in their foreign aid portfolios, and more grant resources have been mobilized through the successful Global Partnership for Education (GPE) replenishment and the recent establishment of the Education Cannot Wait fund (ECW). Efforts to make World Bank financing even more affordable through subsidies for interest rates could double financing available to these countries. All these resources create a pathway forward for LICs that want to make progress on education.

Middle Income Countries (MICs): Lower-Middle-Income Countries (LMICs) should be primarily financed through a mix of concessional and non-concessional financing, given their greater ability to repay relative to LICs. Upper-Middle-Income Countries (UMICs) should be financed primarily through non-concessional financing. However, LMICs face significant structural challenges in accessing affordable external finance for education. IFFEd represents an opportunity to significantly increase funding to LMICs on affordable terms.

Humanitarian Crises: Humanitarian crises should be financed primarily through grants, but also through concessional financing in cases that require longer-term financing for strengthening and rebuilding education systems, such as the Syria crisis. The Education Cannot Wait fund should be strengthened to provide short- and medium-term financing for education in emergencies, with a potential role for IFFEd in longer-term support.

IFFEd is designed to complement the existing aid architecture by focusing on the urgent needs of LMICs. This is for three primary reasons:

1. **Education need.** LMICs will be home to the vast majority of the world's poor, refugees and displaced children, and children out of school or not learning. Today, 50 percent of all children out of school and 60 percent of all children and youth who are not on track to achieve basic secondary level skills live in LMICs. LMICs are home to 700 million girls and boys of school age, more than three times the number in low-income countries.

2. **Finance need.** Many of these countries have taken important steps to transform their education systems through domestic investment and reform. But even if they raise their share of national income spent on education and secure better value for money, the external financing shortfall in LMICs to deliver quality education will rise significantly and represent 80 percent of the total estimated external financing gap by 2030.[14] LMICs will require by far the largest external support in terms of dollar amounts.

3. **Structural challenge of "missing middle."** The challenges in LMICs are compounded by a structural failure in development financing ('the missing middle').[15] As countries transition from LIC to LMIC status, aid falls faster than tax receipts rise. This results in a financing gap (the missing middle) that continues until tax levels can rise as a result of development progress. The only alternative is to borrow at market or non-concessional terms. But countries are reluctant to borrow for education on those terms because the returns accrue with considerable delay. As a result, the funding drop off in education financing is significant. For example, the share of education in all non-concessional MDB financing is less than 4 percent (and less than one percent for all of Asia and Africa combined). This share has been falling over the past decade even as needs have risen dramatically as the number of lower-middle-income countries and their school age populations grow.

The Facility provides LMICs with longer-term, predictable, and sustainable funding to help achieve the education Sustainable Development Goal. It keeps education financing options more constant and avoids a sudden shock to the system by extending the highly concessional terms that LMICs once enjoyed as LICs. By providing affordable "bridge financing," these countries can continue investing in their education systems during this critical stage of their development. They won't face the stark choice between taking on expensive commercial debt or denying education to millions of children.

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[14] The external finance gap in low-income countries will also be significant (up to 20% of total or around $20 billion by 2030). Given external finance represents a much greater share of overall education spending in LICs, this gap needs to be addressed by grant or *highly* concessional financing.

[15] ODI (2014). Financing the post-2015 Sustainable Development Goals: A rough roadmap. London, ODI.

Low-income countries could also benefit. IFFEd will not only allow for more efficient use of grant resources already allocated to MICs, but it could also open up opportunities to allocate additional grant resources to low-income countries and emergency situations by offering a new and highly leveraged source of financing in middle-income countries. Moreover, greater prioritization of education within the MDBs, could also have positive spill-over effects on the amount of their regular financing to low-income countries. By encouraging MDBs – and in particular the World Bank with its recent 50 percent increase in the size of its concessional window – to allocate a greater share of their overall lending to education, financing for low-income countries could be further increased. Allocations for education within the Banks concessional windows could —as is proposed for LMICs – also be stimulated by blending grants with these sources of finance, thereby improving overall terms.

The Facility will complement, not replace or duplicate, current initiatives in education finance. It will enhance World Bank and regional development bank financing for low-income and lower-middle income countries, and work alongside international actors such as the Global Partnership for Education; the Education Cannot Wait fund; UN agencies such as UNICEF, UNESCO, UNHCR, and UNRWA; bilateral donors; and thousands of charities worldwide.

The Facility will mobilize **new** resources through a new instrument providing additional capacity to the MDBs and work through the **existing MDB structures**. It will require no new in-country actors or processes, and it will encourage greater efficiencies and collaboration among the MDBs.

Annex 6 provides an overview of how IFFEd fits in the international architecture.

II. What - Efficient, Scaled-up, Affordable, and Sustainable Financing

The International Finance Facility for Education (IFFEd) will provide efficient, scaled-up, affordable, and sustainable financing for results:

- **Efficient.** IFFEd will be a financing mechanism working through the MDBs as implementing agencies, thereby harnessing their considerable advantages to leverage financing efficiently and deliver development assistance.
- **Affordable.** IFFEd will use grant financing to soften the terms of a financing package (grants and a loan), making the financing more attractive and manageable for educational investment.
- **Scaled-up.** IFFEd will aim to double MDB financing for education and deliver up to an additional $10 billion in MDB financing for LMICs in its initial phase.
- **Sustainable financing for results.** Investments mobilized through IFFEd will be aligned with education sector plans and driven by results.

A. Efficient Financing

IFFEd is a financial mechanism that will work through the MDBs as initial partners to provide LMICs with scaled-up resources for education. An initial group of five MDBs have agreed to be part of IFFEd: the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, and the World Bank. Other multilateral development banks as well as some national development banks have also expressed interest.

IFFEd will work through the MDBs because they are particularly efficient at mobilizing and leveraging finance at the global level. The central purpose of IFFEd is to increase the capacity of MDBs to provide more financing for education. IFFEd will use contingent financial commitments (e.g. in the form of guarantees) provided by contributor countries to address MDBs' capacity constraints, allowing them to mobilize more financing in capital markets and deploy this additional financing for education. Initial estimates suggest that one dollar of guarantees could generate four to five dollars of additional funding for education. When combined with an agreement with the host country to increase its own financing for education, which is part of IFFEd's eligibility criteria, leverage ratios of 50 to 1 are possible.

IFFEd will be efficient not only because of its ability to multiply donor commitments but also because those contributions will require very little up-front cash investment from donor countries with squeezed budgets. IFFEd will likely need to hold only a small percentage of the value of its contingent financial commitments (possibly 10 to 15 percent) in cash to manage its liquidity risk and reassure credit rating agencies of its ability to fulfill its obligations in case of default.

As the key implementing agencies of IFFEd, MDBs also offer other advantages. As large providers of development assistance, including in education, MDBs also have extensive technical expertise and convening power. MDBs are also uniquely placed to strengthen domestic resource mobilization and increase efficiency, effectiveness and equity of public expenditure at the country level (see box 1). The vast majority of MDB resources are spent by governments, in accordance with government policies and plans. MDBs' engagement on the full spectrum of a country's development agenda enhances the effectiveness of total government spending, including in education. Annex 7 provides an overview of the MDBs' broader comparative advantages that IFFEd aims to catalyze.

Finally, IFFEd's operational model will maximize efficiency by working primarily through existing MDB processes. While sufficient administrative arrangements will be put in place for effective oversight and management of IFFEd's finances, IFFEd's central administrative unit will have a small staff (around 10 people) and be financed entirely by IFFEd's own revenue generated through its insurance scheme.

Box 1: MDBs and domestic resource mobilization

Domestic Resource Mobilization (DRM) is at the forefront of the development agenda in an effort to expand resources to meet the Sustainable Development Goals (SDGs). Broadening and deepening the tax base can reduce countries' reliance on aid and foreign borrowing, particularly for LMICs, who have the potential to make the most dramatic increases to revenues through tax and allocation reforms.

In their "Billions to Trillions: Transforming Development Finance" paper,[16] prepared in advance of the Addis Ababa SDG financing conference, the MDBs and the IMF highlighted domestic resource mobilization and public expenditure efficiency and effectiveness as a critical area for their increased engagement. They committed to strengthen their tools and collaboration to enhance countries capacity in these areas.

In response, the World Bank has partnered with the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and the United Nations (UN) to launch the Platform for Collaboration on Tax, which aims to boost countries' ability to build more equitable, efficient tax systems and ensure that the interests of developing countries are heard in the growing international dialogue on tax reform. This effort builds on momentum from the 2015 Addis Tax Initiative (ATI), which sought to mobilize funding and country ownership for tax system reform. The Asian Development Bank also joined ATI and established a special DRM Trust Fund to enhance the Bank's engagement in this area.

B. Affordable Financing

IFFEd will provide grants as a share of an education financing package (grants and loan), making the financing more attractive and affordable for educational investment. A recent IMF study[17] shows that, without such incentives, countries are likely to underinvest in education because growth benefits accrue with a delay and countries are averse to take on expensive debt in the absence of expedient returns. Tied concessional finance and grants are proposed as potential solutions to mitigate the adverse effects of political myopia and debt risks.[18] Evidence also shows that investments in inclusive quality education can yield high returns in the long term. The gains from human capital investments can build up over time and help carry a fraction of the costs of current investments, thereby softening the burden on the current generation with lower economic and tax carrying capacity.

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[16] "From Billions to Trillions: Transforming Development Finance Post-2015 Financing for Development: Multilateral Development Finance" prepared jointly by the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the International Monetary Fund, and the World Bank Group for the April 18, 2015 Development Committee meeting.

[17] Atolia, M.; B.G. Li, R. Marti and G. Melina (2017). Investing in Public Infrastructure: Roads or Schools? IMF Working Paper WP/17/105.

[18] The study compares investments in economic infrastructure with social infrastructure.

Practical evidence confirms that softening the terms of financing can help incentivize countries to invest in health and education. However, the health sector has been more effective at using this mechanism than education.[19] A survey by the Education Commission of World Bank Country Directors and Ministry of Finance staff in client countries indicated that changes to repayment and pricing terms would help increase the demand for loans.[20] Further consultations with a sample of LMIC delegations[21] in the margins of the 2018 WB IMF Spring Meetings confirmed a strong interest in the IFFEd approach – viewing it as an instrument that would help them reach their education goals, while managing their debt.

Donor contributions are likely to determine the *average* share of grants in a financing package that will be the same for all MDBs. MDBs however would retain flexibility in determining the specific level of concessionality in any individual financing package. Discussions on how the share of grants in financing packages will be determined are ongoing (see annex 2), but on average the concessionality for IFFEd supported education programs in LMICs is likely to fall between two benchmarks:

- Level of concessionality equivalent to IDA Soft/Standard terms or a grant element of at least 50 percent. Softening the financing package to such terms would require, at today's interest rates and using standard IMF discount rates, a package with 20-25 percent of financing in the form of grants and the residual in the form of a loan at standard IBRD terms. The level of concessionality of IDA soft terms will serve as a ceiling for IFFEd; IFFEd supported education programs will not be more concessional than IDA.
- Level of concessionality equivalent to IDA Hard terms or a grant element of at least 35 percent. Softening the financing package to such terms would require, at today's interest rates and standard IMF discount rates, a package with 10-15 percent of financing in the form of grants and the residual in the form of a loan at standard IBRD terms.

IFFEd will disburse the grants to MDBs upon signature of a financing package by the country and the MDB. Grants disbursed to MDBs for the purpose of softening financing terms will be managed by the MDBs until they are disbursed as part of the agreed program on a pari passu basis. Interest earned on grant balances prior to disbursement will accrue to IFFEd. Agreements on and the disbursement of the financing package (including grants and loans) will occur directly between the MDBs and the government counter-part.

[19] R4D (2013). Final Report on Buying Down Loans for Education to the Global Partnership for Education. November 27, 2013.

[20] Andrew Rogerson and Maria Ana Jalles d'Orey (2016), Enhancing multilateral loans for education: intervention rationales, mechanisms, options and decision criteria.

[21] Sudan, Indonesia, Timor L'este, Kosovo, Tunisia, Egypt, Benin, Cote d'Ivoire, Cabo Verde, India, Sri Lanka, Bangladesh, Bhutan.

C. Scaled-up Financing

IFFEd aims to fill the gap between what countries need to achieve the education SDG and what they are able to mobilize – with best efforts – through domestic resources and the existing international architecture. Financing is thus mobilized from three sources:

- Domestic resources (public and private)
- Donor resources (existing bilateral and multilateral channels)
- IFFEd (additional resources through the MDBs)

As highlighted by the Commission, the majority of financing will be generated from domestic resources. But, even assuming increasing domestic resource mobilization and more effective spending of those resources in line with the Commission's recommendations, there would still be a need for a major boost in international support. The spirit of a compact between countries and the international community is embedded in IFFEd's eligibility criteria.

One of IFFEd's key objectives is to increase the amount of financing delivered to LMICs for education. Currently, about $3 billion is committed annually by MDBs in non-concessional financing ('other official flows' in OECD terminology) for education. A target of at least $10 billion in additional financing (grants + loans) delivered to LMICs during the first replenishment period is proposed.

Initial estimates suggest that eligible IFFEd countries could potentially generate up to $100 billion in additional investments through their own efforts and significantly improve the efficiency of their spending through results-based approaches.

Together, these efforts could help millions of children access a quality education.

Box 2: How IFFEd can help Kenya

Kenya has had registered growth domestic product (GDP) growth rates above 5% for most of the past decade. Its poverty rates declined from 47% in 2005/6 to 36% in 2015/6. Today, more than half of Kenyan adults over 24 years old (almost 58%) have completed primary education, a notable increase from an estimated 44% in 2005. However, just over 14% of those adults have completed secondary school, up from 3% in 2005. This falls below other countries with comparable poverty rates.

Further reducing poverty will require higher and more inclusive growth rates, which could be achieved, among other things, by further investment in education. Kenya's latest education sector plan (2013-2018) commits to strengthening education sector governance and accountability, providing access to free and compulsory basic education, and enhancing education quality, equity and inclusion, relevance, and social competencies and values.

Commission estimates show that Kenya will have to triple its domestic spending on education to achieve the learning generation vision by 2030 – from $3 billion in 2015 to close to $9 billion by 2030 (from 4.6% to 5.3% of GDP). Even with this significant public investment and additional spending by households (up to 2% of GDP), Kenya will require substantial external support, rising to $1.5 billion by 2020 and nearly $2 billion by 2030.

As a lower-middle-income country, Kenya has been receiving less than $100 million in international aid for education from OECD-DAC donors – just 3% of total international aid and far below its growing needs. IFFEd could help bridge the gap. Kenya's debt sustainability risk is deemed low but the share of private debt has been rising, making it critical to offer affordable alternatives through IFFEd.

D. Sustainable Financing for Results

IFFEd funding will be available for any education-related initiative or reform effort that is consistent with a country's strategy to enhance access, learning, and equity. It will complement existing efforts by providing sustained concessional financing once countries graduate from other sources of aid. Additional financing will only be provided after an assessment of the countries' ability to take on debt.

Country ownership. Country leadership and ownership will be ensured through the preparation by countries, in dialogue with the MDBs and other stakeholders invited by the country, of lending packages that support a country's education sector plan and IFFEd goals and policies.

Domestic investment in education. IFFEd's design will also incentivize increased domestic spending on education. MDB programs in the IFFEd pipeline will include information on the commitments and contributions of the government and IFFEd. Programs should articulate how the country meets the criteria for country access to IFFEd financing, including a national education sector plan or an equivalent credible strategic framing document and adequate domestic investment.

Complementary financing for sustained international support. IFFEd will complement the existing international efforts by providing sustained financing once countries graduate from grants and highly concessional aid, such as from the Global Partnership for Education (GPE), concessional windows of the MDBs (e.g. IDA), and short- to medium-term grant financing for particularly difficult situations, such as from the Education Cannot Wait (ECW) fund.

Debt sustainability. IFFEd offers an affordable and more sustainable alternative to much more expensive financing available to LMICs. While many countries are able to use debt-financing as they move to the next level of sustained domestic resource mobilization for education, some countries are not able to take on additional debt. As part of the eligibility criteria, MDBs will certify that IFFEd investment will not raise debt sustainability issues prior to any approval of financing and practices will adhere to international norms of maintaining sustainable levels of debt consistent with Addis Ababa Action Agenda of the Third International Conference on Financing for

Development.[22] No debt financing should be made available to countries deemed at high debt risk (see section IV A. eligibility criteria). Both levels and composition of debt should be considered. Some LMICs are now borrowing at commercial rates from private banks and bondholders to cover development finance needs, which results in considerable risks for potential future debt distress and has implications for social sectors, such as education, where such financing is simply unaffordable. Evidence suggests that more multilateral financing (especially at concessional terms as proposed as part of IFFEd) should be considered as part of the solution for these countries.[23]

In recognition of their importance, all of these sustainability considerations are included in IFFEd's eligibility criteria (see section IV A.). They will also be monitored on an annual basis as part of IFFEd's results and monitoring framework.

III. How – IFFEd's Business Model

A. Leveraging Affordable Financing

IFFEd's business model is based on an innovative financing structure that takes advantage of the MDB capacity to leverage sovereign credit. MDBs can borrow in capital markets and provide financing equal to several times their paid-in capital while retaining their high credit rating (AAA). This makes MDBs excellent institutions to provide development finance.

However, with respect to education, MDBs face two challenges: insufficient capital to achieve the SDGs and low demand for non-concessional financing for education due to structural challenges.

- **Insufficient capital to achieve the SDGs.** Some MDBs have limited capital that constrain their supply of education financing. The three MDBs that are the most supply-constrained as compared to potential demand are the African Development Bank, the Inter-American Development Bank, and the World Bank (IBRD). Even with critically important efforts and agreements to increase capital for any one of these MDBs, there is still significant need for expanding MDB lending to fully finance SDG4.[24]

[22] This agenda noted the UNCTAD principles on responsible lending and borrowing, the requirements of IMF debt limits policy and/or the World Bank's non-concessional borrowing policy, and the OCED Development Assistance Committee statistical systems safeguards to enhance the debt sustainability of recipient countries.
[23] https://www.cgdev.org/blog/chart-of-the-week-new-african-debt-crisis
[24] For example, the World Bank's IBRD, which is following its recent capital increase on a sustainable lending trajectory of $25 billion per year, estimates demand for its IBRD to be as high as $36 billion. Sustainable Financing for Sustainable Development, submitted to the Development Committee, April 21, 2018. p. 30.

- **Low demand due to structural challenges.** As countries (and in particular LMICs) transition from concessional lending to non-concessional financing, they go through a period of reluctance to borrow for education at available rates. Rates on financing packages can be as high as LIBOR +1.5% from official MDB and bilateral sources (and significantly more from other lenders), particularly for longer maturity loans. While MDB rates are very competitive compared to other lenders, the returns to education only materialize over the longer term. As a result, there is low demand among LMICs to borrow for education at prevailing MDB interest rates.

IFFEd will address both constraints through:

- **Portfolio Insurance:** IFFEd's portfolio insurance will enable Banks to increase their lending capacity in an efficient manner and at a low cost to donors. IFFEd will use contingent financial commitments (e.g. in the form of guarantees) provided by contributors to insure the MDBs' loan portfolio as a tool to generate additional lending capacity. It will not guarantee individual education loans, but provide loss insurance across the whole non-concessional lending portfolio of an MDB. This will enable MDBs to borrow funds on capital markets, obtaining a rate of leverage several times the value of the insured amount, and offering these funds in the form of new education loans. To ensure that this additional capacity is used for education, IFFEd will only issue the insurance when the MDB makes an additional loan in support of education.

- **Grant Mechanism:** IFFEd will help reduce the effective price of education financing by blending grants with loans (generating a lower effective interest rate), incentivizing lower-middle-income countries to borrow for education. The starting point for the grant mechanism is grant commitments by contributors. A borrowing country will sign a package agreement with an MDB, which would include both the loan agreement and an accompanying grant agreement. IFFEd will sign a back-to-back grant disbursement agreement with the MDB. Disbursements by the MDBs of the grant funding to the borrowing country will be pari passu to the disbursements of loans and would follow the same disbursement rules.

It is essential that IFFEd targets both goals simultaneously to attain the maximum impact on education and learning. The combined outcome will increase both the quantity of education financing offered and the demand (by borrowing countries) due to a resulting lower concessional interest rate.

To carry out these activities, IFFEd will need to mobilize two sources of financing from sovereign and non-sovereign contributors. First, it will need **sovereign contingent financial commitments**, which may take the form of guarantees, to underpin the portfolio insurance provided to the MDBs. Second, it would need **grants from sovereign and non-sovereign contributors** to blend with MDB loans. A sovereign contributor could provide a contingent commitment, grant, or both to the Facility, depending on what is feasible under its national legislation.

B. IFFEd's Credit Rating

IFFEd's portfolio insurance will be a liability of IFFEd, and the MDBs will need the Facility to have a strong credit rating (target credit rating of AAA) to underpin the reliability of such insurance. The reliability of the insurance will be determined by the strength of the underlying contingent financial commitments from contributors as well as other variables. The stronger the capital structure of IFFEd, the higher the credit rating and the more likely leverage will be high, since the MDBs will be relying on IFFEd's rating that would underpin the portfolio insurance required to issue bonds.

The credit rating of IFFEd will be determined by several interrelated factors:

- the rating of the contributors providing contingent financial commitments (such as guarantees) to IFFEd;
- operational issues such as how IFFEd will meet its insurance obligations and benefit from MDB recovery efforts of any potential missed payments from client countries (these are likely to be small and infrequent given the strong track record of the MDBs —no non-accruals in IADB for the last 17 years, while the share of the portfolio in non-accrual at end FY2017 at the World Bank is 0.25%);
- the terms of the contributors' agreements with IFFEd— a combination of (a small amount of) cash with enforceable and legally binding contingent commitments with long tenors;
- IFFEd's management of foreign exchange risk; and
- liquidity and funding risks (these risks can be mitigated by instituting strong legal agreements with contributors and maintaining a certain amount of cash in IFFEd's balance sheet).

The rating agencies may add other requirements for a high credit rating.

There will be two important goals in approaching the credit rating agencies: one is to achieve the highest rating possible for IFFEd itself, which will maximize the leveraging of the insurance mechanism, or providing assurances to the MDBs that the portfolio insurance is considered by the rating agencies as strong. A coordinated approach with the MDBs will be essential in requesting the credit rating.

C. Contributions Needed to Reach Scale

IFFEd aims to substantially increase MDB lending for education for LMICs. It would aim to double current annual MDB lending in its initial period of financing.

To underpin this lending increase, assuming that the average leverage of the MDBs using IFFEd portfolio insurance is 4 and IFFEd's leverage is 1, Table 2 illustrates what IFFEd will require on a cumulative basis in terms of both grants and contingent commitments (insurance) over an initial replenishment period of 2019-2023, assuming financing packages include both insurance and grants. The table presents three scenarios showing a doubling of annual MDB commitments achieved within 2, 3 or 4 years.

Given that grants are likely to be more scarce than contingent commitments, table 2 below shows requirements when the IFFEd concessionality target is set at average Soft IDA Terms and average Hard IDA Terms (see section II.B for definition). Discussions on the allocations of IFFEd financing among MDBs are ongoing. The average concessionality is likely to fall somewhere in between these two benchmarks.

Finally, in addition to grants required for softening financing terms, IFFEd will require cash to strengthen its capital structure. Financial prudence would require that IFFEd have adequate cash to meet a multiple of its expected insurance obligations, based on the frequency and size of non-accrual events in MBDs. The amount will be small (no more than 15 percent of its total capital) because these events are small-scale and infrequent, and because the insurance provided in the initial period by IFFEd to the MDBs will not represent a significant share of MDB capital. Exact cash needs will be discussed with credit rating agencies and participating MDBs.

Table 2 – Three Scenarios to Double Annual MDB Education Commitments (Cumulative Grants and Insurance ($ billion))[25]

		IDA Soft Terms	IDA Hard Terms
In 4 years			
	Grants	2.4	1.2
	Insurance	2.0	2.3
	Financing Delivered	10.3	10.3
In 3 years			
	Grants	2.8	1.4
	Insurance	2.3	2.6
	Financing Delivered	12.0	12.0
In 2 years			
	Grants	3.1	1.6
	Insurance	2.6	3.0
	Financing Delivered	13.5	13.5

The average size of an MDB education program/project is in the order of $150 million, implying that, under the doubling scenario over 4 years, MDBs will deliver some 60+ additional projects over the period. Assuming two projects per eligible country over this period, some 30 LMICs could benefit from IFFEd support. If this doubling is achieved in 3 years, MDBs would deliver some 80 programs to 40 countries.

[25] Detailed calculations of contributions needed are being prepared in consultation with the MDBs. Final amounts may vary depending on prevailing interest rates and other factors.

IFFEd would be self-sustaining in terms of its administrative costs, meaning that its revenues (e.g. from insurance fees and interest revenues) would cover the operating costs and grant financing would not be required. IFFEd's administrative unit would have a small staff of about 10 people.

D. Additionality

It will be important to demonstrate that IFFEd funding is new and additional to existing funding available in the international system, and that it is not being used as a substitute for existing funding. The overarching goal is to ensure that international funding for education is increasing.

There are a number of ways that this can be recognized, including:

- **The leveraging of resources by IFFEd funding is additional**: IFFEd is a new source of funding, generating additional quasi-capital for the MDBs which in turn can significantly multiple those funds to increase their lending capacity. The multiplier effect of the contingent financing/portfolio insurance can easily be measured.
- **Funding is additional to MDBs**: This can best be measured retrospectively for each replenishment period (every three to four years), comparing funding to earlier periods. Each MDB would provide evidence at the end of the replenishment period that its investment portfolio for education is on an upward trajectory. This could be measured by the size of a MDB's education portfolio and/or the trajectory of annual commitments during a replenishment period.
- **With respect to domestic funding, the goal is to see domestic education spending trending upward**. It will, however, be difficult to attribute the exact contribution of IFFEd. A country will be expected to commit to increase or maintain (where such funding is already at an agreed level) domestic spending on education to an agreed target. It is noted that GPE has developed procedures to assess the additionality of domestic funding and that IFFEd will consider how best to align its process with those procedures to promote consistency across funding instruments and harmonization and alignment at the country level.[26]

MDB and domestic funding for education will be monitored and reported to the IFFEd governing body at the end of a replenishment period. If targets are not met, the IFFEd governing body can decide whether a country or MDB should be eligible to receive additional funding in the next replenishment period.

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[26] See, e.g. the December 2017 GPE Board document 'Domestic resources, monitoring of commitments and consequences when commitments to GPE are not met

IV. Who - Country and Program Eligibility

A. Country Eligibility

IFFEd funding will be made available to all lower-middle-income countries (LMICs) that have access to the non-concessional financing windows of the MDBs. Evidence shows that LMICs do not have sufficient access to foreign financing for education and could benefit from concessional lines of credit. Increased and partially subsidized education financing to enhance learning, equity, and access in LMICs will be critical to help address SDG4 and global aspirations for poverty reduction and the goal of "leaving no one behind."

The following additional criteria are proposed to ascertain a country's eligibility to access IFFEd financing: (a) a national education sector plan or an equivalent credible strategic framing document, (b) the ability to sustainably utilize additional lending through the MDBs, (c) a country agreement to increase or maintain its domestic education budget in alignment with international standards, and (d) increasingly integrating results-based approaches to achieve nationally owned targets (consistent with the Paris Declaration on Aid Effectiveness).

a) IFFEd financing will **align with quality national education sector plans** and inclusive implementation processes.[27] It will be coordinated by the country with other in-country activities of other education-specific funds (i.e., ECW fund and GPE) when those programs are, or have been, engaged in the country.

b) MDBs will ensure that IFFEd investment would **not raise debt sustainability issues** for the country. They will assess and manage debt sustainability with borrower governments according to each bank's board-agreed procedures. No country with unsustainable levels of debt will be eligible for IFFEd borrowing. While the Debt Sustainability Framework (DSF) is in place for low- and some lower-middle-income countries, MDBs also routinely assess debt sustainability in other lower-middle income countries. This DSF was recently updated to include an assessment of two previous gaps in the analysis: private debt and contingent liabilities.[28] All lending packages should include a discussion of the MDB's assessment of the country's debt sustainability (see section IV on country and programming eligibility).

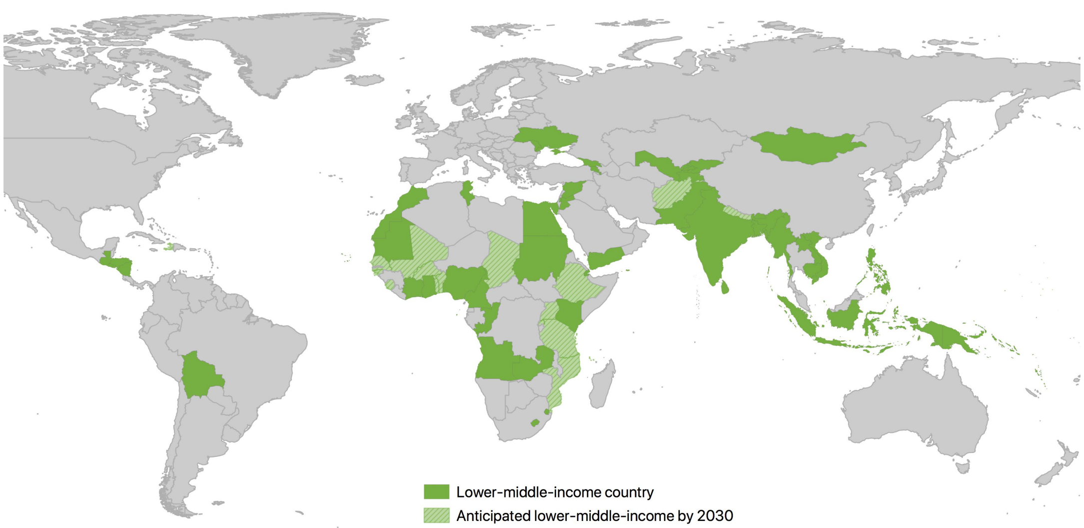
[27] IFFEd will work with MDBs to develop principles for determining that an education sector plan is credible, drawing on the experience and tools developed by the GPE. GPE has agreed that considerations in appraising an education sector plan should include confirmation that: (i) the plan preparation process has been country-led, participatory, and transparent, (ii) the plan constitutes a solid corpus of strategies and actions addressing the key challenges of the education sector, (iii) issues of equity, efficiency, and learning are addressed to increase sector performance, (iv) components of the plan are coherent and consistent, and (v) financing, implementation and monitoring arrangements are feasible.
[28] IMF (2017). Joint World Bank-IMF Debt Sustainability Framework for Low Income Countries.

c) In accessing IFFEd financing, it will be important for countries to show that **domestic funding for education is trending upward** and IFFEd funds are additional to those that a country would normally be expected to allocate to education from MDB funds and that IFFEd funds do not substitute for such funds.

d) IFFEd funding should have a **focus on results** and MDBs will be encouraged to use results-based financing approaches where appropriate, consistent with the Paris Declaration on Aid Effectiveness.[29] Improvements in the design and delivery of education will succeed only if they are underpinned by a system that is built to deliver results.

A list of current and projected (between now and 2030) LMICs is in annex 9. In the coming years, it is anticipated that the number of countries eligible for funding will grow as more countries transition to lower-middle-income status and have no or limited access to the concessional financing windows of the MDBs. In exceptional circumstances, agreement may also be reached to provide IFFEd financing to other countries in emergency situations. The list of eligible countries able to access IFFEd will be reviewed on an annual basis.

Figure 2: Lower-Middle-Income Countries



Source: 2018 World Bank Country Income Groups and Education Commission projections

[29] 'Results based approaches' link resources to results, either in the transaction between the MDB and the borrower ('results-based financing') or the transaction between the central government and lower units of government ('results-based financing'), or both.

Once eligibility criteria have been met, participating MDB policies and procedures would apply to education programs financed by IFFEd. There would not be additional policies, procedures or requirements applied to IFFEd financed programs.

Box 3: IFFEd could benefit LMICs around the world

- **Côte d'Ivoire**: Côte d'Ivoire has recognized the value of education, recently mandating that all children receive a primary and lower-secondary education to obtain the necessary skills to continue their education or thrive in the labor force. However, challenges remain, such as a growing youth population, low levels of learning, high repetition and dropout rates, and low enrollment rates for girls and disadvantaged populations. Even if Côte d'Ivoire doubles its domestic spending on education from nearly $2 billion to over $4 billion by 2025, it will still fall short as the external financing gap is expected to add up to nearly $400 million – ten times the current aid level, which has stagnated at around $40 million. To date, only 2 percent of total MDB financing has been allocated to education. There is strong potential to scale up funding through the Facility.

- **Pakistan**: Pakistan faces a significant shortfall in funds for education, particularly considering the added strain of regional crises and having the highest rate of out-of-school children in the world. Even if Pakistan more than doubles its domestic spending on education to $16 billion by 2025, it will be left with a gap of $3 billion, more than four times current levels of aid available. Grant aid will never meet this need. While domestic spending on education is constrained by lack of government revenues – given the country has one of the lowest tax-to-GDP ratios in the world – the Facility could multiply scarce grant aid resources, encourage increased domestic investments, and provide greater value for money. Each additional $100 million of investment through the Facility could be matched by more than $500 million in additional investment from domestic resources, helping to educate more than 2 million children of primary school-age.

- **Guatemala**: Guatemala has made significant strides in improving education access, but progress is constrained by high rates of inequality and low levels of learning. To accelerate improvements, the country will have to more than double its domestic spending on education by 2025, when costs are projected to reach over $5 billion. Unfortunately, while costs have been rising, international aid to education has been shrinking. International financing to education averaged only $53 million dollars in 2014-2016, down from $63 million in 2009-2011. The Facility could help Guatemala bridge the gap and achieve the Sustainable Development Goal for education.

B. Programming Eligibility

IFFEd's programming will be wide-ranging and in line with the objectives of SDG4, the goals of IFFEd, and the mandate of the MDBs. IFFEd programming will embrace the full breadth of SDG 4, as well as a holistic, inclusive approach to learning when considering eligible investment areas. This includes target 4.1, which ensures that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes. IFFEd will include the full range of education levels, with priority given to early and basic education. Working through MDBs, IFFEd programming will also be guided by MDBs' strategies with respect to poverty alleviation, human development and equity.

IFFEd programs will prioritize lower levels of education

It is recommended that funds from IFFEd would be available for any education-related initiative or reform effort that is consistent with a country's strategy to increase access, learning, and equity. However, early learning, primary, and secondary education will be prioritized in financing.

IFFEd funding could be provided for activities related to other sectors (e.g. health, infrastructure) where such activities are directly related to or integrated with education services. For example, integrated ECD services (education, health, nutrition, protection) would be eligible but nutrition alone would not; school infrastructure would be eligible but rural roads would not. This limitation is proposed given the strong case made by the Education Commission of the under-funding of education. There are important initiatives underway to increase funding for other related areas.

To enhance equity and inclusion in education, the Commission recommended that public financing be allocated in accordance with the principle of progressive universalism. In line with this principle, IFFEd will also support financing for post-secondary education, potentially within an agreed cap of total financing available in the replenishment period. The principle prioritizes lower levels of education, but would also support funding of post-secondary education with a focus on pro-poor investments that significantly widen access for the poor as well as facilitate structural reforms that improve the quality and relevance of higher education. The appropriate share for post-secondary education will vary greatly by country and by region.

There are a number of arguments to include financing of post-secondary education in IFFEd's programming scope, and in particular the need to develop human capital with higher level capacities and skills for growth and development. LMICs are facing a crisis in post-secondary education and are radically under-preparing young people for the world of work., Participation rates of 18-22-year-olds in post-secondary education are below five percent in some potential IFFEd beneficiary countries. No LMIC will be competitive in today's changing globalized economy without major pro-poor investments in post-secondary education, accompanied by structural reforms to improve the quality and relevance of higher education and widen access for the poor.

Box 4: How IFFEd can help Vietnam

Vietnam has made dramatic progress in education in the last 20 years: (i) growing its education budget from 7 percent of the national budget in 1986 to 20 percent in 2008 (5.3 percent of GDP), (ii) achieving near universal primary enrolment, over 90 percent lower-secondary enrolment and a three-fold increase in upper secondary enrolment, and (iii) achieving 2012 PISA scores above the OECD average.

But progress is fragile as the country loses access to concessional finance. Vietnam has already been spending 20 percent of its budget on education since 2008 and is facing a shortfall in financing that cannot be filled by increased domestic spending alone. Even if the country more than doubles its education spending between now and 2025, it will have an external finance gap of more than $1 billion by 2025. International financing for education has been falling in recent years and currently stands at $230 million annually, much below the needed amount. By aligning its financing with Vietnam's education sector plan and strong domestic investment, the Facility could help bridge Vietnam's immediate financing needs to achieve SDG 4.

As its economy evolves, together with a focus on extending quality basic education to the most disadvantaged, Vietnam is also seeking to reform, expand and upgrade its higher education system. This is in line with the principle of 'progressive universalism' put forward in *The Learning Generation*. It is seeking to transition higher education from public financing and management to a more autonomous system of financing and provision – a significant but difficult transition that carries the risk of widening inequities in higher education if poorly executed. Vietnam has accordingly prioritized higher education in its World Bank country assistance strategy. Vietnam has also expressed an interest in accessing broader support for higher education financing and reform through IFFEd.

Private sector engagement

The Education Commission's report highlights that by 2050, half of today's jobs will be replaced by technology, and new skills requirements, labor market structures, and growth models will be needed in developing countries. Demographic and economic challenges will necessitate new forms of education and training, and closer linkages with the private sector. This will require policy dialogue and advisory support – e.g. on skills requirements and qualifications frameworks and on public private partnerships (PPPs) – of the sort that many of the MDBs provide.

Discussions have been initiated with the private sector arms of the MDBs to explore how best they could contribute to inclusive and equitable quality education for all and promote lifelong learning opportunities in line with SDG 4 and the right to education. This discussion with the MDBs, followed by further discussion with the decision-makers of IFFEd, will continue during the design period and after the establishment of IFFEd.

IFFEd programs will align with MDB priorities including a focus on equity

IFFEd financing will be programmed through the MDBs and therefore be subject to their own extensive programming guidelines. All MDBs are firmly focused on poverty reduction and on equity, at the strategic level and in their operational policies and procedures. They have well-developed and well-monitored processes with regards to environmental and social safeguards. A strong comparative advantage of the MDBs lies in their *systems*-approach, which enables the MDBs to address equity and disadvantaged population groups through whole system reform, e.g. addressing how resources are allocated across the entire education system.

One important area of increased attention in MDB operations and programs is gender equity. The evolution of the international policy framework and institutional gender mainstreaming has been mirrored in the MDBs, which have all developed internal units, policies and strategies, and monitoring frameworks for gender. This includes a recognition that mainstreaming alone is insufficient to narrow persistent gender gaps, and targeted investments are needed to address disparities. MDB monitoring systems are also evolving to better measure how programs address gender issues, including through more strategic and targeted investments that address key gender gaps.

Box 5: Existing MDB programs in support of education

Improving the quality of life for all Africans is one of the **African Development Bank (AFDB)**'s key priorities. "Skills and technology for competitiveness and jobs" is the main focus of its Human Capital strategy, which promotes a horizontal and vertical approach to skills development that recognizes the respective value of all forms of education – from ECD to tertiary. Emphasis, though, is laid on vocational/technical training and scientific research/higher education, allowing for a link with the manpower needs of the sectors that drive the transformational development of Africa.

In **Eritrea**, the AfDB has focused on improving the country's low human development index rating by creating more opportunities for education through teacher training, increasing access to quality education, capacity-building and eliminating gender disparities.

The **Asian Development Bank (ADB)** provides finance and advisory assistance to its client countries for education services to tackle key challenges in: increasing enrollment (access); improving education outcomes (quality and relevance); reducing education inequality (equity and inclusiveness); and reducing costs (finance and cost-efficiency).

For example, in **Vietnam** the ADB is helping to cut barriers to lower secondary schooling for disadvantaged groups. The project funds new school facilities, teacher training, textbooks, community outreach activities and the creation of school cluster groups to boost enrolment and retention of disadvantaged students, targeting areas with large ethnic minorities and those prone to typhoons. In the **North Pacific**, the ADB is supporting the Marshall Islands and the Federated States of Micronesia to strengthen basic education by supporting teacher training, introducing new bilingual learning resources, and increasing community engagement to improve learning outcomes.

Though the **European Bank for Reconstruction and Development (EBRD)** does not have an Education strategy, its Economic Inclusion Strategy prioritizes access to employment and skills. In this context, the EBRD has strengthened its project and policy activities to enhance access to opportunity for women, youth and remote regions. It also carefully and gradually widens its inclusion approach to other groups such as refugees or Roma, in line with country priorities.

For instance, the EBRD is working closely with the Government of **Jordan** to pilot the development of 15 public schools in Amman, Zarga, and Irbid to meet the demands of the influx of Syrian refugees and replace existing sub-par educational buildings with fit-for-purpose, high quality educational facilities.

The **Inter-American Development Bank (IDB)** supports the education systems of Latin American and Caribbean countries to promote effective teaching and learning among all children and youth, ensuring that: high expectations guide education services; students entering the system are ready to learn; all students have access to effective teachers; all schools have adequate resources and are able to use them for learning; and all graduates have the necessary skills to succeed in the labor market and contribute to society.

The IDB is supporting **Ecuador** to consolidate considerable gains made by the country in education quality and coverage by providing assistance to improve school completion rates for the approximately 250,000 youth who have not finished secondary school and have been outside of the education system for over three years.

The **World Bank** takes an integrated approach to education that ensures learning across all levels of education. The bank prioritizes system quality and cohesion by focusing its operational and technical support on: 1) early childhood education; 2) integrating curriculum, instruction, and learning assessments; 3) teachers' professional development; 4) education system management; and 5) system monitoring and metrics. Many projects contain access and equity components that specifically target special education, out-of-school children, girls' education, and underrepresented or marginalized groups.

In **Pakistan,** the Sindh School Monitoring System—the country's first digital monitoring system in the education sector— is leading to the transparent and effective monitoring of staff, students and school infrastructure as a way to reduce absenteeism and other challenges faced in the area's school system. As part of the program, which was implemented in 2017, more than 210,000 teaching and non-teaching staff have been profiled using biometric information, covering more than 26,200 schools. In **Nigeria**, the Bank Group approved an additional $100 million for the State Education Program Investment Project that will contribute to the return of students—particularly girls—to schools in the North East states of Borno, Yobe, Adamawa, Bauchi, Gombe, and Taraba. Together with partners, the project will help identify out-of-school children, especially girls, and strategize on ways to bring them into school. In **Nicaragua**, the Education Sector Strategy Support Project helped certify more than 2,300 community preschool teachers—about a quarter of the national total— through a two-year training. Additionally, the project distributed 190,000 books for secondary school students in five key subjects: Spanish language and literature; mathematics, natural sciences; social sciences, and English.

C. Programming Steps

Country programming will be the responsibility of the country and the relevant MDBs active in the country. Consistent with the Paris Declaration on Aid Effectiveness, programming of the additional IFFEd resources will be based on national ownership, alignment, and harmonization. The overarching policy framework for the programming of resources will be the country's education sector plan and the policy goals of IFFEd.

The proposed programming steps aim to reflect IFFEd's characteristics as a financial mechanism that does not add unnecessarily to transaction costs while transforming MDB financing to support access, equity and enhanced learning through education systems that work effectively for everyone.

Key steps include:

a) **Initial MDB allocations for each replenishment period**. After a replenishment is agreed, in terms of both funding and policy commitments, initial allocations of grant and insurance resources for each MDB will be determined based on agreed criteria.
b) **Preparation of concept notes**. MDBs will work with eligible countries to identify programs consistent with IFFEd policy guidelines and eligibility criteria (education sector plan, ability to take on additional financing, demonstrated domestic investment and integrating results based approaches). For each proposed financing package a concept note will be prepared (or similar document in line with MDBs practices and procedures).
c) **IFFEd board endorsement of concept notes and inclusion in IFFEd pipeline.** Concept notes will be submitted to the IFFEd board for endorsement of consistency with eligibility criteria. The quality of the financing package will be reviewed in accordance with MDB's own policies and procedures.
d) **Annual review by IFFEd and MDBs of IFFEd pipeline and progress.** The MDBs and the IFFEd Administrative Unit will annually review progress in programming IFFEd resources, and will recommend to the IFFEd governing body any steps that could be taken to increase IFFEd's effectiveness and efficiency.
e) **Annual and periodic review of pipeline and progress.** IFFEd will review annually the progress in efficiently and effectively programming IFFEd resources. In addition, prior to a replenishment of IFFEd funds, an evaluation will be commissioned to provide an assessment of IFFEd's strategic results. In addition to being a monitoring tool, the annual and periodic reviews will be an important tool in creating greater awareness around MDB activities in education and enhance greater collaboration between MDBs.

See Annex 4 for a more detailed description of how funds are to programmed.

Box 6: IFFEd as a Finance Mechanism +

As IFFEd will rely upon the MDBs as implementing partners and use MDB procedures, a reasonable balance between IFFEd acting purely as an "ATM-machine" for the MDBs and contributors that set policy goals will be required to achieve shared goals.

To best achieve this balance and to maximize the impact of IFFEd, for each replenishment of IFFEd donors and representatives of potential borrowing countries would agree on a package of policy commitments and results to guide the programming of funds at the country level. The IFFEd Board would periodically review progress towards the policy commitments through annual submission of reports by the MDBs and an evaluation of each replenishment period prior to agreement on a subsequent replenishment.

IFFEd will incentivize MDB consultation and collaborative decision-making and thereby serve as a catalyst to ramp up MDB engagement in the education sector and maximize synergies for transformation. This can be achieved without adding significant administrative and transaction costs while leading to substantial value added. The

IFFEd design should ensure that the IFFEd decision and review processes and administration remain light-touch.

D. IFFEd Adherence to Aid Effectiveness Principles

IFFEd financing aims to align with key aid effectiveness principles, as outlined in the Paris Declaration on Aid Effectiveness.

a) **Country ownership**. IFFEd will not have direct relations with countries. All financing will be programmed and implemented through the MDBs. Country ownership is one of the central tenets of MDB operational procedures.
b) **Alignment.** Eligibility criteria for IFFEd financing will include the existence of a quality national education sector plan or an equivalent credible strategic framing document that will be used as a basis for IFFEd financing proposals, prepared by MDBs and country governments.
c) **Harmonization and additionality**. By using contingent financing and the MDBs' ability to leverage, IFFEd will mobilize a new stream of financing for LMICs with limited access to existing resources. IFFEd financing will be additional and complementary to existing sources of external funding. The Commission recommends donors increase education's share in ODA from 10 to 15 percent of total aid and allocate more to low-income countries. IFFEd should not negatively affect ODA already allocated for other education purposes. IFFEd will also monitor additionality within the MDB system and relative to domestic spending (see section III D).
d) **Results and mutual accountability**. Working through the MDBs, IFFEd will encourage results based approaches where appropriate. Several MDBs have experience with implementing results based programs. Recent evaluations suggest that successful results based approaches require a focus on improving the availability of national education data and strengthening capacity for system measurement and monitoring in countries.[30]

Box 7: Results based financing at Asian Development Bank

The Asian Development Bank introduced a results-based financing (RBF) instrument in June 2013 on a 6-year trial basis. ADB has so far approved nine programs using an RBF modality, worth over $1.86 billion. Education is the predominant sector for RBF, with five operations representing 46% of total funds. Education's share of the ADB's RBF portfolio is similar to the initial portfolio of the World Bank's Program for Results operations.

According to a mid-term review, early experience with RBF has been positive. RBF instruments have helped build up accountability and country ownership by placing the responsibility for achieving results on government structures rather than project

[30] World Bank Group (2017). Results-Based Financing in Education: Financing Results to Strengthen Systems.

management units, and have also lent realism to aspirational government programs through more careful analysis of the results chain. The instrument has also generated a multiplier effect, increasing ADB's leverage and development results by allowing ADB to fund a portion of government-owned programs while retaining influence over the whole program. Through the adaptation of common results-areas with other development partners, RBF has also provided a strong platform for enhanced donor coordination.

V. Legal Structure and Governance

A. IFFEd's Legal Structure

IFFEd's legal structure should contribute to the achievement of SDG 4. It is proposed that IFFED be established as an independent legal entity – i.e. as a foundation or corporation under the domestic law of a country.

IFFEd would be formed by the adoption of its constitutive documents (statutes and by-laws) by representatives of the governments accepting to participate in IFFEd and registration with the relevant domestic authority in accordance with applicable laws. IFFEd would be an independent legal entity and would have the capacity to enter into legally binding agreements. Such agreements would be governed by domestic rather than international law.

GAVI, the Global Community Engagement and Resilience Fund (GCERF) and The Global Fund to Fight AIDS, Tuberculosis and Malaria are examples of such an entity.

B. Governance and Organizational Structure

IFFEd's governance and organizational structure should reflect an appropriate balance between (1) accountability for exercising strategic oversight of a new financial mechanism – established to catalyze an increase and transformation of the engagement of MDBs in the education sector – and (2) a recognition that oversight and responsibility for operational activities that may be financed with IFFEd resources rests with the MDBs and beneficiary countries.

While IFFEd's governing body will be accountable to contributors for strategic oversight and review of IFFEd's sound financial management of its resources and consistency of its collective portfolio with IFFEd's policy commitments, its governance and organizational structure should be the minimum necessary to fulfill its responsibilities. Accountability for the operations and other activities financed through the MDBs will rest with the MDBs and the countries pursuant to the MDB's procedures.

It is proposed that IFFEd's governance and organizational structure include:

- a high-level board that would meet at least once a year to provide strategic oversight of IFFEd's efficacy as an innovative financing mechanism supporting the achievement of SDG 4;
- a standing finance committee, reporting to the board, comprised of experts with financial experience and skills, to keep IFFEd's financial policies and performance under review;
- a small administrative unit to service the board, facilitate the MDB partnership, and ensure communications and transparency;
- an MDB committee to serve as a platform for continuous MDB collaboration, engagement, and ownership;
- a trustee/treasury manager to provide IFFEd with a comprehensive set of financial services; and
- MDBs as implementing entities responsible for engaging with countries.

More details about IFFEd's legal and governance structure can be found in Annex 3.

VI. Theory of Change, Results Framework and Accountability

A. Theory of Change

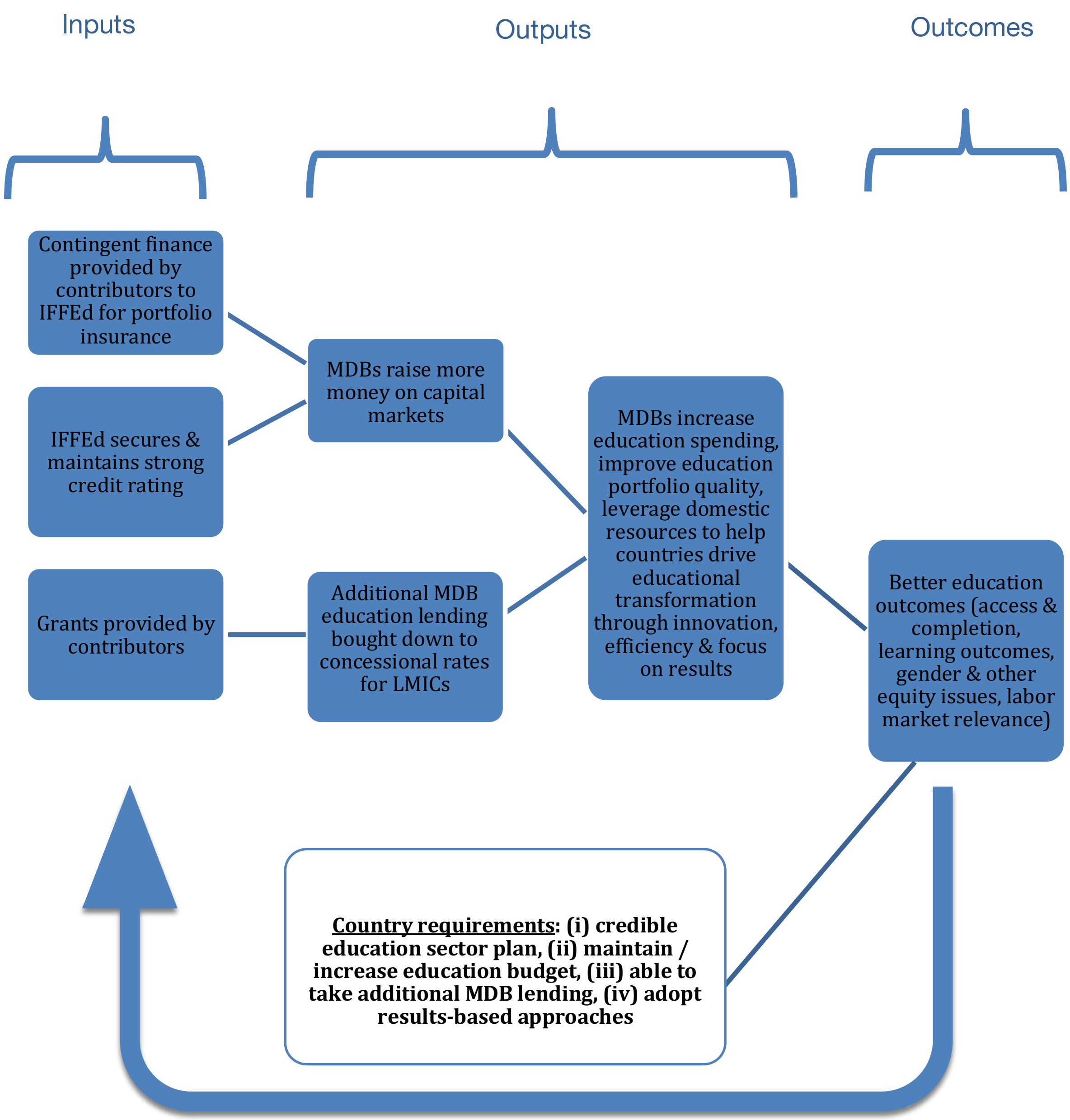
Figure 3 shows the IFFEd Theory of Change. Its purpose is: (i) to describe how the different components of IFFEd interact, moving from inputs through outputs to outcomes; (ii) to form the basis of an IFFEd Results Framework, including performance indicators mapped to the three stages of the Theory of Change; (iii) to use the Theory of Change and Results Framework for performance management and accountability.

The Theory of Change and corresponding Results Framework operate on three levels:

- **Inputs**: inputs are the responsibility of IFFEd (primarily raising contingent financial commitments and grants from contributors and deploying portfolio insurance and grant funding) and represent IFFEd's core function as a financial mechanism in support of the MDBs;
- **Outputs**: outputs are primarily the responsibility of the MDBs working with countries (raising resources on capital markets; blending grants with loans in MDB projects; delivering more and better education projects to drive results);
- **Outcomes**: outcomes are primarily the responsibility of countries working with the MDBs (delivering better and more equitable education outcomes).

The Theory of Change also includes country requirements to access IFFEd resources, included as essential components to drive education outcomes.

Figure 3. IFFEd Theory of Change



B. Results Framework

A draft IFFEd Results Framework is shown in Annex 5. It adheres to the following principles:

- *Alignment*: results should be aligned to:
    - the SDGs at the outcome level;
    - the country education sector plan and broader country strategies and plans to enhance access, learning, and equity;
    - the indicators already used by the MDBs, GPE, developing country partners, major investors, and partners, as much as possible; and
    - as far as possible, the existing mechanisms for data collection.
- *Proportionality*: acknowledging that there are considerable demands on countries, and that MDB implementing partners have existing data requirements, indicator selection should be prioritized and proportionate.
- *Evaluability*: results should be mapped to an IFFEd Theory of Change that shows how IFFEd works, provides a framework for managing delivery and associated risks, and provides the basis for evaluating IFFEd.
- *Mutual Accountability*: we should foresee accountability mechanisms for these results (e.g. annual reporting, evaluation), so that not only MDBs and countries are held accountable for use and results of IFFEd-backed resources, but IFFEd is accountable to its beneficiaries, partners, and funders (see next section).
- *Additionality*: The Results Framework should clearly track the additionality of IFFEd, including additionality of: (i) IFFEd as a financial mechanism (contingent financial commitments and grant funding raised), (ii) the MDBs (additional capital raised and total expenditure on education, with a target of doubling MDB expenditure on education in an initial period), and (iii) countries (domestic expenditure on education).

Annex 5 illustrates in broad terms what may be included in a results framework for IFFEd. Recognizing that the international community has conducted three highly inclusive and detailed processes of education indicator selection in the last two years – the education SDGs, the GPE results framework, and the ECW results framework – maximum alignment between the IFFEd results framework and these indicators is proposed.

Guidance will be sought from the MDBs on how to synchronize IFFEd-funded MDB program-level results with aggregate IFFEd results. Although IFFEd is a financing mechanism with no in-country operations, IFFEd aims to not only provide more resources for education, but also to catalyze MDBs' help to countries with reforms for enhanced learning, equity, and access. It is thus important that the results framework include indicators of education quality.

C. Accountability

For programs funded by IFFEd, the countries and the MDBs will be expected to follow the monitoring and evaluation procedures of the implementing MDBs. The IFFEd results framework will set baselines and targets for improved reporting.

MDBs will be responsible for reporting on lending, portfolio quality and results frameworks, and this information will provide the basis for IFFED oversight. In order to reduce transaction costs, IFFEd should restrict requests for additional data and reporting to what is needed to assess whether IFFEd is meeting its goals. MDB portfolio reports and reports on results framework(s) would feed into broader MDB self-reporting as described below.

Each MDB will be requested to submit an annual report on IFFEd-funded activities, funding, and results (consistent with results framework). These reports will be submitted to the IFFEd governing body responsible for IFFEd oversight.

The IFFEd administrative unit should produce an annual IFFEd report, building on MDB annual reports. This report will be made publicly available.

Prior to a replenishment of IFFEd funds, an external evaluation of IFFEd should be commissioned, including its governing bodies, administrative unit, MDBs' engagement, the portfolio and results to date (which in the initial evaluation would be too soon to assess outcomes). The reviews should provide an objective assessment of the strategic results of IFFEd and its effectiveness and efficiency. A major purpose of the review should be to contribute to the identification and dissemination of knowledge and lessons learned.

Making these reports and other IFFED decisions and decision-making documents publicly available will ensure transparency and accountability of IFFEd. At the country level, MDB procedures for consultation and information dissemination on MDB and government activities will be followed to provide accountability to national stakeholders.

VII. Treatment of Contingent Financing and ODA Eligibility

Contingent Financing and National Accounts

Each donor will need to make a decision as to how it treats contingent financing, such as guarantees, provided to IFFEd in national accounts. For European countries, recommendations of Eurostat can be used as a reference point. Its regulations suggest:

- **IFFEd contingent liabilities would not be treated as debt**, since the guarantees provided by European governments to IFFEd are contingent liabilities. The liability would only be registered in government accounts if (i) developing countries benefitting from MDB loans underpinned by IFFEd do not fully meet the resulting obligations from these loans, and (ii) as a result of these missed payments, IFFEd in turn requests the contributor countries to honor the guarantees they provided to IFFEd.

- **European donors to IFFEd would have to include these contingent liabilities to IFFEd in the list of contingent liabilities that they periodically provide to Eurostat** (if they are of sufficient size). If non-conditional, these liabilities would only be counted as expenditures (funded either from ordinary revenues or from sovereign debt issuance) when IFFEd requests donors to honor their contingent liabilities. If the liabilities were conditional, they would be counted as expenditure only when the conditions are met and the government releases funds to IFFEd.
- **There are no ceilings on the issuance of non-conditional and/or conditional liabilities in the European Growth and Stability Pact**. Governments would follow their national legislations with regard to whether to seek prior parliamentary approval when these contingent liabilities are issued to IFFEd. Some European governments may have policies that seek to mitigate the financial risks of such liabilities, including requirements on provisioning. Subject to the specifics of these policies and practices, such provisioning would not likely be counted as net debt.

IFFEd Contributions and ODA Eligibility

Given that IFFEd's activities will be developmental and for the benefit of countries on the DAC List of ODA Recipients, grants to IFFEd should count as ODA. IFFEd would apply to be included in the list of ODA-eligible international organizations.

Contingent liabilities/guarantees are currently not reported in DAC statistics. However, there are two exceptions. The part of the liabilities/guarantees that is paid in would be treated as ODA as would guarantees that are called. If any money is paid back to IFFEd but not to the donor, then the grant remains an ODA contribution.

Finally, through its Total Official Support for Sustainable Development (TOSSD) initiative, OECD-DAC has an ambition to give recognition to countries using guarantees as part of development assistance. The TOSSD standard is being developed by an intra-agency task force.

PART 2 - Technical Annexes

Annex 1: Financial Business Model

MDBs borrow in capital markets and provide financing equal to several times their paid-in capital while retaining their AAA rating. This makes MDBs excellent institutions to provide development finance, including in education. However, they face two challenges: limited capital as compared to the overall financing needs to achieve the SDGs in developing countries and limited demand for non-concessional financing for education.

- **Insufficient capital to achieve the SDGs.** Some MDBs have limited capital that constrain their supply of education financing. The three MDBs that are the most supply constrained as compared to potential demand are the African Development Bank, the Inter-American Development Bank, and the World Bank (IBRD). Even with critically important efforts and agreements to increase capital for any one of these MDBs, there is still significant need for expanding MDB lending to fully finance SDG4.

- **Current demand limited due to structural challenges.** As countries (and in particular lower-middle-income countries) transition from concessional lending to non-concessional financing, they go through a period of reluctance to borrow for education at available rates. Rates on financing packages can be as high as LIBOR +1.5% from official MDB and bilateral sources and significantly more from other lenders, particularly for longer maturity loans. While MDB rates are very competitive compared to other lenders, the returns to education only materialize over the longer term. As a result, there is low demand among LMICs to borrow for education at prevailing MDB interest rates, in particular in countries transitioning from concessional to non-concessional finance.

IFFEd will seek to maximize the ability of the MDBs to leverage funds on the capital markets thus maximizing the ability of the MDBs to offer new education financing. It will address the dual constraints of limited capital and limited demand through:

- **Portfolio Insurance**: insuring MDBs' loan portfolio as a tool to generate additional lending capacity. IFFEd will not guarantee individual education loans but provide loss insurance across the whole portfolio of an MDB. Providing portfolio insurance across a bank's diverse portfolio, as opposed to one sector or set of loans, will allow the IFFEd portfolio insurance to be as similar as possible to paid-in capital. In this way, the insurance will enable MDBs to obtain a high level of leverage by borrowing (issuing bonds) funds on capital markets several times the value of the insured amount and offering these funds in the form of new education financing.

- **Provision of grants:** reducing the price of financing packages to LMICs (better effective loan terms) with the result that lower-middle-income countries will be more likely to borrow for education.

The combined outcome will increase both the quantity of education financing offered and the demand (by borrowing countries) due to resulting improved concessional terms. It is essential that IFFEd targets both goals simultaneously to attain the maximum impact on education and learning.

To carry out these activities, IFFEd will need to mobilize two sources of financing from sovereign and non-sovereign contributors. First, it will need sovereign contingent financial commitments, which may take the form of guarantees, combined with some cash to underpin the portfolio insurance provided to the MDBs. Second, it will need grants from sovereign and non-sovereign contributors to blend with MDB loans.

Portfolio insurance mechanism

As noted above, IFFEd will insure the MDBs' loan portfolio as a tool to generate additional lending capacity. It will not guarantee individual education loans but provide loss insurance across the whole non-concessional lending portfolio of an MDB. This will enable MDBs to borrow (issue bonds) funds on capital markets, obtain a rate of leverage several times the value of the insured amount, and offer these funds in the form of new education financing.

To ensure that this additional capacity is used for education, IFFEd will only issue the insurance when the MDB makes an additional loan in support of education, with the amount of insurance being based on the amount of the education loan in accordance with the leverage ratio agreed with the MDB.

The main elements of the proposed portfolio insurance to provide MDBs with additional lending capacity through a form of quasi-equity are described in this section.

Characteristics of the portfolio insurance

Some key properties of the portfolio insurance are:

- IFFEd's insurance will cover the entire outstanding loan portfolio of the MDB, excluding loans already in non-accrual at the time of contract effectiveness.

- IFFEd would make the insurance effective at signature of an education loan to be included in the IFFEd pipeline [i.e. a Qualifying Education Loan]. IFFEd will provide insurance equal to the loan amount/leverage factor, the leverage factor being the dollars of additional lending that MDBs are able to mobilize with a dollar of IFFEd insurance.

- The design of the instrument is intended to be such that MDBs will be able to treat the portfolio insurance as a quasi-capital instrument whose effect is to permit an incremental amount of lending commitments by the MDB of amounts in excess of the nominal amount of the portfolio insurance at a particular ratio (the "Leverage Ratio"). The Leverage Ratio will be determined solely by the MDB based on its own capital adequacy framework and according to its own policies and procedures which will be based on a number of factors including, but not limited to, the treatment of the instrument in risk-adjusted capital calculations by credit rating agencies.

- Insurance Coverage Amount (in USD) = Amount of Qualifying Education Loan (in USD)/ MDB Leverage Ratio. The insurance will be denominated in USD.

  As an illustration:

  - Upon a Qualifying Education Loan of USD [X] million [coming into effect], IFFEd will provide portfolio non-accrual risk insurance coverage in the amount of USD [Y] million.
  - Where Y is the 'Insurance Coverage Amount' as calculated in the formula above and represents the maximum insurance payment amount payable by IFFEd under this particular insurance contract.
  - Upon the occurrence of a Portfolio Insurance Trigger Event (as defined below), IFFEd will pay [Z] % of any principal, interest, or other payments owing to a MDB as at such date up to a maximum of USD [Y] million. Where Z = [100% if payments are to be made on a first-loss basis]/[a lower % if payments are on a pari-passu basis]. [Under discussion with the MDBs; this may be different for each bank]

During an annual pipeline review, the MDBs will assess marginal impact on portfolio credit risk of the additional lending underpinned by IFFEd insurance. On this basis, each MDB would fix the leverage factor to be applied for that year. Only exceptional events during the year would lead to a change in the leverage factor (e.g, a downgrade of IFFEd's rating). This is still being discussed with the MDBs.

Each MDB will continue to remain the lender of record on all of its loans in the MDB insured portfolio and will continue to apply all of its respective terms, conditions, policies, and procedures in respect to such loans.

Since the effectiveness of the portfolio insurance for each MDB is subject to whether and how it is treated as quasi-capital by S&P and Moody's, coordination between the MDBs and IFFEd will be required in any rating agency discussions in this regard.

In addition, in the event of any changes to the rating agencies' policies, assessments, or ratings with respect to the treatment of the portfolio insurance quasi-capital instrument, each MDB reserves the right to review/modify the terms of the portfolio insurance, as does IFFEd.

Portfolio insurance trigger event

IFFEd insurance will only be called if there is a credit event in any loan of the reference portfolio. This is when any loan in the MDB insured portfolio is declared by the MDB to be in non-accrual status (generally defined across MDBs when interest and/or principal is more than 180 days late) in accordance with each MDB's definition of 'non-accrual status'. Irrespective of IFFEd's payout, MDBs will apply all standards policies and remedies for loans in non-accrual status.

To avoid real or apparent conflicts of interest, IFFEd will define, after consultation with the rating agencies, automatic triggers for calling contingent commitments from contributors with little or no discretion as required to maintain IFFEd's risk-adjusted capital adequacy ratios after a loss.

Insurance payment amounts

IFFEd will be partially immunizing MDBs' balance sheet from losses as a result of non-accruals.

IFFEd will make payment to cover a share of late interest, and possibly late principal. Depending on the MDB's capital adequacy methodology and whether the MDB writes off the loan (something which has never happened), potentially only late interest would be paid. For example, IADB would require only late interest to be paid unless loans in non-accrual are written off.

IFFEd will cover all interest accrued up until that point, including those that are less than 180 days late. The accounting treatment by MDBs of non-accrual implies that MDBs reverse all income accrued up until that moment in time and recognize interest on a cash basis only. IFFEd's obligations will not apply to principal or interest that have not yet become outstanding even if a country is in non-accrual status. IFFEd's insurance does not cover interest on interest.

As further loan payments become late, IFFEd would make further additional payments to the MDB up to the full amount of IFFEd's insurance obligations.

IFFEd is discussing with the MDBs two alternatives with regard to how much of the loss to pay, a pari-passu approach and a first loss approach, depending on the capital adequacy methodology and other requirements of each MDB:

- Pari-passu response. IFFEd will only pay, for each credit event, the ratio: [(total insurance)/(capital of MDB + total insurance)]. For example, if total MDB capital is $30 billion, total insurance provided is $3 billion, and there is a $10 million credit event, IFFEd will only be liable for $909 thousand.
- First loss response. In this case, IFFEd would be responsible for $10 million in the example above.

Insurance payment timing and process

Upon the occurrence of a portfolio insurance trigger event, the MDB will submit a claim(s) to IFFEd stating the nature of the trigger event and the amount being claimed. IFFEd will have an agreed number of business days to make a payment to the MDB in respect of such claim.

Given that additional late debt service payments may accumulate every month after a country goes into non-accrual, it would be useful to reduce transaction costs that

MDBs agree on a quarterly schedule for IFFEd to meet its obligations. For each loan in non-accrual status there could potentially be up to 24 missed payments in one calendar year and therefore potentially 24 claims under the portfolio insurance in any year.

Term of IFFEd portfolio insurance

The terms of the insurance contract will need to be designed to ensure the insurance product can be treated as quasi-capital. To that end, given that IFFEd will insure the entire portfolio of an MDB, each insurance contract signed with an MDB will have a term equal to the average maturity of the MDB insured portfolio at the effective date of the coverage, with a right to extend the term to cover the duration of any loan in non-accrual in the event of any portfolio insurance trigger event occurring during the term.

Recovery of Proceeds

The MDB is the lender on record for all loans, and the MDB will be responsible for the recovery of all late principal and interest. Payment by IFFEd to an MDB with respect to a loan in non-accrual status will not discharge the obligation of the borrower under the loan to make payment of such amount to the MDB. The MDB will remain the lender of record for the loan and shall continue to seek payment of all amounts owed by the borrower in accordance with the MDB's policies and procedures. IFFEd will not have the right to seek any payment from the borrower. IFFEd's only recourse will be against the MDB. In the event the MDB is unable to recover payment from the borrower, IFFEd will not be entitled to payment from the MDB or the borrower and would incur a loss.

Countries will remain in non-accrual status and all MDB remedies will be applied until all late payments are fully recovered.

In case of a recovery, IFFEd will receive its share of the recovery proceeds of the loan after the missed payment or loss is fully recovered by the MDB.

In order to reassure MDBs and other creditors that contributors to IFFEd are not benefiting from the preferred creditor treatment (PCT) of MDBs, cash received by IFFEd from recovery efforts will not be returned to donors but remain on its balance sheet and be available for future use by IFFEd. When IFFEd is wound up, the recovered amounts that have not been used by IFFEd will be returned to the MDBs and held for use to support education in LMICs eligible for support from IFFEd..

Insurance premium to be paid by the MDBs

Since IFFEd is incurring risk by insuring the MDB's portfolio, IFFEd will charge the MDB an insurance premium based on the outstanding insurance coverage and the nature of IFFEd's obligation with MDBs (e.g., first loss or pari passu). The amount is still under discussion with the MDBs.

IFFEd will use the proceeds to pay for administration costs and provisioning.

The charge will have a small impact on MDB revenues and should not imply an increase in MDB pricing to client countries. The charge per dollar insured shall be the same for all MDBs.

Capital Structure

In order to obtain a AAA rating, IFFEd's capital structure will include two types of contributions:

- Liquid assets in the form of paid-in cash contributions; and
- Guarantees or other similar legally binding and enforceable contingent financial commitments which would be contingent liabilities and be triggered only in the event of an MDB portfolio trigger event or in the event of a need for additional liquidity to maintain IFFEd's credit ratings or to maintain covenants with any MDB.

The proportion of contingent financial commitments and paid-in capital contributions from contributors will be determined at IFFEd's incorporation based on rating agency requirements/assessments to secure a AAA credit rating for IFFEd, including any additional liquidity that may be required to insulate IFFEd from subsequent credit rating downgrades of its contributors.

Nature of guarantee or contingent financial commitment

The contingent financial commitments from contributors will need to be legal, valid, binding, and enforceable by IFFEd in order to provide firm commitment of funding needed to allow IFFEd to issue portfolio insurance policies with a long tenor and to enter into grant agreements with the MDBs and other potential clients.

It will be necessary that:

- Contributor contingent commitments have a tenor equal to the average maturity of the MDBs' portfolios (equivalent to the tenor of IFFEd's insurance obligations). Large mismatches in tenor between assets and liabilities on IFFEd's balance sheet would be difficult to manage and prevent IFFEd from maintaining a strong credit rating.
- Contributors should make their contributions in US dollars to avoid currency mismatches in IFFEd's balance sheet. This approach is the most efficient option to cover IFFEd's foreign exchange risk although there are other means to protect IFFEd's rating from forex risk. For example, IFFEd could reduce its own leverage, so that IFFEd has a buffer by contributor commitments being larger than the insurance provided at any moment of time.

Cash requirements to support the guarantees and for liquidity management

Over and above the grants required to make MDB financing more concessional, as noted above, IFFEd will hold cash on its balance sheet to meet liquidity requirements and to manage operational risk resulting from possible delays in donors meeting guarantee obligations. Cash holdings will also reduce IFFEd's dependence on contingent commitments from contributors and strengthen its rating, other things being equal.

IFFEd is planning to hold cash at least equivalent to one year's expected loss but this amount may be increased after discussions with rating agencies and stress test results. IFFEd will also provision over time for expected losses.

Cash requirements are expected to be small because non-accrual events in MDBs are small and infrequent and because the insurance provided at least in the initial period by IFFEd to the MDBs will not represent a significant share of MDB capital. There has not been a single non-accrual event in the IADB for the last 17 years, while the share of the portfolio in non-accrual at the World Bank is currently 0.25%. Given this strong credit history and preliminary stress tests, IFFEd could require between 10 to 15 percent of contributions to be in the form of cash.

Furthermore, IFFEd will request that the lower the rating of the sovereign, the higher the share of cash versus contingent commitments in the financing packages provided to IFFEd by these sovereigns.

Finally, IFFEd will also request that contributors be ready to convert a further share of their contingent commitments to cash if the sovereign contributor is downgraded after their initial contribution to IFFEd. The purpose of this is to insulate IFFEd's rating, to the extent possible, from potential downgrades of key sovereign donors.

Grant or concessional financing window

As noted above, the second financial goal of IFFEd is to provide grants to reduce the price of financing packages (better effective terms) with the result that lower-middle-income countries will be more likely to borrow for education.

Scope of the grant financing

IFFEd will provide a percentage share (the "Concessional Financing Rate") of the overall financing package for an MDB education loan that meets the Concessional Financing Criteria (a "Qualifying Education Loan") below as an upfront grant. This upfront grant amount will have the effect of increasing the concessionality of qualifying education financing to LMICs.

A borrowing country will sign a package agreement with an MDB, which would include both the loan agreement and an accompanying grant agreement. IFFEd will sign a back-to-back grant disbursement agreement with the MDB. Disbursements by the MDBs of the grant funding to the borrowing country will be pari passu to the disbursements of loans and would follow the same disbursement rules.

Concessional financing rate

IFFEd will determine, based on grant contributions, the *average* share of grants in a financing package that will be the same for all MDBs. MDBs, however, would retain flexibility in determining the specific level of concessionality in any individual financing package (see annex 2). On average concessionality for IFFEd supported education programs in LMICs is likely to fall between two benchmarks:

- Level of concessionality equivalent to IDA Soft/Standard terms or a grant element of at least 50 percent. Softening the financing package to such terms would require, at today's interest rates and using standard IMF discount rates, a package with 20-25 percent of financing in the form of grants and the residual in the form of a loan at standard IBRD terms. The level of concessionality of IDA soft terms will serve as a ceiling for IFFEd; IFFEd supported education programs will not be more concessional than IDA.
- Level of concessionality equivalent to IDA Hard terms or a grant element of at least 35 percent. Softening the financing package to such terms would require, at today's interest rates and standard IMF discount rates, a package with 10-15 percent of financing in the form of grants and the residual in the form of a loan at standard IBRD terms.

Once agreed, the share of grants in the financing package will not change over the life of the loan. This implies that interest rate risk will be borne by the borrowing countries since MDB pricing is LIBOR based.

Disbursement of concessional financing

IFFEd will disburse up front the Concessional Financing grants to MDBs prior to effectiveness of a Qualifying Education Loan and upon signature of such loan by the country and the MDB. Concessional Financing grants that are disbursed to MDBs will be managed by such MDBs until they are disbursed jointly with the Qualifying Education Loan on a pari passu basis. The interest earned on Concessional Financing grant balances prior to disbursement will accrue to IFFEd.

Annex 2: Approach to Estimate the Grant Share in an IFFEd Financing Package

This note summarizes the main conclusions of the MDB/Education Commission working group on the proposed grant window of IFFEd for sovereign borrowers. In particular, this note lays out the key principles and agreements and the remaining issues to be resolved. It should be read together with the note on programming prepared by the working group, provided as an annex to the IFFEd term sheet. Its purpose is to develop a preliminary approach supported by the Education Commission and the MDBs regarding the grant component of an IFFEd-supported financing package.

1. **Rationale and Objective for the Grant Component**. Many LMICs are reluctant to borrow MDB resources at non-concessional terms to finance education programs. By combining a grant with non-concessional MDB resources, LMICs will effectively be able to fund education programs at more favorable terms than they would if they funded the whole program with only a MDB loan. The more favorable terms will increase LMIC demand for MDB loans and lead to an expansion in the provision of education services in these countries. How much of an incentive is needed is currently unknown. Hence, IFFEd's grant component does not attempt to soften the MDB terms to achieve a particular target benchmark (such as IDA credit terms) but rather to provide sufficient incentives for LMICs to increase their borrowing for education.

2. **Grant Window Funding Target**. The IFFEd grant window is likely to be more constrained in terms of funding than the insurance component since it will require more paid-in cash contributions from donors. The working group has agreed that IFFEd should have an initial target for the grant amount to be included in IFFEd-supported financing packages. A target would give potential contributors to the grant window more clarity on the target effective terms of IFFEd financing packages and on the grant amounts required to achieve such terms. Fund replenishment targets and the resulting transparency would likely lead to higher contributions. However, if the target is not achieved, in particular during the establishment of IFFEd, it may lead rating agencies to question donor support for the facility and potentially assign a lower rating to IFFEd. Therefore, the target should be carefully calibrated and realistic, taking into account donor support expressed during consultations.

   Grant Equivalence of the Target Financing Package. Given that the non-concessional terms at which MDBs provide eligible LMICs financing are all different, a relatively simple approach that could be used to establish a target grant share would have three steps:

   - First, estimate the grant equivalence of the most common terms at which LMICs borrow for education from the MDBs' non-concessional windows. This seems to be IBRD loans with flexible spreads and base interest and around 25 years maturity. These

        terms need to be checked. See discussion on what discount rate to use below.
    - Compare such equivalence with that of frequent benchmarks that contributors use such as (1) IDA credit regular terms and hard terms and (2) the grant share that would be required to achieve concessionality at current interest rates using the OECD methodology (currently 25% at 10% discount rate but the methodology will be revised in the near future).
    - IFFED and MDBs would propose a target grant share that balances a realistic assessment of potential contributions with an initial MDB assessment of the incentives required to significantly increase the demand for education programs by LMICs.
3. **Grant Ceiling**. For IBRD IFFEd-supported funding packages, the grant equivalence of the blended finance will not be larger than that of a standard IDA credit. Other MDBs that may blend grants from internal sources with non-concessional loans in selected eligible LMICs may supplement these internal grants with the grants provided by the IFFEd window. It was unclear whether the other MDBs would wish to establish a similar ceiling.
4. **Determining the Grant Share of a Financing Package**. Once the grant contributions are received from donors, the question is how and in what share would these grants be blended with the MDB non-concessional loans. There is consensus on the following:
    - That the first step in this process is to distribute to participating MDBs the IFFEd grant funds using the methodology set forth in the programming paper.
    - That all received grants should be distributed during the replenishment period. The average grant share would hence be equal to:

      total grant amount/(total grant amount + total MDB loans expected) where the total MDB loans expected is equal to the sum of contributions for the portfolio insurance window times the weighted average of the MDB leverage ratios.

    - That MDBs should have flexibility in deciding what share of each financing package should be grants. This would allow MDBs to differentiate between countries taking into account differences in debt sustainability prospects and demand for borrowing for education. MDBs are considering applying the same grant share across groups of countries to avoid some of the questions that could arise among donors and recipients on why countries are treated differently. For example, using the new World Bank pricing for MICs, and assuming that IFFEd eligible countries fall into more than one category, IBRD could establish different grants shares for each pricing category but with the share for all countries within a category being the same.
    - Each MDB would establish the criteria for how they would set the grant share and present these to the IFFEd Board together with the methodology for determining the leverage ratio (see term sheet and programming note).

5. **Disbursements**. The grants will be disbursed pari passu with the MDB loans although there have been some concerns raised by ADB on their ability to be able to exactly fulfill this principle because of their disbursement rules.
6. **Non Sovereign Clients**. The methodology to support the financing of non sovereign actors in the education sector will be determined independently at a later stage.
7. **Discount Rate**. It has not yet been agreed what is the best discount rate to use in determining grant equivalence. The following rates have been proposed: LIBOR, the IMF discount rate of 5% and the OECD methodology.

Annex 3: Legal and Governance Structure

Legal Structure

It is proposed that IFFEd be established as a foundation or corporation in a tax efficient jurisdiction acceptable to the establishing parties and participating MDBs. IFFEd would be formed by the adoption of its constitutive documents (charter/bylaws) by representatives of the governments accepting to participate in IFFEd and registration of IFFEd with the relevant domestic authority in accordance with applicable laws. IFFEd would be an independent legal entity and would have the capacity to enter into legally binding agreements. Such agreements would be governed by domestic rather than international law.

GAVI, the Global Community Engagement and Resilience Fund (GCERF) and The Global Fund to Fight AIDS, Tuberculosis and Malaria are examples of such an entity. All have been established as non-profit foundations under Swiss law and benefit from headquarters agreements, tax agreements and agreements on privileges and immunities concluded with the Swiss Federal Council, and are recognized as intergovernmental institutions by Switzerland.

It is proposed that IFFEd contract with an existing organization to provide a comprehensive set of financial services (Treasury Manager/Trustee).

As was done initially when establishing the Global Fund to Fight AIDS, Tuberculosis and Malaria, IFFEd could consider entering into a contractual arrangement with an existing organization or organizations to provide administrative services and facilities so as to expedite IFFEd's establishment and cost-effective administration.

Establishing IFFEd as an independent entity would facilitate a strong credit rating and necessary contractual arrangements with MDBs for portfolio insurance. Establishing IFFED under domestic law, as opposed to as a new international organization, will take less time and should be more cost-effective.

As an independent entity IFFEd would have visibility, and the authority and independence to achieve its strategic objectives. IFFEd could more readily adapt to changing circumstances and provide more flexibility in entering into arrangements with other entities in response to emerging needs.

Governing Body

Composition of IFFEd's governing board will be guided by the requirements of IFFEd's jurisdiction of incorporation. An initial proposal is for a two-tiered governance structure:

a) A governing board with high-level representatives of contributors as voting members. The Board Chair would be an eminent, independent Chair.

Representatives from participating MDBs and selected beneficiary countries would serve as non-voting board members.

b) A standing finance committee to the Board.

The functions of the Board would include:

a) approving the general policies of IFFEd;

b) providing strategic oversight of IFFEd's efficacy as an innovative financing mechanism supporting the achievement of SDG 4;

c) approving the list of LMICs eligible to receive IFFEd financial support and notional allocations of IFFEd resources to the MDBs for each replenishment period;

d) endorsing concept notes for proposed education financing packages as consistent with IFFEd eligibility criteria;

e) annually reviewing annual reports of IFFEd and of the MDBs

f) considering any recommendations of the MDB Committee concerning MDB allocations and any recommendations of the finance committee concerning IFFEd's financial sustainability ;

g) initiating and approving replenishment negotiations; and

h) arranging for periodic independent evaluations of IFFEd.

The Board would have authority to establish committees and to delegate to committees such powers, duties and functions as the Board decides. The committees would be accountable to the Board, and the Board would have the authority to make final decisions should it disagree with a decision or recommendation of a committee.

To provide additional expert-based decision making, it is proposed there be a standing finance committee. A majority of the members of the finance committee could be independent experts with finance/investment skills and experience. The committee could also include expert representatives of contributor countries. Appropriate experts from the MDBs would also be invited to participate in the finance committee.

The finance committee would be responsible for keeping IFFEd's financial policies and performance under review and for recommending to the Board amendments or additions to such policies and alerting the board of any strategic concerns.

Administrative Unit

A small administrative unit of approximately 10 staff would be established, headed by a chief executive officer. It will operate according to two principles. First, the unit should be self-sustaining. The administrative costs of IFFEd should be financed through the earnings of the facility (portfolio insurance fees and investment earnings). Second, the administrative structure should be lean, recognizing that this is a financial mechanism that will have no operational functions, since the MDBs will be accountable for the operations funded by the IFFEd resources.

The administrative unit would be responsible for: (a) servicing the IFFEd governing Board and its committees and fulfilling functions assigned to it by the Board, (b) ensuring regular information sharing with the MDBs, contributors, and client countries, (c) building trust and facilitating collaboration and collective oversight with the MDBs, (d) convening and chairing meetings of the MDB Committee, (e) collaborating with the Trustee/Treasury Manager and the MDBs to maintain oversight of IFFEd resources and programming, (f) collaborating with other partners, (g) sharing knowledge and reports, including through the preparation and publication of an annual consolidated report on IFFEd – financing, funded activities, performance, and lessons, (h) mobilizing resources through periodic replenishments, and (i) representing IFFEd externally.

MDB Committee

If IFFEd is to facilitate collaboration and partnership among the MDBs and to capitalize upon its potential to catalyze greater engagement of the MDBs in the education sector, it will need to create a platform for continuous MDB collaboration, engagement and ownership. It is proposed that an MDB Committee be established as a vehicle to facilitate frequent discussions and collective oversight of IFFEd. A key responsibility of the IFFEd administrative unit will be convening MDB Committee meetings and facilitating MDB collaboration.

The MDB Committee is expected to operate as a constructive, cooperative group to collectively contribute to the management of IFFEd and to discuss strategic issues and alignment of MDB activities. While most meetings will be held virtually, occasional in-person MDB partnership meetings can contribute to building strong collaboration.

With respect to maximizing the use of IFFEd’s resources and coordinating programming, the MDB Committee will collectively keep track of proposed concepts for IFFEd financing packages, and efficient and effective allocation and use of IFFEd resources through pipeline review and resource management. It will also share and assess key lessons and experience. A review of allocations and active management of the pipeline should be regularly undertaken by the MDB Committee as more information on demand, supply and use of IFFED funds become available.

The IFFEd administrative unit will work with MDBs to convene annually or semi-annually a senior level meeting (at the level of Vice-Presidents) to review the activities being developed with IFFEd funding and to agree on strategic approaches to improve its effectiveness and results.

Trustee/Treasury Manager

It is proposed that IFFEd contract with an international financial institution to provide financial management services. The World Bank has extensive experience in providing such services to a number of independent international financing entities, including The Global Fund to Fight AIDS, Tuberculosis and Malaria and IFFIm, and the parties establishing IFFEd may wish to invite the World Bank to provide similar financial management services to IFFEd.

The trustee (treasury manager) may be responsible for a comprehensive set of financial services, including:

a) holding and disbursing IFFEd funds,
b) developing, in consultation with the finance committee and the MDB Committee, and executing financial strategies,
c) working with MDBs on financing flows and funding,
d) liquidity and investment management,
e) risk monitoring and asset-liability management,
f) tracking of contributor commitments, and
g) accounting and financial reporting.

Implementing Entities

The implementing entities would be those MDBs that agree to work with IFFEd to provide additional financing for education with IFFEd support. National development banks and other entities that provide financing for education could potentially also be considered for approval as implementing entities in accordance with criteria adopted by IFFEd's governing body. The implementing entities would be responsible for engaging with countries, including in the preparation of financing packages for programs and activities proposed to be supported by IFFEd, and supervising implementation of agreed investments and activities following the implementing entities' normal policies and procedures. The implementing entities would be responsible for reporting to the IFFEd Board, through the administrative unit and trustee, on the use of resources received by them from the trustee and would be accountable to the IFFEd contributors for the appropriate use of such funds.

The implementing entities will work with the governments of beneficiary countries to develop and supervise the implementation of education financing packages aligned with the country's education sector plan. In so doing, the MDBs will follow their procedures and safeguard policies, including those for stakeholder engagement and consultations at the country level.

Annex 4: Programming Steps and Allocation of Funds

As a financial mechanism to leverage additional finance for providing scaled-up, transformational support for education through the MDBs, IFFEd will rely, to the greatest extent possible, on the procedures and processes of the MDBs. In this way, it aims to promote efficiency and reduce transaction costs, consistent with agreed principles of aid effectiveness and with incentives for MDB “ownership” of IFFEd objectives.

Strategic considerations

There is a need to strike a reasonable balance between (a) encouraging strong buy-in from the MDB partners, who will be responsible for working with countries to prepare and implement programs using IFFEd resources, and (b) linking increased finance through IFFEd to transformational goals and improvements in MDB and country programs.

The governance instrument establishing IFFEd will set out its goals, objectives, and broad parameters for programming. In addition, it is expected that IFFEd contributors and MDBs will agree upon a set of policies, parameters, and criteria for the use of IFFEd funding when discussing and agreeing on each new funding cycle (i.e., a replenishment period).

Programming steps

The proposed programming steps aim to reflect IFFEd’s characteristics as a financial mechanism that does not add unnecessarily to the processes and transaction costs of the country or the MDBs while contributing to the transformation of MDB financing to support access, equity and enhanced learning through education systems that they work effectively for everyone.

I. Initial MDB allocations for each replenishment period

After a replenishment is agreed, in terms of both funding levels and policy commitments, MDBs will consult and jointly recommend to the IFFEd Board notional initial allocations of grant and portfolio insurance resources for each MDB, based on agreed criteria and not to exceed collectively liquid and non-liquid assets of IFFEd. The MDB working group is currently developing such criteria.

The IFFEd Board will review and endorse the recommendation prepared jointly by the MDBs. The IFFEd Board will also endorse a list of countries falling within the scope of IFFEd. Such countries are those countries that are able to receive non-concessional lending from any of the MDBs and whose GNI per capita does not exceed the upper limit determined by the World Bank for LMICs (currently $3955). This list will be reviewed and revised, as appropriate, each year by the IFFEd Board taking into account updated information provided by the MDBs (including updated World Bank information on the LMIC upper limit for GNI per capita).

II. Preparation of concept notes

The MDBs will work with eligible countries to identify financing packages to support education consistent with IFFEd policy goals and requirements.

For each MDB proposed financing package, the MDB will prepare a concept note (or similar document consistent with the MDBs standard practices and procedures). The concept note will, in addition to the information required under MDB procedures, include in an annex or a cover letter an explanation as to how in its determination the beneficiary meets the IFFEd eligibility criteria. The following country eligibility criteria are currently proposed: (a) a national education sector plan or an equivalent credible strategic framing document,[31] (b) ability to take on additional lending through the MDBs (focused on debt sustainability and not MDB implementation capacity), (c) country agreement to increase or maintain its domestic education budget moving towards international standards[32], and (d) increasingly integrating results-based approaches into the lending packages.

III. IFFEd Board Endorsement of Concept Note and inclusion in IFFEd pipeline

Concept notes for financing packages will be submitted to the IFFEd Board for endorsement of consistency with IFFEd eligibility criteria and confirmation of availability of resources. The IFFEd Board is not expected to have any role or involvement in reviewing the soundness or quality of the financing package, including the explanation of how the country eligibility criteria are met, with such review and determination to be

[31] IFFEd will work with MDBs to develop principles for determining that an education sector plan is credible, drawing on the experience and tools developed by the GPE. GPE has agreed that considerations in appraising an education sector plan should include confirmation that: (i) the plan preparation process has been country-led, participatory, and transparent, (ii) the plan constitutes a solid corpus of strategies and actions addressing the key challenges of the education sector, (iii) issues of equity, efficiency, and learning are addressed to increase sector performance, (iv) components of the plan are coherent and consistent, and (v) financing, implementation and monitoring arrangements are feasible.

[32] For example, the Global Partnership for Education requires: in countries where 20 percent of more of domestic resources are allocated to education, countries would commit to at least maintain these levels, while for countries where current levels are lower than 20 percent, countries would commit to increase the domestic share of resources progressively towards 20 percent.

wholly the responsibility of the relevant MDB and in accordance with such MDB's own policies and procedures.

Concept notes will be circulated to the IFFEd Board for endorsement on a no objection basis. A two week review period will be provided to the Board.

Once the note is endorsed by the IFFEd Board, the IFFEd Administrative Unit will inform the MDB and the Trustee that the proposed financing package has been endorsed and included in the IFFEd pipeline.

The further processing of financing packages will follow the MDB's policies and procedures.

IV. Annual review of IFFEd pipeline and progress

The MDB Committee will review at least annually the IFFEd pipeline to assess progress in effectively and efficiently programming IFFEd resources. During the annual review, the MDB Committee will:

a. note the financing packages that have been approved and signed,
b. review the availability and status of IFFEd's resources,
c. review the IFFEd grant financing percentage;
d. review the status and timing of financing packages expected to be approved and signed in the forthcoming year,
e. agree on any recommendations for modifications to MDB allocations, the grant financing percentage or concepts included in the IFFEd pipeline to maximize the efficiency and effectiveness of the financing mechanism,
f. review the list of countries meeting IFFEd's basic eligibility, taking into account changes in MDB classifications of countries;
g. note the leverage factor for each MDB to be used for the year and explanatory information on how the factor was determined. Only exceptional events during the year would lead to a change in the leverage factor.

V. Commitment of IFFEd resources

Once a lending package is approved by an MDB's Board, the Trustee will issue a letter of commitment for the IFFEd grant resources relating to the lending package. At the signature of the loan, the MDB can request the transfer of the full grant amount.

Portfolio insurance in an amount based on the loan component of the lending package multiplied by the MDB's applicable leverage ratio will be made effective at signature of the lending package .

VI. Annual reporting by MDBs to IFFEd Board

On an annual basis, the MDBs will submit a report to the IFFEd Board describing the countries and lending packages that have been financed as a result of IFFEd, the expected results to be achieved through such financing, and the trends in MDB funding for education both as a result of IFFEd's additional financing and its regular non-concessional lending.

The IFFEd Administrative Unit will prepare a comprehensive annual report, based on the information submitted by the MDBs, describing how IFFEd is achieving its goal of serving as an innovative financing mechanism supporting the achievement of SDG 4. The IFFEd annual report will also include financial reporting on the status of IFFEd's funding, the use of resources and recommendations and analysis emerging from the pipeline review.

VII. Evaluation and review at end of replenishment period

Prior to a replenishment of IFFEd funds, an evaluation of IFFEd will be commissioned, including its governing bodies, administrative unit, MDBs' engagement, the portfolio and results to date (which in the initial evaluation would be too soon to assess outcomes). The reviews should provide an objective assessment of the strategic results of IFFEd and its effectiveness and efficiency. A major purpose of the review should be to contribute to the identification and dissemination of knowledge and lessons learned.

At the time of the evaluation, the MDBs will report on trends in their education funding. This can best be measured retrospectively for each replenishment period, comparing funding to earlier periods. Each MDB would provide evidence at the end of the replenishment period that its investment portfolio for education is on an upward trajectory. This could be measured by the size of a MDB's education portfolio and/or the trajectory of annual commitments during a replenishment period.

The evaluation should also include an analysis of trends in domestic education funding in countries benefiting from IFFEd financing packages.

The goal is to see education spending by the MDBs and domestic education funding by the countries trending upward.

In reviewing and endorsing allocations to MDBs and the list of countries eligible for subsequent replenishment periods, the Board may take into account the trajectory of education funding in the MDBs and countries.

Annex 5: Indicative IFFEd Results Framework

The IFFEd Results Framework is derived from the Theory of Change and operates on three levels:

- **Inputs** are the responsibility of IFFEd (primarily raising and deploying portfolio insurance and grant funding) and represent IFFEd's core function as a financial mechanism in support of the MDBs; within this level are also included indicators for IFFEd's organizational effectiveness.
- **Outputs** are primarily the responsibility of the MDBs working with countries (raising resources on capital markets; blending grants with loans in MDB projects; delivering more and better education projects to drive results).
- **Outcomes** are primarily the responsibility of countries working with the MDBs (delivering better and more equitable education outcomes).

This preliminary Results Framework is intended as the basis for further consultation and agreement.

Result	**Indicator** (IFFEd countries, unless otherwise stated)	Source	Alignment	Baseline	Target (by 2023)
Inputs (IFFEd)					
Contingent Finance for Portfolio Insurance	Value of portfolio insurance raised to enable MDBs to raise resources from capital markets	IFFEd	n/a	$0	tbd
Credit rating	IFFEd secures and maintains strong credit rating	Credit Rating Agencies	n/a	n/a	AAA
Grant funding	Value of grant funding raised to blend with loan finance	IFFEd	n/a	$0	tbd
IFFEd Organizational Effectiveness I (Efficiency)	Ratio of administrative to program costs	IFFEd	n/a	n/a	tbd
IFFEd Organizational Effectiveness II (Financial Sustainability)	IFFEd self-sustaining financially by end 2020	IFFEd	n/a	n/a	Self-sustaining by 2020 through fees
IFFEd Organisational Effectiveness III (Financial & Risk Management)	Proportion of significant issues identified through audit reviews satisfactorily addressed	IFFEd	n/a	n/a	100%

Outputs (MDBs working with Countries)					
Leverage ratios	Individual leverage ratios by MDB and average leverage ratio across MDBs	MDBs; IFFEd	n/a	n/a	tbd
MDB funds raised	Value of resources raised by MDBs from capital markets using IFFEd guarantees, and allocated	MDBs; IFFEd	n/a	$0	tbd
MDB grant funding	Value of additional grant resources allocated by MDBs to blend with MDB loans	MDBs; IFFEd	n/a	$0	tbd
MDB funds disbursed	Value of total additional funding disbursed by MDBs (grants + additional lending) enabled by IFFEd	MDBs; IFFEd	n/a	$0	tbd
MDB total education financing	Increase in total education financing (all sources) disbursed by MDBs	MDBs	n/a	$3bn pa in 2015	Doubling of education disbursements across all MDBs to $6bn pa by 2023
MDB education portfolio quality	MDBs achieve a x% improvement in education portfolio quality, as measured by their respective portfolio quality measures	MDBs	n/a	tbd	x% aggregate improvement across all MDBs
Outcomes (countries working with MDBs)					
Total Beneficiaries	Number of beneficiaries (children; youth; adults), by sex reached by IFFEd-funded operations	MDBs; IFFEd	n/a	0	tbd
Pre-Primary / ECD	8.2.1 Participation rate	UIS;	SDG 4.2.2	tbd	tbd

(in countries where IFFEd funding pre-primary / ECD, or sector-wide funding)	in organized learning one year before the official primary entry age), by sex 8.2.2 Proportion of children under 5 years of age who are developmentally on track in health, learning, and psychosocial wellbeing, by sex	UIS; UNICEF Multiple Indicator Cluster Surveys	SDG 4.2.1 GPE 2.		
Primary *(in countries where IFFEd funding primary, or sector-wide funding)*	8.3.1 Proportion of children who complete primary education, by gender 8.3.2 Proportion of children at the end of primary achieving at least a minimum proficiency level in (i) reading and (ii) mathematics, by gender 8.3.3 Proportion of countries showing improvements in primary learning outcomes	UIS UNICEF; national, regional & international assessments	GPE 4. SDG 4.1.1 GPE 1.	tbd	tbd
Secondary *(in countries where IFFEd funding secondary, or sector-wide funding)*	8.4.1 Proportion of children who complete lower secondary education, by gender 8.4.2 Proportion of children who complete upper secondary education, by gender 8.4.3 Proportion of children at the	UIS UIS UIS; National, regional & international assessments	GPE 4. SDG 4.1.1	tbd	tbd

	end of lower secondary achieving at least a minimum proficiency level in (i) reading and (ii) mathematics, by gender				
TECVOC & Higher Education *(in countries where IFFEd funding TECVOC & Higher Education, or sector-wide funding)*	Participation rates of youths and adults in formal and non-formal education and training in previous 12 months, by gender Proportion of youth and adults with ICT skills, by type of skill	UIS UIS; Eurostat, ITU	SDG 4.3.1 SDG 4.4.1	tbd	tbd
Gender	Gender Parity Index of out-of-school rate for: (a) primary education, (b) lower secondary education, (c) upper secondary	UIS	GPE	tbd	tbd
Equity	Equity Index	UNICEF	GPE	tbd	tbd
Efficiency of education systems	Repetition and dropout impact on efficiency, as measured by the internal efficiency coefficient at the primary level in each country	Government partners; GPE	GPE	tbd	tbd

Annex 6: IFFEd and the International Financing Architecture for Education

The needs in global education are so great that there is a role for every partner to play in making education investments more effective and in closing the financing gap. The Education Commission recommends a financing compact where low- and middle-income countries reform their systems and increase domestic public expenditure for education from about $1 trillion today to about $2.7 trillion by 2030. In return, the international community would increase its support from an estimated $16 billion today (including all sources of financing) to $37 billion by 2020 and $90 billion by 2030.[33] This is unlikely to be possible without continued innovation in ways to find and use additional, efficient and effective financing solutions. MDBs have a strong track record of being able to catalyze public and private finance through innovative solutions.

The architecture should respond to three distinct challenges in the volume of international financing for education:

1. Too little grant and highly concessional financing for low-income countries (LICs). Meeting the substantial needs of LICs will require a much greater focus of ODA on low-income countries, and a scale up of concessional financing from multilateral institutions for low-income countries.
2. Inadequate external finance for education in lower-middle-income countries (LMICs). LMICs face a "missing middle" and lack sufficient external financing for education as increases in their tax revenue are not able to keep pace with declines in aid levels.
3. Huge unmet needs for education in emergencies. Education has been given insufficient priority in crises. There is insufficient funding and capacity to lead and deliver education and recovery efforts.

IFFEd will enhance the role of the MDBs as effective players in the international education financing architecture

Within the international architecture, the MDBs are currently large providers of finance for education and are well placed to work with countries in significantly scaling up development assistance for education for various reasons, including:

- Efficiency in mobilizing and leveraging finance at the global level. MDBs can borrow in capital markets and provide financing equal to several times their capital.
- Strong technical expertise and convening power – including in education – and the ability to produce world-class research and knowledge products to support education reform.
- Ability to strengthen domestic resource mobilization and increase efficiency, effectiveness and equity of domestic public expenditure at the country level.

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[33] Education Commission (2016). Learning Generation.

MDBs engage with countries on the full spectrum of their development agenda, including enhancing the effectiveness of government systems and spending.

- Overarching focus on poverty reduction and equity is fundamental to their core mandates at the strategic level and in their operational policies and procedures. They have well-developed processes with regards to environmental and social safeguards and stakeholder consultations.

It is expected that MDB collaboration through IFFEd will have positive "spillover" effects. IFFEd will require regular discussion among the MDBs, which in turn will enable MDBs to explore other areas of common interest and synergies in the education sector beyond IFFEd financing. IFFEd will benefit from the combined technical expertise and experience of the MDBs, and with IFFEd's additional funding, it is expected that current skills and expertise will be further strengthened and incentives provided for exploring innovative approaches, resulting in an overall higher priority for education in the regular lending programs of the MDBs.

Complementarity with other multilateral initiatives for financing education

Through its support for MDBs, IFFEd will be a key part of the current multilateral financing architecture for education. It will complement other multilateral financing, including the Global Partnership for Education (GPE), Education Cannot Wait (ECW), UNICEF, UNESCO, and other agencies. There is particular interest in how IFFEd can add value and complement the mandate and activities of two education-specific funds: the GPE and ECW.

a. GPE and IFFEd, while highly complementary, have different modes of operation and target countries. GPE, with 70 percent of its total allocation (an estimated $500 million annually) focused on low-income countries and 30 percent (an estimated $200 million) on LMICs, is not designed to meet fully the substantial needs of LMICs. These needs are expected to rise to $23 billion in 2020 and more than $70 billion in 2030. Financing needs will always far exceed financing availability. GPE has strength in supporting countries in system-wide approaches and in national education plans. Where these exist in IFFEd countries, these would be supported by IFFEd. The GPE Secretariat and the Education Commission have agreed that such alignment reduces any risks of overlapping geography. Should a government and MDBs want to co-finance their IFFEd-funded program with GPE funds, there would be encouragement from GPE and IFFEd to do so.

b. ECW and IFFEd can provide complementary funding and expertise over the course of a country's journey from immediate response to long-term recovery from a crisis situation. While immediate and urgent relief in times of crisis is best provided through grant funding mechanisms, IFFEd could provide larger and longer-term loan financing to help rebuild education systems. ECW could provide funding in the near term to address immediate and medium-term education needs in emergencies and protracted crisis. In the transition from short- and medium-term response to long-term funding, collaboration could take shape in two ways: (i) ECW through its multi-year funding window for protracted crisis could align its grants and help leverage MDB lending for education in emergencies and protracted crisis, and (ii) ECW could act as a partner to mobilize the UN and multilateral humanitarian system and other actors and help coordinate the humanitarian-development response to facilitate IFFEd interventions on the ground. This will enable a coordinated and comprehensive approach that supports the national education system to manage crisis and transition to recovery and reconstruction.

General principles of complementarity

At the global level. All organizations engaged in financing education should be committed to promoting complementarity while driving down transaction costs and avoiding any duplication. Drawing from other sectors, a number of steps can be considered at the global level to promote harmonization and alignment throughout the international architecture. These include periodic (every few years) high-level review and assessment of financing (including domestic, bilateral, and multilateral funding), meetings between leaders of governance bodies and/or senior management, reciprocal representation on governance bodies and technical working groups, and on-going dialogue between secretariats.

As IFFEd is designed and its structure and financial business plan are finalized, an important consideration will be how IFFEd can: (a) best work with partners to mobilize additional financing for education, (b) best fill gaps and contribute to an expanding financing system that promotes efficiency and maximizes impact, and (c) collaborate with entities throughout the architecture to enhance the overall effectiveness of the system and expand available opportunities to achieve SDG 4 goals.

At the country level. Consistent with the Paris Declaration on Aid Effectiveness, MDBs additional programming leveraged through IFFEd will be based upon national ownership, alignment, and harmonization. Beneficiary countries will lead in promoting and overseeing alignment and harmonization in programming resources with the MDBs, and a country's education sector plan will serve as the organizing framework for international finance for education.

Annex 7: The Comparative Advantage of MDBs in Development Financing

There is significant scope, and compelling reasons, to grow multilateral aid to education: (i) levels of bilateral aid to education have stagnated in recent years, (ii) multilateral financing as a share of total education financing is low at around 25%, as against 36% in health and 31% across all sectors (2014 DAC data), (iii) funding from other sources including global funds and foundations is low relative to other sectors such as health, (iv) multilateral aid has the potential for greater equity and allocative efficiency (rules-based allocations), and greater effectiveness (alignment to national priorities and systems strengthening).

MDBs are in unique position to help grow more and more effective multilateral aid for education.

- The MDBs are extremely efficient at mobilizing finance at the global level. They have enormous leverage, borrowing in capital markets and providing financing equal to several times their capital while retaining AAA ratings. This makes MDBs excellent institutions to provide development finance.

- The MDBs are uniquely placed to unlock more and better domestic public expenditure at the country level. The vast majority of MDB resources are spent by governments, in accordance with government policies and plans, and enhancing the effectiveness of total government spending through associated technical assistance and institutional strengthening.

- The MDBs are uniquely placed to ensure the sustainability and effectiveness of public finances. This applies not only to the work of the IMF, the World Bank and others in assessing debt sustainability, but also to the core work of the MDBs on domestic resource mobilization, on fiscal reform, on public expenditure reviews and on public financial management.

- The MDBs are firmly focused on poverty reduction and on equity, at the strategic level and in their operational policies and procedures. They have well-developed and well-monitored processes with regards to environmental and social safeguards. A strong comparative advantage of the MDBs lies in their *systems*-approach, which enables the MDBs to address equity and disadvantaged population groups through whole system reform, e.g. addressing how resources are allocated across the entire education system.

World Bank Group Education Strategy 2020

"… a system approach must also include a strategy for addressing equity problems across population groups. A well-functioning education system will therefore have policies or programs that examine the coverage of the system and address the disadvantages faced by some population groups (e.g., low-income groups, ethnolinguistic minorities, disabled people, and girls) and will target special resources to assist those disadvantaged groups." p.36

- The MDBs have a broad and deep functional range including financing, technical assistance, and convening. In addition to being the largest financers of development assistance, many MDBs also have strong technical expertise and convening power – including in education – and the ability to produce world-class research and knowledge products. This applies not only to flagship products like the 2018 World Development Report on education, but also to a large and high quality output of research, evaluations, analytical and advisory services for both client governments – directly linked to country operations – and for the international community more broadly.

- The MDBs are well-placed to utilize results-based approaches in education. MDBs utilize a range of results-based financing (RBF) instruments with different forms of disbursement-linked indicators. The World Bank in particular has embraced RBF in education. A 2017 World Bank report emphasizes in particular the potential to strengthen education systems by aligning and incentivizing actors around a set of common results.

IFFEd builds on the comparative advantage of the MDBs by addressing the two major constraints faced by the MDBs in expanding education financing: (i) the *supply-side* constraint of limited capital for some MDBs, and (ii) the *demand-side* constraint of declining LMIC borrowing for social sectors at prevailing MDB rates.

MDB lending to education

The MDBs are large providers of development finance for education. According to the OECD DAC, the MDBs commit nearly $5bn in education financing – grants, loans and other official flows – accounting for one-third of total education-related finance.

Table 1. Education-related MDB commitments*, 2014-2016 average, constant 2015 USD$, rounded to the nearest million

	Grants (ODA)	Concessional Financing (ODA)	Non-Concessional Financing (OOF)	Total
All Donors	9,205	2,764	2,673	14,643
IDA/IBRD	39	1,625	1,472	3,136
IDB	17	-	511	528
ADB/AsDB(SF)	38	283	288	609
AfDF/AfDB	20	72	97	189
EBRD**	-	-	5	5
IsDB	2	82	223	307
IFC	-	-	47	47
CarDB	6	16	16	38
CEB	-	-	4	4
Total MDBs	122	2,078	2,670	4,860

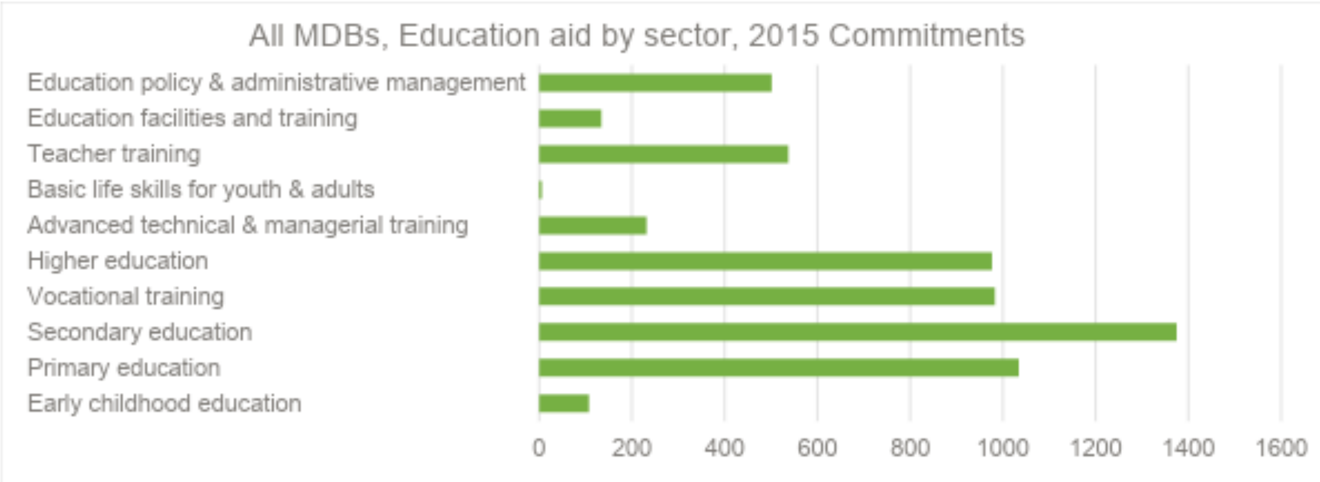
Source: OECD-DAC *includes all education investments including non-country specified ** Figure for 2015, no investments in 2014 and 2016

There are signs that the MDBs are increasingly prioritizing education. The World Bank's recent World Development Report focused on education for the first time. The IDB increased its education portfolio from annual average commitments of $382m per year for the period 2007-2009 to $632m per year for 2013-2015. The ADB has adopted an aggressive target to increase education lending to at least 10% of their portfolio. The IsDB has overtaken the Asian and African Development Banks in its levels of lending to education. President Adesina of the AfDB has undertaken to accelerate investments in education as part of the 'High Fives' agenda focusing on improving the quality of life for African people. There is increased interest in both the IFC and EBRD to invest in education, including a new facility within the IFC to focus on lower income groups.

Sectoral focus of MDB lending to education

According to the OECD DAC, each level of education (primary, secondary, vocational and higher education) received in the region of $1 billion commitments in 2015, with secondary the largest single sector at just under $1.4 billion. Given the demand-driven nature of MDB lending – relative to other sources of external financing – this is a good representation of how countries see their educational needs and corresponding borrowing requirements.

Basic Education – understood as pre-primary, primary and secondary combined – constitutes a large share of the MDB portfolios. This is particularly the case for the World Bank and the IDB that are seeing rising demand for lending for pre-primary education and broader early childhood development services linking to health, nutrition and protection.



Higher education or vocational training account for a significant share of the portfolios of the African Development Bank, the Islamic Development Bank and the World Bank Group. With a significant share of bilateral aid allocated to post-secondary education focused on scholarships and imputed fees in donor countries (almost $1.9 billion committed from just two bilateral donors in 2015 alone), it is clear that governments are looking to the MDBs for financing and technical assistance for structural reforms to post-secondary education systems to improve their own capacity to deliver post-secondary education.

Country demand for higher education financing and reform: the case of Vietnam
Vietnam has made dramatic progress in education in the last 20 years: (i) growing its education budget from 7 percent of the national budget in 1986 to 20 percent in 2008 (5.3 percent of GDP), (ii) achieving near universal primary enrolment, over 90 percent lower-secondary enrolment and a three-fold increase in upper secondary enrolment, and (iii) achieving 2012 PISA scores above the OECD average. As its economy evolves, together with a focus on extending quality basic education to the most disadvantaged, Vietnam is also seeking to reform, expand and upgrade its higher education system. This is in line with the principle of 'progressive universalism' put forward in *The Learning Generation*. It is seeking to transition higher education from public financing and management to a more autonomous system of financing and provision– a significant but difficult transition that carries the risk of furthering inequities in higher education if poorly executed. Vietnam is seeking both financial and technical support from the World Bank. Vietnam has accordingly prioritized higher education in its World Bank country assistance strategy. Vietnam has also expressed an interest in accessing broader support for higher education financing and reform through IFEEd, including potentially though the private sector arms of the MDBs (meeting between Education Commission and Vietnamese officials, December 2017).

Without investing in structural reform, post-secondary education will continue to serve elites, with wide-ranging economic, social and political consequences. Overall participation rates of 18-22 year olds in post-secondary education fall below 5% in some potential IFFEd countries such as Zambia and Cote d'Ivoire. In the vast majority of potential IFFEd countries across all regions – including countries such as Honduras, Indonesia, Kenya, Moldova and Pakistan – participation rates of the *poorest* in post-secondary education fall well below 5%. The case of Vietnam (see textbox below) demonstrates country demand from countries for MDB support to structural reform to post-secondary education.

Geographical focus of MDB lending to education, with a focus on potential IFFEd countries

Table 2. **Education-related MDB commitments* from the World Bank and Regional Development Banks, by region, in $ millions, constant 2015 $ (2014-2016 average)**

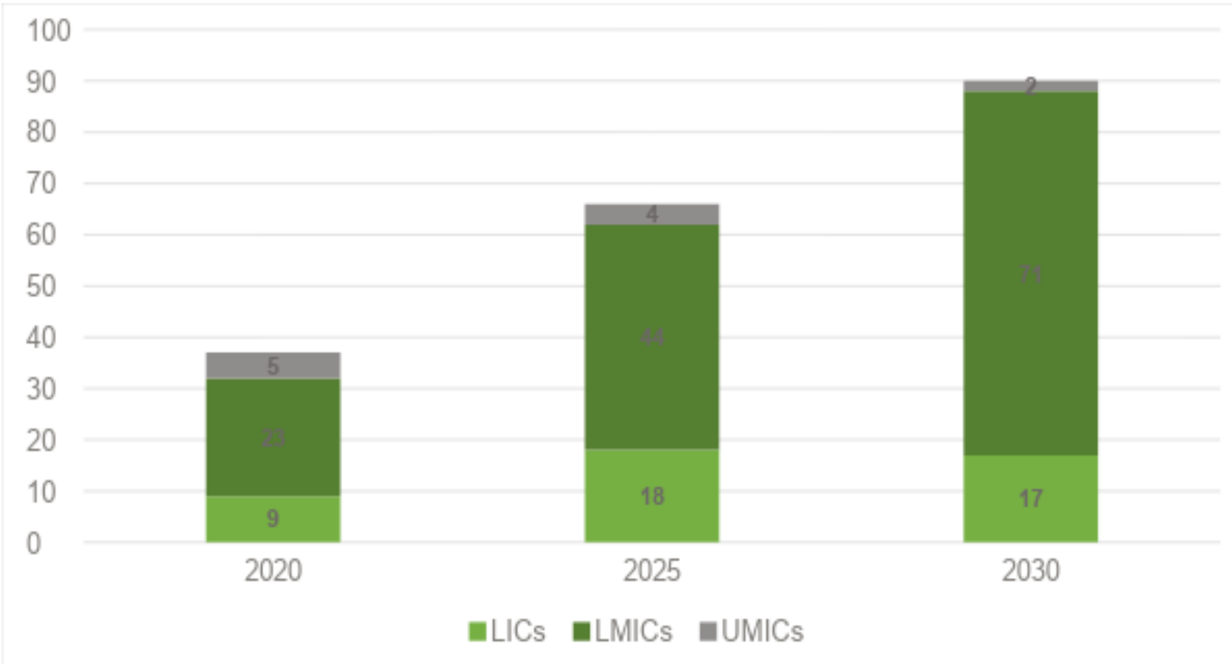
	WB ODA commitments	WB OOF commitments	RDB ODA commitments	RDB OOF commitments	Total
REGION					
East Asia & Pacific	113	176	85	273	**647**
Europe & Central Asia	35	335	21	17	**408**
Latin America & the Caribbean	9	787	39	539	**1,374**
Middle East & North Africa	1	39	4	67	**111**
South Asia	848	101	212	76	**1,237**
Sub-Saharan Africa	654	34	158	170	**1,016**
Total	**3,132**		1,660		4,792

Source: OECD-DAC *includes all country allocable commitments

The following broad conclusions can be drawn, with implications for IFFEd's future operations:

- The external financing gap for all countries far exceeds available finance from MDBs, highlighting the potential for expansion. Total external financing needs for 2020 for lower-middle-income countries are estimated at $23 billion. Total annual commitments (2014-2016 average) of the MDBs – aid and other official flows – in those countries currently comes around $2.3 billion. MDB annual commitments are therefore representing 10% of needed external financing. These needs will also increase considerably as populations and shares of enrollment grow. Education Commission projections indicate that LMICs will represent by far the largest amount of total global external finance needs over the coming years: more than 75 percent in 2020 rising to over 80 percent in 2030 (see figure 1 below).

Figure 1: External finance needs for education in low- and middle-income countries (2014 $US billion) – adjusted for growth dynamics and changes in income classification over time



Source: Education Commission estimates. LIC = low-income country, LMIC = lower-middle income country, UMIC = upper-middle income country

- The World Bank Group accounted for around two thirds of 2015 MDB disbursements to the 54 countries, with the RDBs combined accounting for around one third. This indicates considerable scope for increased lending from the RDBs, in particular the African and Asian Development Banks.

- There is considerable scope for increased lending across a wider number of countries and regions. Four countries in South Asia accounted for just over $1 billion – or nearly one third – of total disbursements across all regions, as an annual average over 2014-2016: India ($442m), Bangladesh ($267m), Pakistan ($264m), Sri Lanka ($86m). This indicates considerable scope for increased MDB financing in other regions, and notably sub-Saharan Africa where needs will be most acute, particularly as additional countries transition to LMIC status. Average annual disbursements in sub-Saharan Africa stood at about $440 million.

- Middle East and North Africa received only $146 million in MDB disbursements as an annual average over 2014-2016. While the OECD DAC does not capture all MDB resource flows, this still represents an extremely low level of resourcing given the additional burden in the region in responding to the Syria crisis. The region is unusual in having the potential for multiple sources of MDB support – World Bank Group, AfDB, IsDB, EBRD – yet prevailing levels of financing are extremely low relative to need. There is therefore considerable scope to increase MDB support to the region.

MDB strategies, portfolio and performance in education

African Development Bank (AfDB)

Education Strategy

The AfDB has a corporate 10 year strategy (TYS 2013-2022) which has “skills and technology” among its five core operational priorities. Since September 2015, the implementation of the TYS is being carried by the five high priority objectives - namely, Light up and Power Africa; Feed Africa; Industrialize Africa; Integrate Africa; and Improve the quality of life for Africans (together the High5s).

At the sectoral level, there are two complementary sector strategies that inform what the AfDB does in education and training. The first one is the *Human Capital Strategy* (HCS 2014-2018) whose main focus is on “Skills and Technology for competitiveness and jobs”. It promotes a horizontal and vertical approach to skills development. It is vertical in the sense that it recognises the respective value of all forms of education from ECD to the Tertiary. Emphasis though is laid on vocational/technical training and scientific research/higher education. This focus allows for a horizontal interfacing with the manpower needs of the sectors that drive the transformation of Africa, with emphasis on the High 5s.

The second, namely the *Jobs for Youth in Africa strategy* (JfYA 2016-2025), is mainly geared towards creating 25 million jobs for the youth and improving the employability of 50 million youths.

Financial Instruments

<u>Financing instruments</u>. The Bank has increasingly resorted to a diverse range of funding instruments to support Regional Member Countries (RMCs). These include program-based operations (PBOs) to promote structural reforms and education policy dialogue, as well as investment projects to help RMCs implement their education policies and strategies.

<u>Terms of finance</u>: The AfDB’s financial products comprise loans, guarantees, equity and quasi-equity, trade finance, and risk management products. In addition to the aforementioned financial products, the AfDB also provides technical assistance to its clients through grant funds.

Education Portfolio Composition (selected)

Over the past 3 years (2015, 2016 and 2017), the AfDB approved 15 new operations, for a total commitment of $522 million. This total includes financing through the concessional ADF window ($120 million for 6 projects or $19.9 million per project), and through the non-concessional ADB window ($399 million for 4 projects or $99.7 million per project). The remaining 5 projects were small operations (middle income countries grants, private sector technical assistance grants, trust funds, etc.) amounting $3.7 million.

Over the past 12 years, the AfDB has increasingly focused on TVET and Higher Education. Out of the 64 projects approved over that period, 25 were Higher education projects, 14 for TVET, 9 for Basic Education, 3 included both TVET and Higher Education components, and 13 were sector wide education projects.

Trends in AfDB lending for Education by sub-sectors and financing window ($ million)

	2005-07	2010-12	2015-17
ADB window (non-concessional)	69.1	0.0	398.7
Higher Education	0.0	0.0	158.0
TVET	0.0	0.0	212.8
Basic Education	69.1	0.0	27.9
ADF window (concessional)	227.8	411.4	119.5
Higher Education	78.3	213.6	25.9
TVET	71.1	186.2	86.2
Basic Education	78.4	11.6	7.4
Other instruments	4.7	1.9	3.7
Total	**301.5**	**413.3**	**521.9**

Education Portfolio Performance

The AfDB tracks a number of indicators at the corporate level covering six core areas: compliance with loan conditions; procurement performance; financial performance; activities and outputs; impact on development; overall assessment. There are no specific baselines for education projects. The AfDB estimate that AfDB investments have helped to expand opportunities for access to education and training for about 6 million individuals between 2006 and 2016. There have been no external evaluations of AfDB's work in education since 2006.

Asian Development Bank (ADB)

Education Strategy

ADB has a 2008 institutional document Strategy 2020: Working for an Asia and Pacific Free of Poverty. This was reviewed in 2014 and provided this action plan Midterm Review of Strategy 2020 Action Plan. Education is one of the five core sectors in this corporate strategy. Currently, ADB is preparing a new strategy to respond to the rapidly evolving Asia and the Pacific. This is the Road to 2030: ADB's New Strategy.

For Education, there is the the 2010 institutional document Education by 2020: A Sector Operations Plan, which guides the implementation of the vision of Strategy 2020 for education. The plan identifies key educational challenges in Asia and the Pacific in the coming years, and proposes ways for ADB to meet those challenges. It aims to contribute to meeting the development challenges of innovation, inclusiveness, and integration in the region, and to strengthen the human capital base in developing member countries (DMCs).

Financial Instruments

ADB's financial instruments include loans, grants, equity investments, guarantees, technical assistance, sector development projects, policy-based lending, multitranche financing facilities, results-based lending, and additional financing. ADB provides financing for sovereign and nonsovereign projects. Source: January 2011. ADB. *Summary of ADB Financial Instruments and Approval Procedures*.

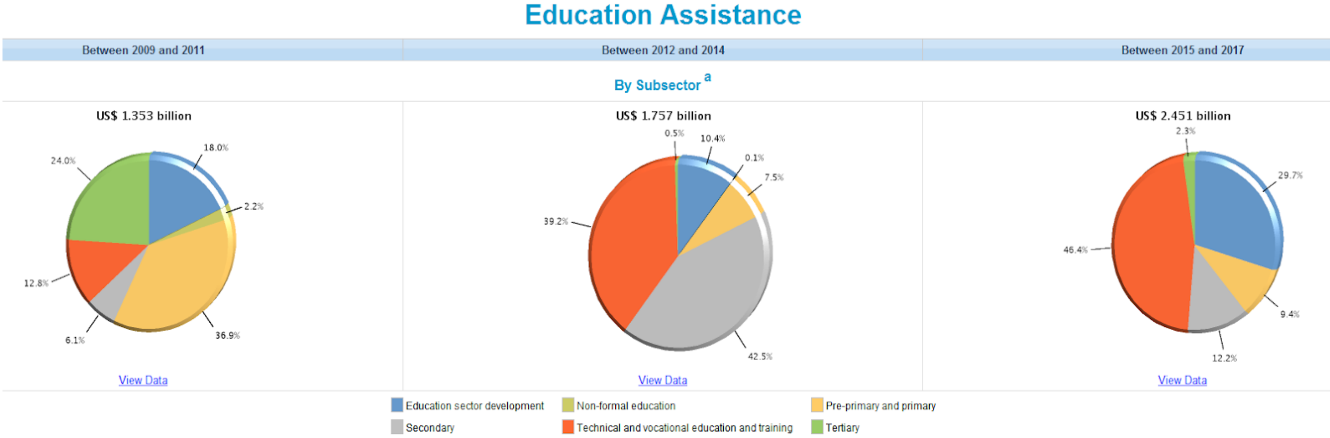
ADB uses a classification system to determine the eligibility of developing member countries (DMCs) to borrow from ordinary capital resources (OCR) at near-market terms, or at concessional OCR loan (COL) terms, or to receive grants from the Asian Development Fund (ADF). Source: 2017. ADB. *Lending Policies*.

Education Portfolio Composition (selected)

ADB Education 2015-2017			
	2015	**2016**	**2017**
Portfolio ($ million)	4,294.88	4,946.26	5,383.29
Disbursement Ration	25.40%	16.50%	20.90%

Most of ADB's DMCs are middle income countries except Afghanistan and Nepal. Sub-sector focus has evolved over the years from predominantly preprimary and primary to secondary, TVET and higher education. However, ADB's assesses the situation on a case by case basis.

Education Assistance



The analysis every 3 years from 2009-2017 shows increase in lending for education.

- 2009-2011 = $ 1.353 billion
- 2012-2014 = $ 1.757 billion

- 2015-2017 = $ 2.451 billion

Pipeline from 2018-2020 is also seeing an increase to over $4 billion. The demand for education is growing as the trend shows. It is likely to grow by at least 50% over the next three years. However, to sustain this demand/growth, certain efforts are necessary to incentivize this by blending loans with some grants. It is also important to support smaller countries where impact may be bigger.

Education Portfolio Performance

The impact of education lending is measured and reported in the Development Effectiveness Review (DEfR), an annual report by ADB Management. It assesses ADB's progress in implementing its long-term strategic framework, Strategy 2020. The indicators are harmonized with other MDBs. For education 3 indicators are included. See, for example.: 2016. ADB. *Development Effectiveness Review 2016 Report: Scorecard.*

DEfR Education Indicators	**2014 (Achievement Rate%)**	**2015 (Achievement Rate%)**	**2016 (Achievement Rate%)**
(i) Students benefiting from new or improved educational facilities (number)	6,736,000 (100%)	12,412,000 (87%)	930,000 (65%)
(ii) Students educated and trained under improved quality assurance systems (number)	7,545,000 (85%)	19,149,000 (85%)	3,464,000 (53%)
(iii) Teachers trained with quality or competency standards (number)	589,000 (100%)	476,000 (100%)	278,000 (89%)

European Bank for Reconstruction & Development (EBRD)

Education Strategy

EBRD does not have an Education strategy. However, it has an Economic Inclusion Strategy, of which one of priority areas is access to employment and skills. The aim of the inclusion strategy is to accelerate the transition of countries towards inclusive market economies by harnessing the power of the private sector to create economic opportunities for all. In this context, the EBRD has strengthened its project and policy activities to enhance access to economic opportunity for women, youth and remote regions. It also carefully and gradually widens its inclusion approach to other groups such as ageing populations, refugees or Roma in line with country priorities. The EBRD works through its projects and associated policy dialogue to enhance economic inclusion across three key thematic areas: i) Access to employment and skills; ii) Entrepreneurship and access to finance and iii) Access to services that enhance economic opportunities.

As regards access to employment and skills, the Bank’s operational approach aims at:

Supporting the private sector in the introduction of high quality local training and work based learning opportunities (such as apprenticeships, internships or traineeships) in partnership with local education institutions at vocational and tertiary levels, including the creation of enhanced and expanded curricula, improved career guidance, teacher training, upskilling/re-skilling options as well as life-long learning, specifically in changing, new or innovative sectors

- Establishing policy dialogue to bring together employers and education authorities to introduce improved national skills standards that reflect current and expected future labour market needs based on private sector (EBRD client) input;
- Enhancing school / training to job progression with a focus on formal employment (especially in relation to refugees);
- Enhancing equitable access to high skills through improved facilities and support of vocational, tertiary and other advanced training providers, training of trainers and local capacity building (including civil society capacity building);
- Supporting clients in introducing improved equal opportunities HR policies and practices at company and corporate levels to promote diversity in their workforce (including senior management or boards) and supply chains, with associated policy engagement to address regulatory barriers (particularly in relation to women) to access all types of occupations;
- Introducing inclusive (public) procurement practices that encourage private sector contractors to offer on-site work based learning opportunities to young people to gain work experience and exposure to potential employers and networks.

Financial Instruments

The EBRD uses a broad range of financing instruments, tailored to specific projects. The main instruments are loans, equity investments and guarantees, and its charter stipulates that at least 60 per cent of lending shall be provided to the private sector. EBRD Donor Funding instruments include:

- Co-investment grants (e.g. capital grants, first-loss guarantees, incentive payments);
- Technical assistance grants, either alongside investments or for stand-alone TA projects

Technical cooperation grants typically involve technical expertise to help design or implement an investment project. They can also support authorities or partners with policy or legal reform, or build client capacity and know-how. In addition, technical cooperation grants fund research. The EBRD uses co-investment grants to make projects more affordable, reduce risks and provide incentives for clients to invest.

Education Portfolio Composition (selected)

Building on its distinctive **expertise in developing private-sector oriented solutions to public policy issues**, and experience in **working with the full range of private,**

municipal and state clients, the Bank's offer in financing and supporting education could be defined as follows:

- The Bank can **support and finance the private sector in providing equitable access to quality education/skills.** With the right incentives, the private sector can generate positive spillovers to the public sector by providing capacity where the state hits constraints, helping modernise education systems and reducing costs. To this end, the Bank can support and finance public-private partnerships (PPPs) in local education infrastructure, invest in private providers of vocational, secondary and tertiary education as well as ICT education related services, and develop student finance.
- The Bank can **establish policy dialogue to bring together employers and education authorities to introduce improved national skills standards** that reflect labour market needs based on direct private sector (EBRD clients) inputs.

Case Study – Jordan Schools

The Hashemite Kingdom of Jordan has around 3,700 state sector schools, providing education to 1.3 million students. The schools suffer from deteriorating infrastructure and result in a sub-standard learning environment for students. The influx of Syrian refugees has placed additional strain on the already struggling facilities, with some schools running double shifts.

In response to schooling infrastructure concerns, the Ministry of Education has devised a program which includes building 600 new schools over the next decade to: i) meet growing demand underpinned by population growth and influx of refugees, and ii) replace existing sub-par educational buildings with fit-for-purpose, high quality educational facilities.

The Bank is working closely with the Jordanian Government in developing a pilot Public Private Partnership project to attract private sponsors in the development of 15 public schools in Amman, Zarqa and Irbid. The private sponsor is expected to develop the schools on a design-build-finance-maintain-operate basis. Total estimated costs of the pilot project are USD 50 million. A special purpose company will be set up by the respective winning private sponsor, selected through an open and competitive tender to be administered by the Ministry of Education. Once the pilot project reaches successful conclusion by virtue of financial closure, the Ministry of Education will aim to replicate the structure to implement the remainder of the 600 new schools over the next decade (up to total costs of EUR 1.8 billion).

Up to 40 per cent of total pilot project costs will be required to be co-financed by investment grants in order to implement the project in an affordable manner. Technical assistance grants would also be needed for project preparation, such as technical due diligence and preparation of a PPP contract.

Education Portfolio Performance

The EBRD has an independent Evaluation Department which evaluates individual projects and broader related to the EBRD's objectives.

Inter-American Development Bank (IDB)

Education Strategy

The IDB's education-specific strategy is the Education and Early Childhood Development Sector Framework Document (2016). The main areas of focus are organized around 5 dimensions of success:

1. High expectations guide education services;
2. All students enter the education system ready to learn;
3. All students have access to effective teachers;
4. All schools have adequate resources and can use them for learning;
5. All graduates have the necessary skills to enter in the labor market and contribute productively to society.

Financial Instruments

The current portfolio of the IDB's Education Division includes:

- Investment loans of the following types:
    - Project-specific loans
    - Loan based on results (LBR)
    - Policy-based loan (PBL)
- Investment grants given to Haiti after the 2010 Earthquake
- Non-reimbursable Technical Cooperations

Education Portfolio Composition (selected)

During the three-year period between 2014 and 2017, the IDB approved a total of $1.49 billion towards education projects; these have disbursed a total of $387 million. The portfolio for IDA countries is as follows:

Sub-Sector	Total approved amount 2014-2017 ($)
Secondary	262,274,000.00
Preschool & Early Childhood	358,675,000.00
School-to-work	93,850,872.00
Teacher Education & Effectiveness	10,650,000.00
Primary	328,495,000.00
Vocational and Technical	600,000.00
General	1,660,000.00
Literacy & Numeracy	84,500,000.00
Compensatory Education	861,785.00
Educational Assessment	313,065,000.00
Tech in Education	30,725,000.00
Higher Education	505,772.00

The IDB expects countries in Central America, as well as Ecuador, Peru, Bolivia, and Paraguay to be interested and capable of absorbing additional borrowing for education in the next 5 years.

Education Portfolio Performance

The IDB keeps track of the number students benefitted by education projects as part of its Country Development Results. As of 2016, IDB projects had benefited 2 million students in the region. For more information, see: https://crf.iadb.org/country-development-results/20151113-CDR-M-8.

During the last decade, the IDB has strengthened its commitment to a culture of evaluation in all the operations being funded. This has led most IDB education-related loans in the past years to include, from its design, an evaluation component meant to assess the impact of the activities carried out. In addition, the Office of Evaluation and Oversight, established in 1999, undertakes independent and systematic evaluations of the IDB's programs, activities, performance and delivery support systems. It disseminates findings of these evaluations so that recommendations can be used in the design, analysis and execution of new operations. Results of these evaluations can be found here: https://www.iadb.org/en/evaluation.

The 2016 IDB External Feedback System (EFS) captured perceptions from 5,483 client and partners surveyed during 2016 from government, civil society, public, and private sectors. The results from these surveys can be found here: https://publications.iadb.org/handle/11319/8768

World Bank

Education Strategy

The World Bank Group's 2011 Education 2020 Strategy has 3 goals: invest early, invest smartly, invest for all. The World Bank Education Team is also focusing on operationalization of the 2018 World Development Report, with a particular emphasis on: (i) expanding access to *quality ECE*, (ii) integrating more sharply WB work on *curriculum, instruction and learning assessments*, (iii) increasing support to *teacher professional development*, (iv) building the *capacity of governments and school leaders*, (v) using *metrics* to guide systems performance.

Financial Instruments

Lending instrument types include investment project financing (IPF) and results based financing (RBF) which comprise Program for Results (PforR) and IPFs with disbursement linked indicators.

Education Portfolio Composition (selected)

	FY 17		FY 16		FY 15	
	No. of Projects	Commit-ments ($)	No. of Projects	Commit-ments ($)	No. of Projects	Commit-ments ($)
Education	54	$3096.17M	56	$3370.83M	69	$4275.46M
Adult, Basic and Continuing Education	3	$8.74M	3	$37.78M	1	$278.00K
Early Childhood Education	14	$244.58M	3	$159.74M	11	$264.54M
Other Education	10	$163.70M	21	$744.42M	21	$782.04M
Primary Education	23	$863.81M	14	$603.27M	18	$1181.29M
Public Administration - Education	26	$261.69M	16	$156.33M	17	$132.74M
Secondary Education	16	$471.92M	13	$579.24M	15	$801.48M
Tertiary Education	9	$617.23M	14	$857.06M	15	$569.18M
Workforce Development and Vocational Education	9	$464.49M	12	$232.99M	18	$543.92M

The World Bank's expectation is that the current education portfolio would grow, particularly if additional capital and blended grant finance became available.

Education Portfolio Performance

EDU FY15-17 performance at a glance

	unit	FY15	FY16	FY17	FY15-17	3 yr data expressed as	Trend
1. IBRD Lending	$m	1,144	868	1,024	3,036	Total	
	#	6	7	10	23	Total	
2. IDA Lending	$m	1,880	1,126	1,599	4,605	Total	
	#	19	16	17	52	Total	
3. Active Portfolio Projects	#	144	143	148	145	Average	
	$bn	14	14.7	15.2	43.9	Average	
4. IPF Disbursement Ratio	%	32.4	26.2	24.4	27.4	3 year ratio	
5. Proactivity	%	82	75	96	84.8	3 year proactivity	
6. Portfolio Risk (H/S)	%	45.6	54.1	56.7	52.1	Average	
7. IEG Satisfactory Outcome	% by #	64.4	72	72.6	-	n/a	
		(FY12-14)	(FY13-15)	(14-16)			
	% by $	83.3	73.1	78.2	-	n/a	
		(FY12-14)	(FY13-15)	(FY14-16)			
8. ASA Completion	#	100	88	77	265	Total	
9. RAS Revenue	$m	8.6	7.9	12.4	28.9	Total	

Portfolio performance is monitored based on Independent Evaluation Group (IEG) ratings of closed projects. The key indicator is IEG outcome ratings of Moderately Satisfactory (MS) or higher in the last 18 months. The World Bank reports improving performance in its education portfolio. 72.6% of education projects were rated as 'Satisfactory' or higher in FY17, up from 64.4% in FY15. FY17 education indicators tracked include 11.6 million teachers trained or recruited and 19.8 million students reached with learning assessments. The IEG additionally conducts thematic and other evaluations, of which a selection are linked below:

- http://ieg.worldbank.org/Data/reports/approach_paper_higher_education.pdf
- http://ieg.worldbank.org/Data/reports/chapters/early_child_dev_eval.pdf
- http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/09/11/000160016_20060911115958/Rendered/PDF/372650Schooling0Access01PUBLIC1.pdf.
- http://ieg.worldbank.org/Data/reports/pakistancctimpacteval2011.pdf
- http://siteresources.worldbank.org/EXTOED/Resources/Ed_note.pdf

Annex 8: Principles for the Design of IFFEd

Development of Baseline Principles for IFFEd

Leading up to and following the Hamburg G20 Summit, the Education Commission sought feedback from civil society and other important stakeholders through extensive consultation on initial proposals concerning the design of IFFEd. During this period, the Education Commission disseminated concept notes and technical proposals for expert consultations. Additionally, through technical working groups, webinars, presentations at events and meetings, and bilateral meetings with stakeholders, the Commission has taken on board feedback from a variety of stakeholders including: civil society, NGOs, multilateral development banks, UN agencies, global education funds (e.g. Global Partnership for Education (GPE) and Education Cannot Wait (ECW)), potential beneficiary countries, contributor countries and financial institutions.

From September 2017 until early 2018, the Education Commission has focused on the technical design processes to allow other complementary funds, especially the GPE, to engage in their replenishment activities.

The technical design process consisted of direct consultation with potential beneficiary countries, donor agencies, multilateral agencies and the multilateral development banks on the financial innovations underpinning IFFEd. The third and final working group session concluded with a session involving interested donor agencies; Argentina as President of the G20; representatives from the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, the Inter-American Development Bank and the World Bank. Representatives from the ECW, GPE, UNESCO and Education International also participated. Further consultations with a sample of LMIC delegations on the sidelines of the 2018 Spring Meetings confirmed a strong interest in the IFFEd approach – viewing it as an instrument that would help them reach their education goals, while managing their debt.

Through consultations and active listening over the past year, the Education Commission developed a set of baseline principles to guide the final design of IFFEd. Through a set of additional consultations with civil society actors, the MDBs and potential beneficiary countries, the principles have been updated and the recommendations integrated into the technical design paper for IFFEd. The current version of the Principles and design document integrates feedback from the civil society consultation held during April and May 2018. The principles will also be considered in preparations for negotiations and as a guideline for subsequent operational decisions once IFFEd is established.

Revised Baseline Principles

1. IFFEd financing will be used to strengthen existing systems in eligible countries that commit themselves to improving education outcomes and to enhancing their capacity to deliver results, measured in terms of accountability for achieving nationally owned and set targets. IFFEd will support countries that commit to transformational reform and domestic investment in their education systems to achieve increased access, learning, and equity.

For an eligible country to access IFFEd funding, it will be required to show (a) evidence of a credible education sector plan, (b) ability to sustainably utilize additional lending through the MDBs, (c) country agreement to prioritize education within its national budget (e.g. average 4-6% of GDP for education, or 20% of national budgets, aligning with current targets and norms set by the education community) and increase or maintain its domestic education budget as necessary to meet the target and (d) agreement on integrating results-based approaches to achieve nationally owned targets consistent with the Paris Declaration on Aid Effectiveness. The required evidence of commitments and data on a baseline case (where a country is before IFFEd funding) are to be included in the country financing package. By providing an incentive for countries to use MDB financing for education, IFFEd will catalyze more domestic financing for the education sector.

At the country level, consistent with the Paris Declaration on Aid Effectiveness, the country's education sector plan will serve as the organizing framework for all activities. IFFEd will respect and promote inclusive national education sector policy planning and implementation processes that include civil society participation including women's and girls' organizations, and engagement of local education groups. The important role civil society plays in the current education planning and financing will not be replicated or replaced. This continued engagement of civil society actors at country level is an important aspect for the achievement of the Sustainable Development Goals (SDGs) and will be encouraged. IFFEd will also welcome gender-responsive education sector plans, agreed within the existing processes for sector dialogue, including with civil society, through the UNGEI/GPE Guidance for Gender-Responsive Education Sector Plans.

2. IFFEd will embrace the SDGs, including the full breadth of SDG 4, as well as a holistic, inclusive approach to learning when considering eligible investment areas. This includes target 4.1, which ensures that all girls and boys complete free, equitable, and quality primary and secondary education leading to relevant and effective learning outcomes. IFFEd's resources will be programmed to respond to country needs and strategies. Financing will be made available for any education-related initiatives or reform efforts that are consistent with a country's strategy and plans to enhance access, learning, and equity (including early childhood, primary, secondary, postsecondary, vocational opportunities, lifelong learning, non-formal education, technology, as well as education interventions for girls and young women, children with disabilities, rural children and other marginalized groups, etc.).

Use of IFFEd resources will prioritize equity, reduce inequality in education, and acknowledge the costs associated with reaching the most marginalized. IFFEd funding will be available to provide inclusive education, consistent with the Convention on the Rights of Persons with Disabilities. Cross-sector collaboration will be encouraged when there is a direct benefit for improving education and special emphasis will be placed on gender equity and issues contributing to gender inequity in education. IFFEd funding will encourage education systems to respond to the demands of education in the 21st century with a particular focus on equity and the concept of progressive universalism. Moreover, once established, IFFEd will have in place controls to ensure funding is used to close – not widen – equity gaps and to leave no one behind.

In alignment with SDG 4.C which calls for a substantial increase in the number of qualified teachers, teachers will be eligible beneficiaries of IFFEd financing. Activities to support the training and professional development of a country's teaching force and enhancement of the teaching profession will be eligible for IFFEd funding.

3. IFFEd will be a complementary tool for education finance and work alongside the existing actors in the global education financing architecture. Given that the primary focus of IFFEd will be to create additional financial capacity within the MDBs for gap-filling funding in countries where additional concessional finance could help achieve SDG 4, it is anticipated that there will be minimal overlap with existing mechanisms. IFFEd will not duplicate work or structures, and it will minimize any transaction costs and have in place safeguards to ensure accountability of its resources. The primary beneficiaries of additional IFFEd finance will be lower-middle-income countries with external financing gaps that exceed current aid.

Coordination will occur at the country level. IFFEd will work through the MDBs, currently the largest providers of aid to education, which will align efforts with local coordination mechanisms, sector plans, and government-led processes to determine how additional resources could be used for education. In countries where IFFEd-generated finance can complement and provide additional funding alongside existing international efforts, including bilateral aid or multilateral aid from the Global Partnership for Education, UNICEF, Education Cannot Wait, IDA or other MDB concessional and non-concessional finance, the MDB partners will coordinate in country before presenting a financing package to IFFEd. IFFEd will track and report annually on the additionality of its funding and the funding levels of the MDBs. IFFEd will operate in alignment with the 2005 Paris Declaration on Aid Effectiveness and 2008 Accra Agenda for Action.

4. IFFEd will raise additional finance to help close the education financing gap and drive the achievement of the education Sustainable Development Goal. IFFEd will add value and complementarity by mobilizing substantial new financing for education at affordable terms. With its innovative approach to funding, IFFEd will focus on the mobilization of financing currently not available to the education sector through existing institutional arrangements.

To meet the challenge of achieving the Learning Generation, all sources of finance (domestic and international) will need to be increased, including through taxation and increased international support. IFFEd's design will seek to incentivize greater domestic investment in education. It should complement the existing international financial architecture by mobilizing financing that is additional to what is currently available.

5. IFFEd will reinforce the relationship between international finance and domestic resource mobilization. IFFEd financing will be made available to governments committed to increasing domestic financing for education now and into the future. It will be a tool to help countries move towards long-term domestic financing for education through an increasing percentage of GDP spent on education, achieved through larger tax base revenue and budget reallocations.

IFFEd will measure domestic resource targets as a percentage of the budget dedicated to education (in line with international targets) while also encouraging an increase in the overall percentage of GDP dedicated to education, so as to encourage additional tax base reforms.

To maximize the dissemination of public goods to inform civil society activities, IFFEd will make data and projections on education financing for IFFEd-eligible countries public so that organizations focused on funding education through domestic tax reforms, including corporate tax and loopholes, can use this data to inform their complementary efforts in countries.

6. IFFEd funding will be accountable to children, young people, and teachers by contributing towards tangible improvements in learning. Recognizing that the international community has conducted three highly inclusive and detailed processes of education indicator selection in the last two years – the education SDG, the GPE results framework, and the ECW results framework – IFFEd's results framework should be aligned with these existing frameworks.

IFFEd's results framework will adhere to the following principles:

- Alignment: to the education Sustainable Development Goal, country strategies and plans, and indicators already in use by the international community;
- Proportionality: indicator selection should be prioritized and proportionate taking into account existing means to collect data;
- Evaluability: results should be mapped to a 'Theory of Change' and provide the basis for evaluating whether and how IFFEd is working and what results it is delivering;
- Accountability: IFFEd should be accountable to its beneficiaries, partners, and funders.

7. IFFEd will be a financial mechanism and not an implementation or delivery organization. Given the evidence on concessional and non-concessional finance presented in the Education Commission's *Learning Generation* report, IFFEd's priority will be to generate additional financing capacity through the MDBs for investment in education. To strengthen existing mechanisms and avoid fragmentation, IFFEd financing in countries will be channeled through the existing financial institutions as they already have country presence, participate in the process of preparing and monitoring education sector plans, and engage in donor coordination mechanisms. IFFEd will not be an additional actor within a country.

As such, IFFEd will be a light-touch financial instrument and contribute to the policy planning processes that already take place at the country level through education sector planning and other government-led planning activities. The MDBs will be the institutions interfacing with the Facility and will initially include the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the World Bank. Once established, IFFEd may consider if and how to engage with national development banks and other financial institutions.

8. IFFEd financing may be used to support countries impacted by emergencies in close coordination with Education Cannot Wait and other actors. For instance, eligible countries may wish to use IFFEd financing to rebuild following a natural disaster. Additional innovations will be considered for these countries, including more concessional terms for repayment or allowing donors or philanthropists to pay off the principal to avoid placing any additional burdens on refugee-hosting countries. Particular attention will be paid to debt sustainability and the legitimacy of the loan in humanitarian contexts and fragile states.

9. IFFEd will provide funds for government-led education initiatives. IFFEd will support governments in achieving their national education goals and the SDG targets, including free, equitable, and quality primary and secondary education. Governments will lead in determining educational priorities and how to deliver education aligned with the right to education and the SDGs. NGOs, delivery agents, or other actors (e.g. religious institutions) will be eligible to receive financing through their governments only if the actors are appropriately regulated and permitted to operate by the government, consistent with education sector planning, and government ownership practices.

10. IFFEd will prioritize achievement of SDG 4 over bureaucracy by maintaining very lean management through an administrative unit that requires no additional donor finance to operate once established and structures to promote aid effectiveness. Following its inception, IFFEd's business model will be solely self-financed and not require additional donor financing to operate. The cost of the administrative unit will not grow beyond its revenue, and it will be modest in size given IFFED's role as a financing mechanism and not an implementing organization. This will ensure the staffing remains small and consistent with the size of the operation.

11. IFFEd will engage in responsible borrowing and lending practices and recognize debt financing is not appropriate for all countries. While many countries are able to use debt financing, in particular at concessional terms, as they move to the next level of sustained domestic resource mobilization for education, some countries are not able to sustainably take on additional debt. IFFEd funding will be made available to MDBs which adhere to norms of maintaining sustainable debt levels consistent with the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which noted the UNCTAD principles on responsible lending and borrowing, the requirements of IMF debt limits policy, and/or the World Bank's non-concessional borrowing policy, and the OECD Development Assistance Committee statistical systems safeguards to enhance the debt sustainability of recipient countries.

IFFEd financing will only be made available to countries that meet MDB standards through debt sustainability assessments based on comprehensive, objective, and reliable data. MDBs will be asked to certify that IFFEd investment will not raise debt sustainability issues prior to any approval of financing. While the Debt Sustainability Framework is in place for low-income countries, MDBs routinely assess debt sustainability as normal procedure for financing risks in lower-middle-income countries. All lending packages will include a discussion of the MDB's assessment of the country's debt sustainability. The level of debt sustainability will be taken into account when assessing the level of concessionality.

Annex 9: List of Lower-Middle-Income Countries with Lending Windows (Draft)

Eligible countries are those countries that are able to receive non-concessional lending from any of the MDBs and whose GNI per capita does not exceed the upper limit determined by the World Bank for LMICs (currently $3955). This list will be reviewed and revised, as appropriate, each year by the IFFEd Board taking into account updated information provided by the MDBs (including updated World Bank information on the LMIC upper limit for GNI per capita).

Table - LMICs with lending categories of select MDBs

Countries in **bold** are LMICs currently eligible for non-concessional lending from at least one multilateral development bank, including World Bank and AfDB "gap" countries that receive concessional financing on blended credit terms.

	World Bank	IDB	AfDB	ADB	EBRD
Lower-middle-income countries[34]					
Angola	IBRD	-	ADB	-	-
Armenia	IBRD	-	-	OCR	EBRD
Bangladesh	IDA [1]	-	-	Blend	-
Bhutan	IDA [3]	-	-	ADF	-
Bolivia	IBRD [4]	Blend	-	-	-
Cabo Verde	Blend [3]	-	ADB	-	-
Cambodia	IDA	-	-	ADF	-
Cameroon	Blend	-	Blend	-	-
Congo, Rep.	Blend	-	ADB	-	-
Cote d'Ivoire	IDA [2]	-	ADF [1]	-	-
Djibouti	IDA [3]	-	ADF [1]	-	-
Egypt	IBRD	-	ADB	-	EBRD
El Salvador	IBRD	OC	-	-	-
Georgia	IBRD	-	-	OCR	EBRD
Ghana	IDA [2]	-	ADF [1]	-	-
Guatemala	IBRD	OC	-	-	-
Honduras	IDA [2]	Blend	-	-	-
India	IBRD	-	-	Blend	-
Indonesia	IBRD	-	-	OCR	-
Jordan	IBRD	-	-	-	EBRD

[34] World Bank Country and Lending Groups. 2018. https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

Kenya	Blend	-	Blend	-	-
Kiribati	IDA [3]	-	-	ADF	-
Kosovo	IDA [2]	-	-	-	EBRD
Kyrgyz Rep.	IDA	-	-	ADF	EBRD
Lao PDR	IDA [2]	-	-	ADF	-
Lesotho	IDA [2]	-	ADF [1]	-	-
Mauritania	IDA	-	ADF [1]	-	-
Micronesia	IDA [3]	-	-	ADF	-
Moldova	Blend	-	-	-	EBRD
Mongolia	Blend	-	-	Blend	-
Morocco	IBRD	-	ADB	-	EBRD
Myanmar	IDA [2]	-	-	ADF	-
Nicaragua	IDA [2]	Blend	-	-	-
Nigeria	Blend	-	Blend [2]	-	-
Pakistan	Blend	-	-	Blend	-
Papua New Guinea	Blend	-	-	Blend	-
Philippines	IBRD	-	-	OCR	-
Sao Tome & Principe	IDA [3]	-	ADF [1]	-	-
Solomon Islands	IDA [3]	-	-	ADF	-
Sri Lanka	IBRD [4]	-	-	Blend	-
Sudan	IDA [5]	-	ADF	-	-
Swaziland	IBRD	-	ADB	-	-
Syria	IDA [5]	-	-	-	-
Tajikistan	IDA	-	-	ADF	EBRD
Timor-Leste	Blend [3]	-	-	Blend	-
Tunisia	IBRD	-	ADB	-	EBRD
Ukraine	IBRD	-	-	-	EBRD
Uzbekistan	Blend	-	-	Blend	EBRD
Vanuatu	IDA [3]	-	-	ADF	-
Vietnam	IBRD [4]	-	-	Blend	-
West Bank & Gaza	-	-	-	-	EBRD
Yemen	IDA	-	-	-	-
Zambia	IDA [2]	-	Blend	-	-
Low-income countries eligible for non-concessional lending					
Senegal	IDA	-	Blend	-	-

NOTES

World Bank

[1] Transitioning to blend terms. GNI per capita has been above the IDA operational cutoff for either one or two years. Once the GNI per capita has been above the operational cutoff for IDA eligibility for more than two consecutive years, the country will receive IDA financing on blend terms.

[2] "Gap" country that receives IDA financing on blend credit terms. GNI per capita has been above the operational cutoff for IDA eligibility for more than two consecutive years, but country is not creditworthy due to political or debt considerations.

[3] Small State Economy with a population of 1.5 million or less. Eligible for IDA financing on Small Economy Terms, effective July 1, 2017.

[4] During IDA18 Bolivia, Sri Lanka and Vietnam receive exceptional transitional support from IDA.

African Development Bank

[1] Gap country: Above GNI per capita cutoff point but not creditworthy. Eligible for ADF loans on hardened terms.

[2] Graduating to ADB loans.

Countries that will likely achieve lower-middle-income status by 2030:

Afghanistan
Benin
Burkina Faso
Chad
Comoros
Ethiopia
Guinea-Bissau
Haiti
Mali
Marshall Islands
Mozambique
Nepal
Rwanda
Senegal
Sierra Leone
Tanzania
Togo
Uganda

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@educommission
info@educationcommission.org
educationcommission.org