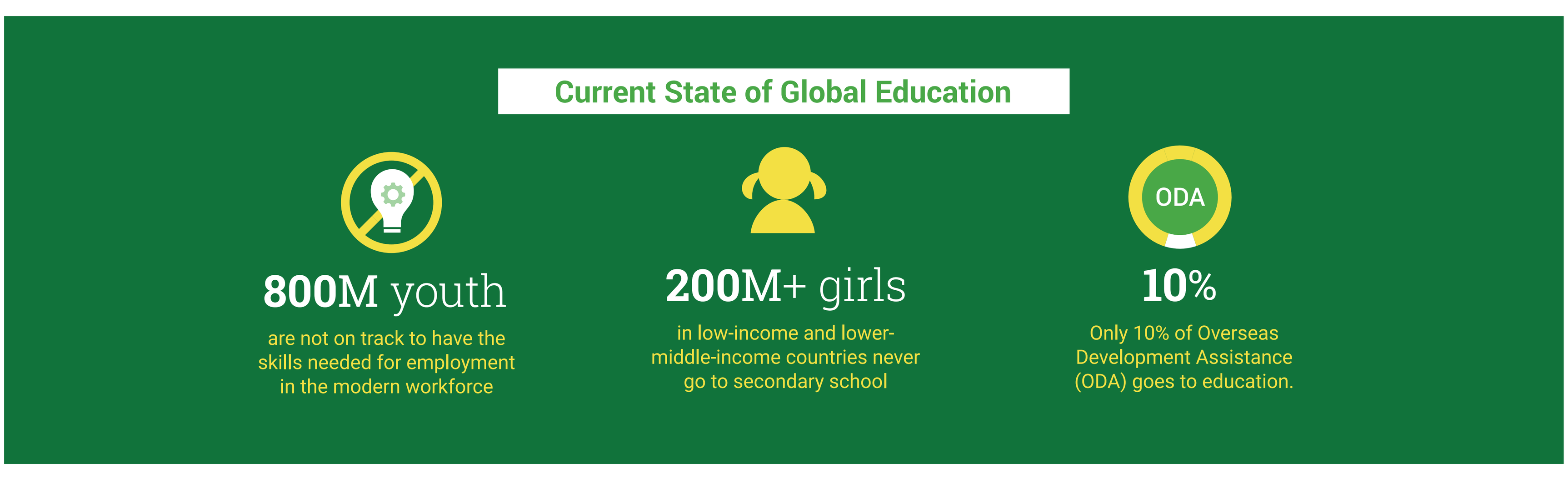
The International Finance Facility for Education (IFFEd)

There is no better investment in our future than education. In today's global economy and society, investments in human capital are essential and smart. Quality education is absolutely vital to lift people out of poverty, ensure healthier families, unlock job opportunities, increase security, and create more stable and peaceful societies; it is the keystone to achieving the 2030 Sustainable Development Goals (SDGs).

The world is sadly falling far short of SDG 4's target to ensure inclusive, equitable, quality education for all. More than a quarter of a billion children are out of school, millions more are in school but not learning the basics, and there is a severe shortage of skilled teachers. This is a global crisis: without urgent action, more than 825 million children – half of all young people in the world – will not have the most basic skills necessary to be engaged citizens or part of the workforce of 2030.

Focusing on poor children, not only on poor countries
The international community must engage with lower-middle-income countries (LMICs) – a poor child in northern Nigeria doesn't have a better chance of survival than a poor child in South Sudan. Even if LMICs substantially increase domestic revenues for education to international benchmarks and spend their resources more effectively, they will still face a significant education finance gap (around US$70 billion per year by 2030). Despite these urgent needs, affordable international funding for education in LMICs is highly constrained – in part due to the ineligibility of most LMICs to receive concessional (low-interest, below market) financing from the multilateral development banks (MDBs), and also because many bilateral development agencies prioritize low-income countries (LICs, rather than low-income people) and other important issues such as climate change and fragile states. An unintended consequence of these decisions is that they are seriously limiting the ability of many LMICs to achieve SDG 4 and, by extension, the delivery of all other SDGs. Tragically, the unrealized potential of children deprived of schooling in countries like Bangladesh, Nigeria, Kenya, and Pakistan represents a permanent loss of potential that can never be recovered.



Filling a critical gap in the aid architecture
IFFEd has been designed to help address LMIC financing needs at minimum cost and maximum leverage. The financing gap cannot be filled by traditional aid. Total global aid for education is currently only around $12 billion – roughly $10 per child – barely enough to pay for a secondhand textbook. Indispensable programs such as the Global Partnership for Education (GPE) and Education Cannot Wait (ECW) are not designed to address LMICs' large long-term financing needs and are already stretched focusing on LICs or emergency humanitarian needs. The sheer scale of the education financing challenge in LMICs requires new and ambitious approaches. IFFEd complements these existing instruments and fills a critical gap in the international financing architecture for education. By multiplying scarce donor resources in an unprecedented way, IFFEd allows donors to better meet the needs of LMICs, without having to reduce allocations to LICs or for humanitarian crises.

Maximizing the impact of donor funds
IFFEd uses guarantees and grants from contributors to generate increased education financing by the MDBs and reduce lending terms for borrowers. IFFEd has two funding windows and donors can contribute to one or both windows:

> **Guarantees[1]:** IFFEd uses contingent financing contributions to MDBs (provided partly as grants and partly as guarantees) to enable them to raise additional finance in capital markets. Donors only need to provide 15% of the total commitment in cash, with the remaining 85% in the form of a contract to convert commitments into cash if specified trigger events occur (e.g. non-payment by borrowers). Analysis based on the past 20 years indicates these trigger events are highly unlikely to occur.
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> **Grants:** IFFEd will provide grants to participating MDBs to help lower the cost of education financing packages to eligible countries. This grant finance allows LMICs to borrow for education on more affordable terms, stretching scarce resources for education much further. Between 2015 and 2017, 12% of concessional MDB lending for LMICs was taken up for education, compared to just 2.5% of non-concessional (market-based) lending.
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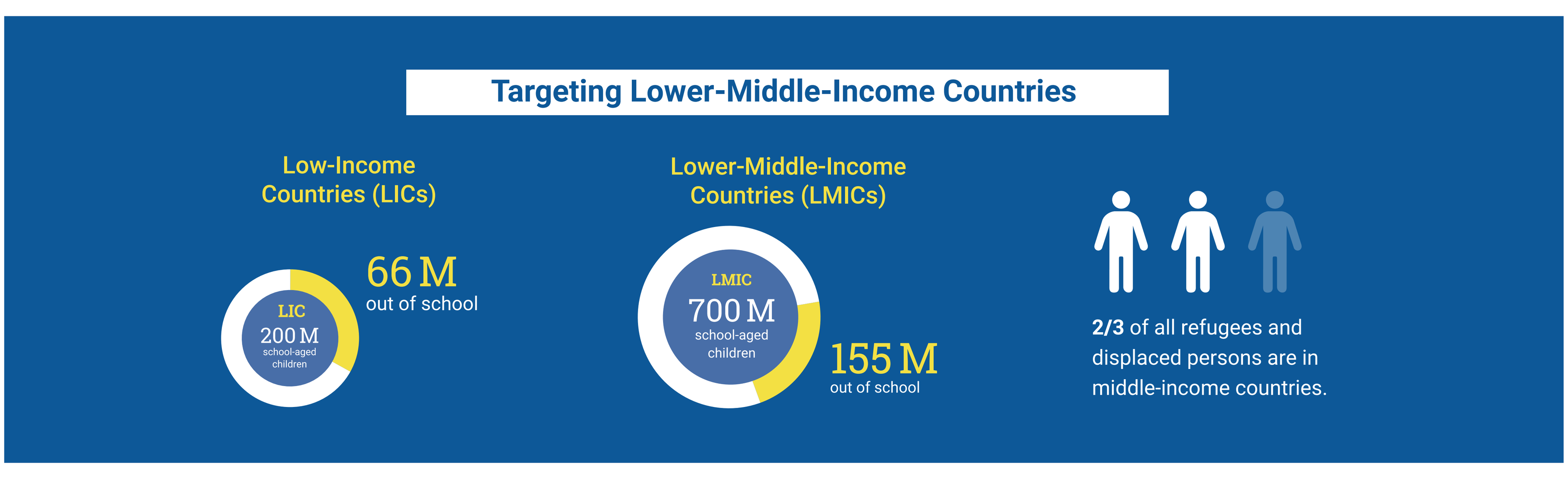
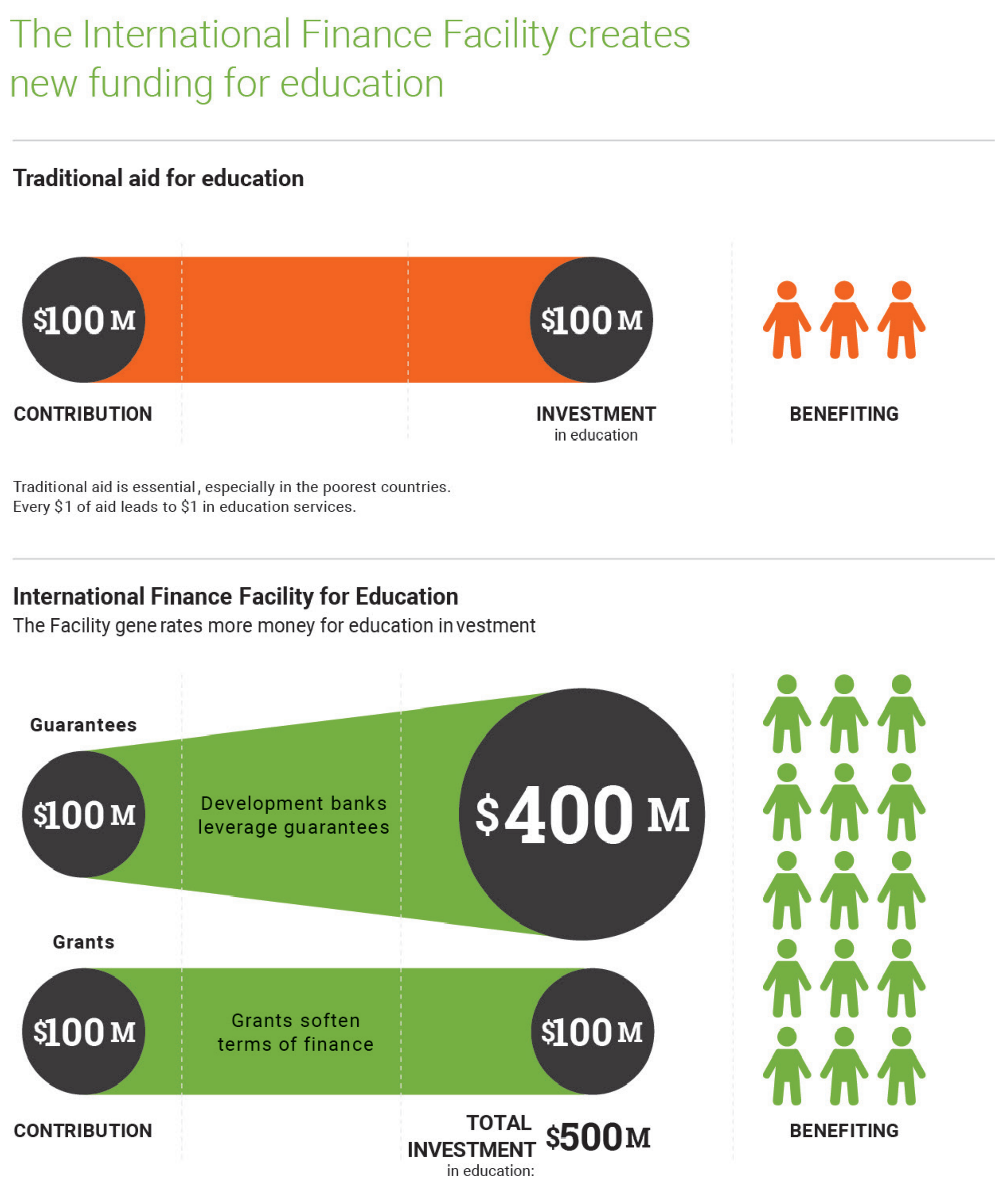
> [1] While we use the term guarantees to refer to this window, legally speaking the guarantees are contingent financing agreements.



How does it work? IFFEd is not an implementing agency. It will work by enabling participating MDBs to increase the amount and affordability of funding for education in LMICs.The fundamental premise of the MDBs' financing models is that they can borrow and then lend, at low rates, a multiple of their capital base to countries due to their AAA rating. The guarantees provided to IFFEd by donors, treated as hybrid capital, allow the MDBs to further expand their lending to an estimated $4 for each $1 of guarantees.



The figure illustrates how IFFEd works. Traditional grant aid yields $100m of education investment for each $100m of donor contribution. Under IFFEd, $100m in guarantees yields $400m in additional education investment. The grant portion of IFFEd – another $100m in the example – provides another $100m in education investment and plays a crucial role in making the entire package concessional. Thus, a $200m contribution (assuming $100m as guarantees and $100m as grants), would unlock $500m of additional education investment.For donors, IFFEd should be very attractive because only 15% of the guarantee needs to be paid in cash; the remaining 85% would only be needed in the highly unlikely event that borrowers are unable to meet certain obligations to the MDBs. A $115m cash contribution would thus leverage $500m of additional education programming.

IFFEd aims to mobilize at least $10 billion in additional international finance towards achieving SDG 4. Its initial fundraising target is $1 billion for the guarantee window ($150 million in cash and $850 million in contingent commitments) and $1 billion for the grant window. This will deliver a total of $5 billion in new education finance in its first five-year programming period.

Steps are underway to establish IFFEd and its small administrative unit in the UK so it can be fully operational in 2020. Education initiatives will be implemented by MDBs (the World Bank, ADB, AfDB, and IADB) which have extensive experience developing and implementing education programs and have been heavily engaged in IFFEd's design. The Facility will foster greater collaboration and coordination among the MDBs and complement the work of other entities, including GPE and ECW. IFFEd will also have a robust results framework with key indicators aligned to SDG 4.

Who will benefit? Nearly 50 countries may benefit, subject to eligibility criteria. This includes populous countries with large poor and marginalized populations. The number of eligible countries will grow as more gain LMIC status over time.

> **An education compact**
> Receiving support from IFFEd will not be automatic. Countries must demonstrate:
> 1. a credible strategic framing document, such as a national education plan;
> 2. a commitment to improving education opportunities for marginalized children consistent with the "leave no one behind" principle;
> 3. a commitment to increase its domestic education budget to meet international standards;
> 4. a capacity to sustain additional MDB debt, as demonstrated by a debt sustainability analysis; and
> 5. a growing integration of results-based approaches to achieve nationally owned targets (consistent with the Paris Declaration on Aid Effectiveness).

Impact at scale
Compared to traditional grant aid, IFFEd will benefit close to five times more children and youth for the same grant contribution. The Facility will focus on increased prioritization of education in LMICs and incentivize additional domestic spending for education. IFFEd funding will be additional to current country allocations from the participating MDBs and will result in greater education opportunities for millions of marginalized children and youth and improved education quality and learning. There is no time to waste.

Let's make impossible possible.