the Education Commission

A proposal to create a new

International Finance Facility for Education

Summary

A key recommendation in the Education Commission's Learning Generation report is to create an International Finance Facility for Education (IFFEd) – a donor and Multilateral Development Bank (MDB) investment mechanism. The facility aims to ensure that education benefits from an unprecedented opportunity to deliver on the Sustainable Development Goals' (SDGs) financing theme from "billions to trillions" and could mobilize $13.5 billion annually in *additional* resources for education by 2020.

The Challenge

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

In its report, the Commission undertook detailed analysis of reforms and other measures that would be required to change course. If all countries accelerated progress at the rate of the world's 25 percent fastest education improvers, it would then be possible, within a generation, for all young people to be learning and attain the education SDG.[1] Achieving this objective requires the annual total investment for education (domestic and international, public and private) in countries currently classified as low- or middle-income be scaled up from 6 percent of their GDP to 8.5 percent of GDP on average, or from $1.2 trillion annually to $3 trillion (in constant prices) between now and 2030.

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

[1] SDG 4: "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all."

to education to almost 20 percent of total public spending, there would still be a need for a major increase in international support. Yet, despite this need for growing external financing, analysis by the Commission shows that support has been lagging with the share of education in total Official Development Assistance (ODA) declining from 13 to 10 percent over the past decade. Currently, ODA for education is less than $10 per child, hardly enough to pay for a textbook.

The Compact

To achieve the Learning Generation vision, the Commission recommends a financing compact with countries. Low- and middle-income countries would agree to reform their systems for results and increase domestic public expenditure on education from an average of about 4 percent of GDP today to 5.8 percent of GDP by 2030. In return, the international community would increase its financing from about $16 billion per year today to some $90 billion by 2030. Even with this large increase, international funding would provide only 3 percent of the total investment needed, with 97 percent coming from domestic sources. Countries would enter this compact based on accountability and results.

ODA will have to play a critical role in delivering on the compact, but it alone will not be enough. This is because even if ODA as a share of donor GDP increases from about 0.3 percent today to 0.5 percent, and if allocation to education rises from 10 percent to 15 percent of total ODA, there will still be an external financing gap in low- and middle-income countries of about $10 billion by 2020 and more than $20 billion by 2030.[2] The proposed IFFEd would help to bridge these gaps.

The countries most vulnerable to education funding shortfalls will be the lower-middle-income countries which will account for 80 percent of the external financing gap by 2030. These countries comprise the largest numbers of out-of-school children, host 60 percent of all refugees and 80 percent of displaced populations. With increasing concerns about security, stability and social cohesion, demand for education is high. However, there is little grant financing available to meet these demands, and other options – from development bank financing at 3.5 percent interest to capital markets at 8 percent interest – are too expensive to be attractive.

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

The Precedents

To address the education financing challenge, the Education Commission has drawn from experiences of other innovative schemes which have used a combination of capital leverage and a compact between different parties. These include the Heavily Indebted Poor Countries (HIPC) initiative, which offered 38 of the world's poorest countries $100 billion in debt relief, and the International Finance Facility for Immunisation (IFFIm) initiative, which mobilized $5 billion of private sector funding for GAVI. The results speak for themselves. In the case of the IFFIm, by front-loading inoculations for children, the lives of at least five million boys and girls were saved.

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

The Proposal

The IFFEd would create a consortium of public and private donors and international financial institutions including the World Bank and Regional Development Banks, working in concert to raise additional financing for education and ensure it is spent more effectively. The facility would bridge the gap and create attractive financing packages for low- and middle-income countries, and emergencies by better ***distributing*** scarce – in particular grant – resources***,*** ***multiplying*** the international resources allocated to education through innovative capital leverage of the MDBs, and ***creating demand*** in middle-income countries for borrowing for education through buy-downs of non-concessional loans.

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

One other critical source of financing for education in LICs is the concessional windows of the MDBs that can provide resources at more than 50 percent grant equivalent to LICs and some eligible lower-middle-income countries. As part of the IFFEd design, mechanisms or incentives would be developed to ensure education benefits from current opportunities within MDBs to expand their concessional financing.[3] **By encouraging MDBs to allocate 15 percent for education, and pushing for further expansion and/or front loading of future concessional financing, IFFEd would aim to mobilize an *additional* $3.5 billion of concessional financing from MDBs by 2020**.

- **Lower-Middle-Income Countries (LMICs)**. The LMICs will have very large needs for international finance, rising to $23 billion by 2020 and $71 billion by 2030. While grant financing will remain critical in these countries, it will be practically impossible for donors to provide grant financing for all these needs. Hence, the IFFEd would find ways to create additional financial capacity in those institutions who have the ability to ***multiply*** donor resources further. The most obvious institutions to do this are MDBs. Using their balance sheets, MDBs could leverage funding provided by donors through IFFEd by four times. The Facility would use donor guarantees as quasi-capital to help expand the lending capacity of the MDBs.[4] In addition to expanding capacity, IFFEd would also provide ***incentives*** for countries to use the financing for education by subsidizing or buying down the interest (and where needed capital) payments.

  Initial estimates show that IFFEd could leverage an *additional* $10 billion in concessional financing for LMICs by 2020, by:

  - Expanding the lending capacity of the MDBs through **guarantees** valued at $2 billion. Based on their AAA rating, this would enable the banks to borrow $8 billion from commercial markets. This would be in addition to the already existing portfolio of non-concessional financing from MDBs of $1.5 billion.

[3] For example, the World Bank has recently restructured its balance sheet and successfully completed its 18th replenishment which will enable it to grow its overall concessional window by 50 percent in the next three years.
[4] If the facility guarantees a portion of the principal and interest obligations of a borrowing country, the MDB will be able to give out additional education loans over and above those derived from its existing capital base.

- ➢ Adding another $2 billion of grants to **buy down** these loans to concessional terms.

  For every $1 invested, the facility could leverage $2.5 to $4 into direct investment depending on the cost of buy-downs, the need for paid in guarantees and the risk assessment of rating agencies.

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

Together, the Commission estimates that IFFEd could leverage at least $13.5 billion per year for LICs, LMICs and emergencies by 2020, complementing rising bilateral financing available to these countries, largely filling the financing gap.

Because it is a finance facility, the governance and administration of IFFEd need not be anything other than minimal and agile. It would be aligned with the quality enhancement processes of the MDBs and other partners who would be the implementing agencies. The IFFEd would require a minimum number of staff. The governance is currently under development but key tasks under consideration include: identification of developing countries joining the facility using a simple set of criteria (including a quality national plan where possible prepared with the support of the Global Partnership for Education (GPE), commitment to reform, debt sustainability, etc.), and approval of financing of education programs without duplicating existing processes of preparation and implementation by partner institutions.

Coherence

IFFEd will complement, not replace, the existing education financing architecture. It aims to augment existing bilateral and multilateral financing including by UN organizations such as UNICEF as well as the GPE, which primarily focuses on developing high-quality country plans and pooling much needed grant resources to lower-income countries, and Education Cannot Wait, which bridges resource needs in crisis situations. IFFEd aims to fill remaining financing gaps by bringing in *new and additional* resources not currently available for education.