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REPORT

MOBILISING INNOVATIVE FINANCE TO ACHIEVE SDG 4

Enhancing Impact through Innovative Financing for Education

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I. There is still a long way to go to achieve the targets of the Sustainable Development Goal 4

1. Progress still needed towards access to quality education for all

"Ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all" is the definition of the Sustainable Development Goal (SDG) 4, established at the United Nations Sustainable Development Summit in September 2015. The objective comprises seven targets and three implementation modalities to be achieved by 2030, cutting across four main dimensions: access to and retention in education, equality in access to education, quality of education as well as the conditions of education.

SDG 4 is crucial for the development of populations and the fulfilment of children and young people, but also for the achievement of the other sustainable development goals. Investing in education has many benefits, including:

- Promoting economic growth and reducing poverty: education creates opportunities for new generations and can provide them with the means and resources to escape poverty. For example, if all students in low-income countries acquired basic reading skills, 171 million people would be lifted out of poverty[1].
- Improving nutrition, health and well-being, as well as safety: one third of the reduction in adult mortality can be attributed to progress in girls' education[2], while each additional year of schooling reduces a young person's risk of being recruited into the armed forces by 20%[3].
- Reducing gender inequalities: increasing and maintaining girls' access to education on an equal basis compared to boys helps bring down sexual and gender-based violence and practices such as early and forced marriage or female genital mutilation. Closing the gender skills gap contributes to decreasing the wage gap, leading to increased gender equality in society: each additional year of schooling increases a woman's wage by 12%[1].
- Tackling climate change and supporting the ecological transition through girls' education and the development of skills: girls' access to education goes hand in hand with a drop in the birth rate due to a better awareness of available contraception methods and a delay in the age of marriage. Education and awareness-raising on sustainable development issues also gives people the keys to understanding climate change and acting on its causes and consequences. Eliminating the education funding gap in low- and lower-middle-income

[1] Global Business Coalition for Education - The Education Finance Playbook, 2021
[2] The Education Commission – IFFEd Prospectus
[3] The Education Commission – IFFEd Prospectus

countries could reduce CO2 emissions by 51.5 gigatonnes by 2050 (5 times the annual emissions of high-income countries)[4].

Although SDG 4 covers the entire education continuum, from pre-school to university education and vocational training, this report will focus primarily on primary and secondary education (ages 6 to 18). It should be noted that while most of the findings presented take into account the impact of the Covid-19 pandemic on education, some of the data used dates from before 2020 and therefore does not fully reflect the impact of the pandemic. Indeed, the pandemic has caused an unprecedented learning crisis, reversing many of the gains made in education over the past few years, including inequalities in access to quality education, quality of learning and well-being in school.

A. Nearly one-fifth of 6–18-year-olds lack access to education

In 2018, 258 million children and young people, or one-fifth of 6–18-year-olds, were not in school, including 59 million children of primary school age, 62 million in lower secondary school and 138 million in upper secondary school[5]. The Covid-19 pandemic exacerbated this situation, as large numbers of children were out of school for several months due to the total or partial closure of schools. At the height of the crisis, 1.6 billion children were out of school, including 810 million in low-income countries according to UNESCO. The health crisis has also increased the risk of being completely excluded from education for the most vulnerable children, especially girls and marginalised children. The Covid-19 pandemic is estimated to have pushed an additional 20 million girls out of secondary school[6].

A range of obstacles, of various kinds, explain the underlying problems that impede universal access to education:

- The lack of financial resources prevents states from investing sufficiently in education, resulting in inadequate school infrastructure, an absence of human resources and precarious learning conditions. Demographic pressure contributes to widening this gap. Additionally, the allocation of resources to the management of the Covid-19 crisis has been done at the expenses of spending in support to the education sector. 41% of low-income countries have reduced their education spending after the start of the pandemic in 2020, with an average drop in education spending of 13.5%. It must be noted that this contraction in education budgets was not compensated for by the many recovery plans drawn up in response to the Covid pandemic-19[7]. UNESCO

[4] Global Business Coalition for Education - The Education Finance Playbook, 2021
[5] UIS UNESCO
[6] Girls' Education and Covid-19. What past shocks can teach us about mitigating the impact of pandemics. Malala Fund.
[7] Education Finance Watch 2022. World Bank, GEMR, UIS. p.4

estimates that less than 3% of government recovery plans in low- and lower-income countries have been devoted to education[8].

- With costs of schooling being too high to bear for households, many parents would rather their children to generate income for the household than sending them to scool.
- Social factors (e.g., violence on the way to school) and cultural factors which shape gender norms and social relations (e.g., early marriages and pregnancies, required participation in household chores, women's education not being considered a priority given their role in society) hinder schooling, especially for girls.
- Insecurity and armed conflicts jeopardise access and the continuation of education, as schools may be subject to targeted attacks (on infrastructures, teachers, education staff, or even the learners themselves) and destroyed or damaged. Such unstable contexts increase the risk of school drop-out due to population movements or parents' fear of sending their children to school.

B. Access to education remains unequal between and within countries

Access to education for all levels remains profoundly unequal between countries according to their level of wealth[9]:

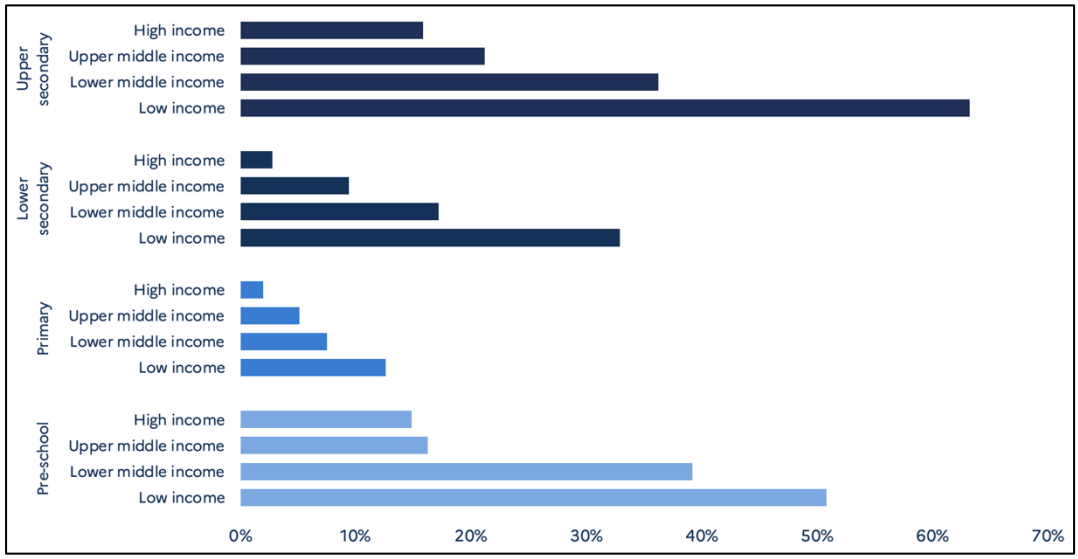

Figure 1: Percentage of school-age children not in school by level and country category (Source: UNESCO – SCOPE Database)

[8] The State of the Global Education Crisis: a path to recovery. UNESCO, UNICEF, World Bank. p.41
[9] UNESCO – Education Progress Database, data from 2018

Inequalities in access to education within countries are also high, particularly in the lowest income countries where the primary school completion rate is 26% for the poorest population group compared to 73% for the richest population group[10]. In addition to these social inequalities, geographical disparities, particularly between urban and rural areas, aggravate the marginalisation of the most vulnerable communities and groups and their access to education. In particular, the Covid-19 crisis has highlighted the magnitude of the digital divide existing between the rural and urban world. In Central and West Africa, where audio-visual media have been mobilised to ensure the continuity of distance learning, only 26% of households in rural areas had a television, compared to 73% of urban households[11].

Furthermore, access to education is often unequal between boys and girls, increasingly so throughout the schooling process. Gender equality in access to education is achieved in two out of three countries for primary education, one out of two countries for lower secondary education and only one out of four countries for upper secondary education[12]. Higher-income countries are closer to parity: while there were only eight girls for every ten boys in upper secondary education in low-income countries in 2018, high-income countries had reached parity[13]. It should be noted that these inequalities in access and retention between girls and boys, aggravated by the Covid-19 crisis, persist in a post-pandemic context. UNESCO estimates that around 24 million learners are at risk of never returning to school because of the pandemic, with girls, children from poor families and children with disabilities being most at risk[14].

Political instability and insecurity in conflict zones represents an additional factor for educational inequalities within countries and regions. 128 million children of primary and secondary school age were out of school in conflict-affected countries in 2018, more than half of whom were girls[15]. Girls are indeed the first victims in crisis and emergency situations as they are 2.5 times more likely to be out of school than their male counterparts when living in a conflict zone[16].

[10] UNESCO – Education Progress Database
[11] The State of the Global Education Crisis: a path to recovery. UNESCO, UNICEF, World Bank. p.23
[12] Unesco – Education Progress Database
[13] UNESCO – Education Progress Database
[14] UNESCO, 2020
[15] Plan International, Left Out, Left Behind: Adolescent girls' secondary education in crises, Plan International, UK, 2019, p.30
[16] Education for all Global Monitoring Report, Policy Paper 21, UNESCO, June 2015, p.3

C. Basic skills are insufficiently acquired, even for children with access to education

Beyond issues of access, the quality of education received is equally fundamental for an individual to acquire the essential skills needed to enter the labour market, earn a decent living, and escape poverty. In 2017, half of all the world's children and adolescents (617 million young people) did not have the minimum level of literacy and numeracy skills[17]. Again, the situation is uneven across countries depending on their income levels. The educational poverty indicator developed by the World Bank and the UNESCO Institute for Statistics in 2019 measures the percentage of 10-year-olds who are unable to read and understand a simple text adapted to their age. This indicator averaged 90.7% in low-income countries, compared to 65.3% in lower-middle-income countries and 41.3% in upper-middle-income countries[18]. However, it must be noted that this data does not take into account the effects of the COVID-19 pandemic on education. In their simulations of the impact of the health crisis on educational poverty, based on the latest available post-pandemic data, the World Bank, UNESCO, and UNICEF estimate that the pandemic could have caused an increase in educational poverty of almost 70% globally. These simulations, presented in the report "The State of Global Learning Poverty: 2022 Update", have highlighted two alarming findings: all the gains in educational poverty recorded by low- and middle-income countries since 2000 could have been lost. Moreover, due to prolonged school closures and ineffective attempts at distance learning, 7 out of 10 children in low- and middle-income countries are estimated to be in education poverty[19].

Although the level of access to education is obviously fundamental, it does not guarantee the acquisition of basic skills. In 2017, half of all pupils who had completed primary education did not reach the basic reading level required for their age, with this figure rising to almost 80% for Sub-Saharan Africa and Central and Southern Asia[20]. The insufficient number of teachers and their level of training has a drastic impact on education quality. In overcrowded classrooms, teachers do not have the means nor the time to give the necessary attention to each student. Although progress has been made (i.e., the average number of pupils per primary school teacher in the world has fallen from 27 in 1999 to 23 in 2018), major disparities remain. For example, in 2018, there were still a total of 44 pupils per teacher in Sub-Saharan Africa compared to 15 in Europe and North America[21].

Inadequately trained teachers are also unable to deliver effective, quality education to their students due to limited pedagogical, didactic, and content knowledge. In

[17] United Nations
[18] World Bank Open Data, averages calculated from the most recent data available for each country
[19] The State of Global Learning Poverty: 2022 Update. World Bank, UNESCO, UNICEF. June 2022. p. 8-9.
[20] UNESCO – Education Progress Database
[21] UNESCO – Education Progress Database (2018)

2018, only 83% of the world's teachers were trained according to national standards. Again, this figure hides disparities between countries: for high-income countries it was 99%, while for low-income countries it encompassed only 64%. Learning materials (e.g., textbooks, reading books, worksheets), which are essential for skills acquisition, as well as teaching materials for teachers, are, in many parts of the world, outdated, worn out and in short supply. In Tanzania, for example, only 3.5% of pupils in the 6th grade have exclusive use of a reading book[22].

D. Infrastructure and conditions for education remain insufficient

Achieving SDG 4 also requires action to improve the conditions of students' education, which can have a direct impact on the access and quality dimensions of education.

One of the priorities is to provide schools with adequate water and sanitation facilities. For example, basic access to water is only guaranteed in 44% of primary schools in Sub-Saharan Africa[23]. In addition, only 57% of lower secondary schools in low-income countries had gender-neutral toilets in 2018[24]. The lack of such essential facilities can lead parents to choose not to send their children to school or children themselves missing several hours or days of school. Adequate gender-neutral toilets are particularly essential to enable girls to manage their menstrual hygiene in a healthy and confident manner. Electrification of schools also allows for more consistent access to education as it removes the constraints of lighting (i.e., rainy days, short days). Moreover, electricity also allows the use of digital education tools and modern teaching aids (e.g., computers, video projectors) which improve the quality of education. However, in low-income countries, 68% of primary schools and 48% of upper secondary schools did not have access to electricity in 2018[25]. In addition to the question of equipping school in adequate infrastructures, the challenge today is also to increase the resilience of schools in the face of climate change, particularly by rehabilitating or building new infrastructures and equipping them with the materials and fittings necessary to minimise their carbon footprint (access to renewable energy, insulation etc.).

Access to healthy, balanced, and free (or low-cost) food in schools can be a powerful driver of access to education, especially for households in financial distress, while also contributing to improving children's food security and health, in line with SDGs 2 and 3.

Finally, improving learning conditions also relates to achieving gender equality through and in education, by ensuring that girls have access to and remain in school,

[22] Global Citizen – 10 barriers to education around the world, 2019
[23] UNESCO – Education Progress Database
[24] UNESCO - average of the most recent data available
[25] UNESCO - average of the most recent data available

which includes promoting learning spaces that are free from sexual and gender-based violence, implementing curricula that are free from gender stereotypes, and ensuring that women are equally represented in the teaching profession, particularly in Sub-Saharan Africa.

2. A need to close an annual funding gap of 200 billion dollars

According to several experts, achieving SDG 4, and in particular the ability of countries to improve access, quality and equity in education at all levels, requires significant investments.

Globally, annual spending on education (government, household, and official aid to government) is estimated at 4,900 billion dollars[26], very unevenly distributed across countries. For example, 0.5% of this expenditure goes to low-income countries and 65% to high-income countries, even though both groups of countries have the same number of school-age children[27].

Education, especially primary and secondary education, is a government prerogative, with the mission of ensuring universal and equal access. On average, governments cover 79.3% of education-related expenditure, with households covering 20.4% worldwide. The share of expenditure covered by households is also higher in low-income countries (29%) than in high-income countries (18%). Donors also play an important role in financing education, accounting for 12% of total education spending. The ten largest donors to education are the European Union, Norway, the United Kingdom, the World Bank, the United States, Japan, Germany, the United Nations Relief and Works Agency, France, and the United Arab Emirates[28].

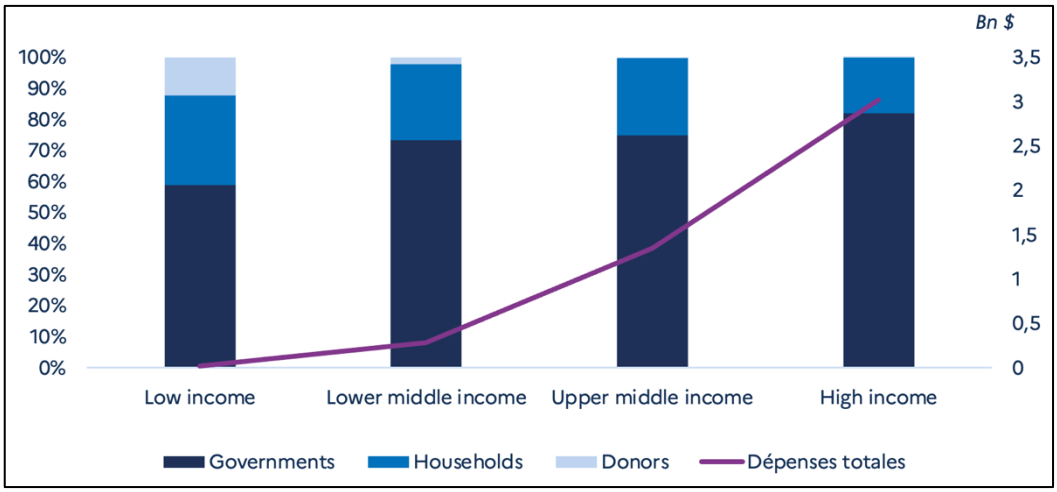

Figure 2: Expenditure on education by country category and source of funding in billions of dollars, 2018 (Source: UNESCO - Education Progress Database)

[26] UNESCO and World Bank – Education Finance Watch 2022
[27] UNESCO – Education Progress Database
[28] UNESCO - Education Progress Database, 2018

The 2015 Incheon Declaration, which set out a new vision for education for the next 15 years and was adopted by 160 countries[29], sets two education spending targets for governments:

- Allocate a minimum of 4-6% of GDP to education, and/or
- Allocate a minimum of 15-20% of public expenditure to education.

These principles were reaffirmed by the Paris Declaration of November 2021[30], adopted following France's initiative, by the member states of UNESCO, which committed themselves and called for education to be made a priority in the national recovery plans following the Covid-19 crisis, a point that was also emphasised during the Education Transformation Summit in September 2022[31]. Globally, these targets are being met, with an average of 4.4% of GDP and 14.1% of total public expenditure allocated to education. However, one in four countries has still not reached either of these two targets.

Furthermore, these spending targets are increasingly inadequate in light of the financing needs required to achieve SDG 4 by 2030. Prior to the COVID-19 pandemic, the financing gap in low- and lower-middle-income countries was estimated at $148 billion per year. The health crisis has contributed to widening this gap to an estimated $200 billion per year[32]. Compared to the amount of global development aid allocated to education, which was only $15.9 billion in 2021[33], this figure shows the scale of the financing needed for education, particularly to compensate for the setbacks caused by the health crisis, to which the deployment of innovative financing can provide an answer.

[29] UNESCO - Education 2030: Incheon Declaration, 2015
[30] Paris Declaration: A Global Call for Investing in the Futures of Education. November 2021.
[31] Call to Action: Investing More, More Equitably and More Efficiently organised in New York on the 16, 17 and 19 September 2022.
[32] UNESCO
[33] UNESCO and World Bank – Education Finance Watch 2022

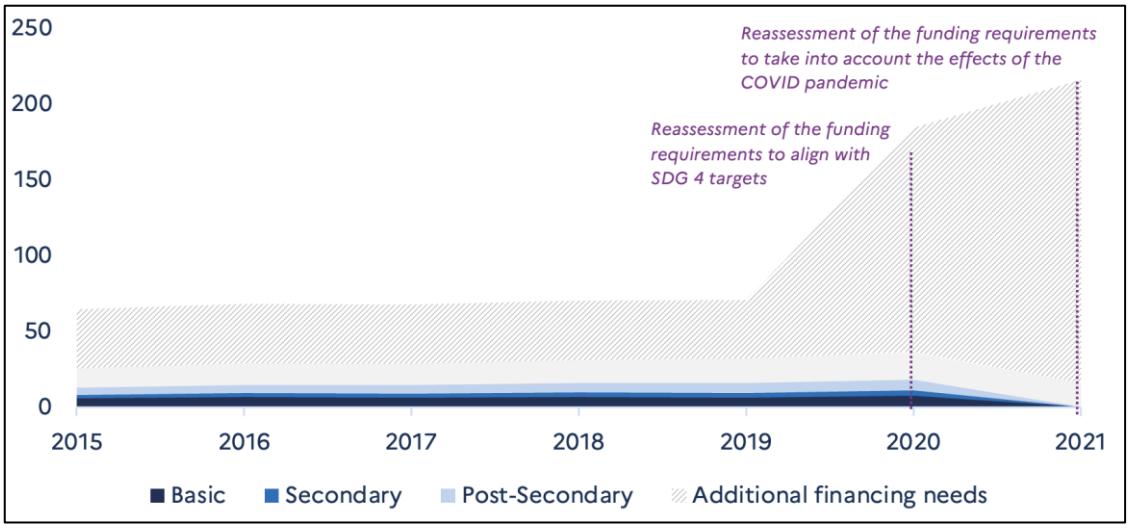

Figure 3: Additional financing needs compared to global aid for education, in billion dollars (Source: UNESCO and World Bank - EFW 2022)

"Despite its undeniable contribution, aid to education will not fill the education financing gap on its own. It must therefore necessarily involve the increasing mobilisation of domestic resources, particularly in a context of growing indebtedness for many high-income countries. Filling the education financing gap therefore requires structural changes for states: reduction of the informal economy, tax justice, fight against corruption, etc."[34]

Interview extract

Aid to education does not always prioritise the most critical needs. For instance, it largely favours support to higher education (39% of education aid between 2009 and 2020)[35]. A significant part of the amounts classified as education aid by donors is indeed often devoted to scholarships targeting foreign students. While the development of these scholarship programmes for students from low- and middle-income countries is one of the targets of SDG4, these measures must also be accompanied by increased support to basic, primary, and secondary education.

Even though funding needs are important, they must also respond to the diversity of the challenges to be met in order to achieve SDG 4 and cover a wide range of interventions. Experts highlight the following costs and investments needed by major categories[36]:

[34] For the totality of report: quote from interviews conducted for the study between August and November 2022.
[35] UNESCO – GEM Report, 2021
[36] The Education Finance Playbook

- Early childhood: 10% of government budgets should be devoted to early childhood. Early childhood education is crucial and has a profound impact on a child's development and long-term educational pathway.
- Basic education: 14 billion dollars would be needed for the 20 countries with the lowest literacy rates to achieve functional literacy and numeracy by 2030. UNESCO has estimated that the funding gap for pre-primary and primary education (in all countries) is about 25 billion dollars.
- Nutrition: 4.7-5.8 billion dollars would be required to provide all children with school meals.
- Tertiary education: The cost of post-secondary education has been estimated at an average of 60 billion dollars per year in low-income countries and 598 billion dollars per year in lower-middle-income countries for the period 2015-2030.
- Teachers: Approximately 69 million new teachers would need to be mobilised between 2015 and 2030 to achieve SDG 4[37]; the cost of teachers typically represents 75% of an education budget.

In addition to these findings, experts expect a sharp decline in government and household spending - which, as detailed above, accounts for almost all global spending on education - in the face of the difficulties caused by the pandemic and the multiple ongoing crises (economic, food, energy). Indeed, while education accounted for 14.1% of total public spending in 2019, it will account for only 13.5% in 2021[38].

3. A need to strengthen the complementarity between public and private education offerings

Although education remains primarily the responsibility of the government and therefore the public sector, more and more children are being educated in private (i.e., non-state run) schools. These institutions provide a complementary educational offer and contribute to increasing access and the quality of education. The share of these schools has thus increased from 10% in 2002 to 19% in 2019 for the primary education cycle, with disparities amongst countries: over the same period, this figure increased from 10% to 13% in low-income countries, while it rose from 14% to 27% in lower-middle income countries[39].

[37] UNESCO – Nearly 69 million new teachers needed to achieve global education goals, 2016
[38] Global Education Monitoring Report 2021
[39] UNESCO – Global Education Monitoring Report 2021/22

Although it is difficult to propose a mutually exclusive categorisation, different models of private education exist:

- Schools with a religious dimension run by religious congregations, in which religious education may be more or less important. These schools can also be completely independent from the state, subsidised by the state, or even public.
- Community schools set up and run by local communities, often through local education committees. Communities provide the premises, pay the teachers, and finance the system through household financial participation. These schools are usually found in rural communities and far from the public service but can be integrated into it. In addition, these schools are often supported financially and/or technically by local or international non-governmental organisations.
- Low-cost private schools whose fees are set to be affordable for low-income families. They may be owned by individuals, or by larger or smaller networks: chains of public schools, national or international non-profit networks. They may be partially or fully subsidised by the state, donors, or non-governmental organisations, allowing them to offer affordable fees.

> *"Many low-cost private schools have associative governance and suboptimal management. These schools do not generate enough profitability to borrow over reasonable time horizons, which limits their access to debt financing and thus their ability to expand."*
>
> *Interview extract*

- Private commercial schools. These include chain schools aiming for large-scale expansion, such as Bridge International Academies or Omega School. Also in this category are elite private schools or international schools. These are schools (which may be independent or part of networks) that charge high fees and are therefore aimed at the more affluent classes of the population.

Even though private education sometimes develops to compensate for the state's shortcomings in education, the reverse is also true: a significant presence of private actors can lead the state to disengage from the education sector: this is the case in Haiti, for example, where more than 80% of education provision is private[40]. Another danger is the lack of regulation of private schools, which can have consequences on the quality of education received by children: in Commune III of Bamako in Mali, only 30% to 40% of private schools respect the specifications for opening a private school.

[40] Interview with the Education Coalition

Moreover, private education does not always offer the same rights as public education to its teachers, particularly in terms of social protection and trade union rights.

Moreover, private schools can be a vector of socio-economic inequalities and discrimination. In Senegal, private school fees can represent up to 20% of the average gross income per capita without including related costs (i.e., transport, supplies), putting it out of reach for many families. Some families are therefore unable to send their children to school due to a lack of income and the absence of public schools nearby: in Côte d'Ivoire, 44% of the parents of primary school pupils and 36% of secondary school pupils state that there is no public school near their home. The lack of accessibility of public schools forces families to send their children to private schools, which weighs on their financial situation: in Senegal, 74% of the parents interviewed declared that they were sending their children to private schools out of obligation[41]. Furthermore, while there are no figures to support the following assertions by experts, the differences that may exist between private and public schools in terms of quality of education (e.g., lower teacher absenteeism, lower class sizes) may contribute to further inequalities in education and access to employment opportunities among young people.

II. Innovative financing, a solution to achieve SDG 4?

1. Innovative financing: definition and challenges of its mobilisation

The Leading Group on Innovative Financing for Development defines the concept of innovative financing as follows: instruments designed to raise additional funds for development, characterised by their complementarity to official development assistance, their predictability, and their stability. It is closely linked to the idea of global public goods and also aims to correct the negative effects of globalisation. Another definition of innovative finance includes all approaches aimed at mobilising more resources ("more finance") and increasing the effectiveness and efficiency of finance ("better finance") to meet the challenges of the SDGs[42].

Within innovative finance, blended finance refers to a subset of financing approaches that mobilise both public and private capital. In these approaches, public finance is used to de-risk and catalyse private investment (e.g., guarantees, junior capital, technical assistance grants) with the aim of attracting new and larger scale development capital.

The use of innovative financing contributes to meeting the immense financing needs of the SDGs in a context where state budgets are constrained, financial markets are unstable and development aid is decreasing in a context of economic crisis.

[41] Coalition Education – Private schools reinforce inequalities in Francophone Africa
[42] OCED, World Economic Forum, International Finance Corporation (IFC - World Bank Group)

Innovative financing can improve the efficiency of available funding and, in the case of blended finance, attract a larger share of private capital to low- and middle-income countries, better spread risk among stakeholders and align interests.

Innovative finance generates benefits for all stakeholders:

- For governments: access new sources of funding to support spending and investment in education, improve efficiency and transparency in the management of available funding, notably through results-based funding mechanisms.
- For donors: increase the impact of their funding through improved efficiency and transparency, act as a catalyst for attracting private capital on a larger scale for development.
- For investors: generate impact as well as financial returns from their investments, access new markets, diversify their risk through different types of investments (e.g., results-based investments).
- For service providers: access new, more patient and flexible sources of funding between philanthropy and market finance, benefit from a framework better suited to innovation and experimentation of new approaches thanks to greater flexibility and better alignment of stakeholders' interests, enable proof of concept of new approaches or new business models that will eventually attract more sustainable funding.
- For final beneficiaries: benefit from an improved access to basic goods and services and capital in the specific contexts.

Innovation in the term innovative finance encompasses several dimensions. First, it refers to the application of traditional financial approaches (debt, equity, bonds, etc.) to new contexts, sectors, and beneficiaries (e.g., impact investing targeting social enterprises or bonds targeting a specific development issue). It also refers to the involvement of non-traditional actors in development finance, including private investors in the case of blended finance or even individuals (e.g., diaspora bonds). On the other hand, it brings together several practices applied to traditional financing mechanisms to improve the speed of resource mobilisation or their efficiency (e.g., pooled funds, counterpart funds). Innovation also lies in the emergence of new approaches not known to traditional finance: results-based financing mechanisms are the best illustration. Finally, innovative finance aims to stimulate innovation in the sectors it finances, by providing more flexibility and allowing for risk-taking, in order to bring about and sustain new, more effective and impactful models and approaches.

The instruments and mechanisms mobilised by innovative finance can be grouped into five main categories:

Financing type	Description	Examples of Mechanisms
Mixed or concessional capital structures	Funds (which may invest in debt or equity), bonds and other traditional instruments, composed of different capital tranches with different risk/return profiles.	Blended funds, impact investment funds, diaspora bonds
Outcome-based funding mechanisms	Instruments whose financial flows are linked to the achievement of predefined impact objectives.	Impact bonds, performance-based grants/loans
Risk mitigation mechanism	Mechanisms that aim to better distribute risk among the various stakeholders and thus improve the risk/return profile of funded projects.	Guarantees, insurance, technical assistance
Voluntary contributions	Voluntary donations from individuals or organizations to finance development, with no expected return.	Multilateral grant funds, matching funds
Taxes	Mandatory contributions to specific activities/sectors redirected to development projects.	Corporate tax dedicated to funding vocational training

2. Barriers to the development of innovative finance

Innovative finance does not have a precise definition and covers a variety of realities, it is thus difficult to find up-to-date figures on the size of this market. More data exists to characterise the evolution of the blended finance sub-sector, thanks to the monitoring carried out by players such as Convergence, which monitors all transactions and publishes an annual report analysing its major developments and trends. The study of this sub-sector provides an overview, albeit incomplete, of the realities of the innovative finance sector.

At the end of 2021, cumulative investments and grants in blended finance transactions amounted to 160 billion dollars, with flows stabilising at around 9 billion dollars per year since 2015 for an average of 55 transactions per year over this same period. Lower middle-income countries continue to be the largest group of countries benefiting from blended finance instruments with 62% of transactions between 2018

and 2020 compared to only 24% for low-income countries over the same period[43]. However, the annual value of these transactions fell in 2020 (although the number of transactions remained stable) as a result of the pandemic, which led donors and investors to focus on pandemic-related emergency interventions[44]. The size of the blended finance sector remains relatively small. By way of comparison, official development assistance alone amounted to 179 billion dollars in 2021[45]. The share of innovative finance lies between these two realities.

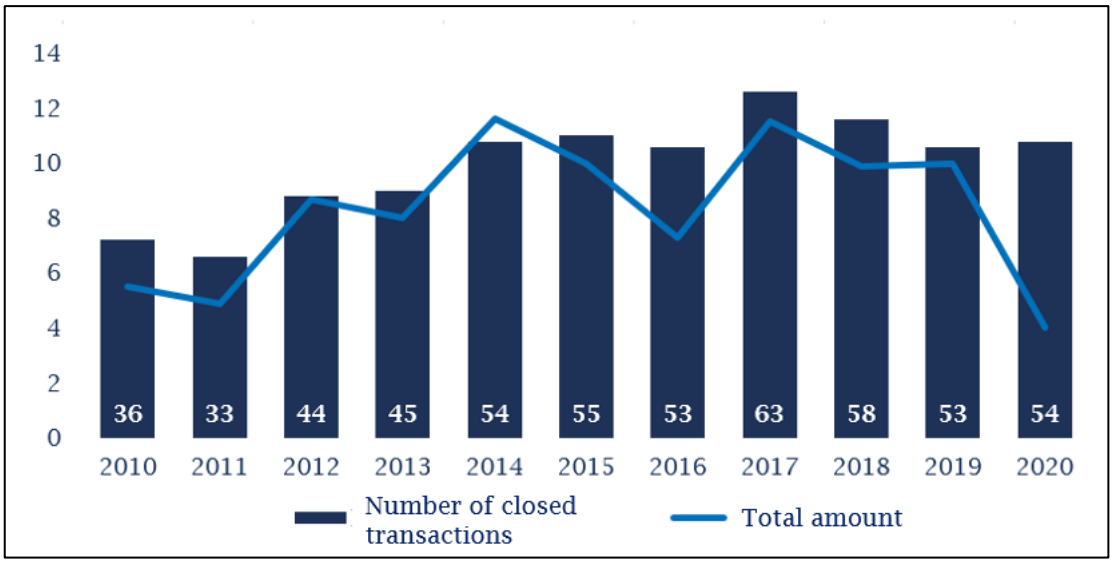

Figure 4: Number of blended finance transactions and total annual amount in billion dollars (Source: State of Blended Finance 2021 - Convergence, 2022)

On the other hand, the applications of blended finance, as listed by Convergence, remain concentrated in some key sectors which distinguish themselves by the development of business models that represent a potential investment and financial return for investors. These sectors are energy (35% of transactions in 2020), agriculture (28%) and financial services (26%).

In order for blended finance and innovative finance to be deployed to their full potential, several barriers need to be removed. Innovative finance remains a vague and unfamiliar concept for many public and private actors, who are reluctant to use concepts and financial products that they do not master. The low number of transactions on the one hand and the lack of transparency on transactions carried out on the other hand contribute to this problem[46]: the lack of data and standards on the liquidity, risks or performance of these tools compared to traditional investments or pure subsidies makes it difficult for public and private financiers to assess the opportunities that can be offered by these mechanisms.

[43] Convergence – The State of Blended Finance, 2021
[44] Convergence – The State of Blended Finance, 2021
[45] OCDE
[46] Convergence – The State of Blended Finance, 2021

Innovative financing is also associated with higher structuring costs (financial and human), precisely because of its innovative nature, thus limiting its attractiveness in the eyes of certain donors and investors. Innovation also results in pilot projects that are still too small in size, causing investors and donors to shy away in search of large tickets and further increasing the transaction costs per project. Finally, innovative financing mechanisms do not currently offer financial risk/return profiles that are attractive enough for private investors compared to more traditional financial instruments[47].

The development of innovative finance will benefit from a diversification of its actors. Beyond development agencies, international institutions, and development banks, which constitute the vast majority of its contributors, only the rallying of other organisations, in particular private philanthropic financiers, commercial investors as well as domestic governments, will enable the development of innovative finance on a larger scale.

3. Education is still a neglected sector of innovative finance

Innovative finance remains underdeveloped in the education sector compared to other sectors. This trend is also represented through the low weight education occupies in total global development aid. In fact, the share of education in total global development aid went from 13 billion dollars to 16 billion dollars between 2009 and today[48], while total official development assistance from Development Assistance Committee countries increased at a much larger rate, from 122 billion dollars to 170 billion dollars over the same period[49].

Education remains, in most countries, a prerogative of sovereign states, both in the way priorities are set and in the share of funding. Unlike other sectors (e.g., energy, health, agriculture, financial services), the education sector is characterised by a certain conservatism and a greater resistance to innovation and risk-taking. Beyond the development of the private education system in some countries, few sustainable business models are emerging that can transform the way we teach and learn, especially in primary and secondary education. For example, the potential of new information technologies remains underdeveloped in the education sector. The Covid-19 pandemic has, however, pushed towards greater integration of new technologies into education systems to overcome the learning gaps caused by prolonged school closures. Because of the large digital divide, many low- and middle-income countries have combined media such as radio or television with more interactive mobile phone-based modalities using SMS or phone calls to keep students

[47] The Knowledge, Evidence and Learning for Development Programme (K4D) – An overview of innovative financing mechanisms for education in development contexts, 2019
[48] UNESCO and World Bank – Education Finance Watch 2022
[49] OCDE - 2021

and teachers connected. The combination of these modalities has helped to minimise the effects of the digital divide, particularly for children from marginalised, rural, or low-income households without regular access to the internet[50]. In this context, some innovative finance approaches, notably mechanisms mobilising private finance, are more difficult to implement, due to the lack of revenue-generating models that are mature enough to receive investment.

Moreover, education is characterised by particularly long-time horizons (i.e., schooling cycles of 10 to 15 years), requiring long-term financing and offering particularly low prospects of return on investment[51]. Outcome-based finance must also deal with impacts that often take too long to materialise compared to the typical investment period of private funders (i.e., three to five years).

Higher education and vocational training, on the other hand, offer shorter investment prospects, linked to the imminent entry of young people into the work force and their future income generation. Thus, initiatives are emerging for young people to finance their higher education through income-sharing arrangements in exchange for a portion of their future salary (e.g., the *African Leadership Finance Company* initiative in Kenya).

Finally, the education sector offers transaction sizes that are too small compared to other sectors, limiting the interest of many funders and notably investors. The great fragmentation of education players and the still underdeveloped level of maturity of private companies in this field make it difficult to absorb large amounts of capital.

> *"Ticket size is one of the structural limitations to debt financing of public schools: transactions in this education cycle are often for small amounts, with mostly working capital needs to cover the cost of human resources and little CAPEX. Except for a few networks of public schools that have reached a critical size with larger financing needs, the loans requested by the schools are often too small to compensate for the associated transaction costs."*
>
> ***Interview extract***

Innovative finance, however, has unparalleled potential to fill the education sector financing gap and mobilise new resources to complement traditional education sector funding sources, especially for under-resourced countries and education areas who need it most. Its role in improving the efficiency and transparency of funding is also essential in a sector marked by unequal access to education, alarming learning outcomes, inadequate training and in some contexts significant teacher shortages and unfavourable learning conditions. Finally, innovative finance should support the development of new business models and new approaches, promoting innovation in education to make it more efficient and to achieve greater impact.

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[50] OECD – What's Next? Lessons on Education Recovery, 2021

[51] K4D – An overview of innovative financing mechanisms for education in development contexts, 2019

4. Overview of innovative finance transactions in education

At the beginning of 2022, Convergence identified a total of only 43 cumulative blended finance transactions (out of 778 in their database) contributing to the achievement of SDG 4, for a total amount of approximately 2 billion dollars. Half of these transactions were also multi-sector initiatives (e.g., *Novastar Ventures* impact investment funds in East Africa or *Menterra*), not specifically dedicated to education. The amount of blended finance transactions dedicated to education therefore remains lower than the amount of philanthropic funding to education (which represented 4.5 billion dollars over the period 2016-2019[52]).

Our mapping of innovative finance initiatives in the education sector has enabled us to identify 69 initiatives for a total amount of 21 billion dollars[53], taking into account the transactions listed by Convergence but only those dedicated to education (i.e., excluding multi-sector transactions) and including other initiatives that do not belong to blended finance. Initiatives focused on higher education are included in this census in order to assess and compare their weight and the nature of the transactions in relation to primary and secondary education. We analyse the key characteristics of these transactions below.

Out of the 50 interventions that do not cover the whole education cycle and for which data is available, 34 focus on primary education, 15 on secondary education and a further 15 on higher education (some of which cut across two education cycles).

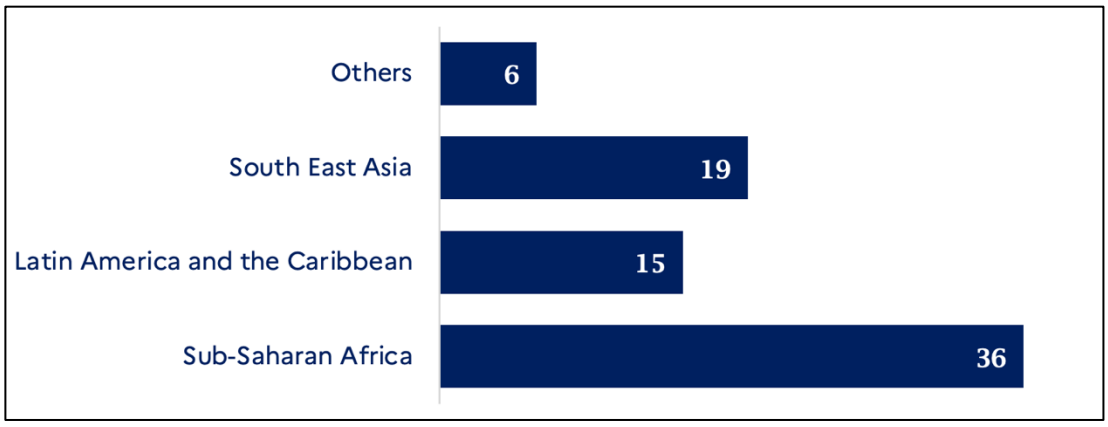

Figure 5: Distribution of initiatives by geography (Source: KOIS) [54]

In terms of geographical coverage, 36 interventions are listed in Sub-Saharan Africa. There are a few regional initiatives, such as *Blue Orchard's Regional Education Finance*

[52] GPE - Beyond funding: 4 trends in private philanthropy for education, 2022
[53] A list of these 69 initiatives can be found in the appendices of this report. This is not an exhaustive list. The amount shown covers the 50 transactions for which the amount is known.
[54] Category "Others": Canada, China, Israel, Uzbekistan, Palestine, Turkey

Fund for Africa (REFFA), which provides funding to private education providers and families in the region, or the *Catalyze Edufinance* platform, which aims to increase the accessibility of schooling by financing public schools with private capital. Localised initiatives range from more developed countries such as South Africa (where there are several social impact bonds) and Kenya to lower income countries such as Sierra Leone and Ghana, which benefit from funding from the *Education Outcomes Fund*.

South and East Asia also have a significant number of initiatives, 19 in total, mostly represented by India. This country has hosted 11 innovative financing initiatives, including three impact bonds aimed at improving the quality of education (*Educate Girls Development Impact Bond (DIB), Quality Education DIB*) or job placement (*Skill Impact Bond*). There are also initiatives in Indonesia, such as a debt swap with Germany or a performance-based funding from the central government to schools in the Jakarta region.

In addition, there are 15 initiatives in Latin America and the Caribbean, several of which are regional in scope, such as the *Education, Youth and Employment Bonds*, a bond programme of the Inter-American Development Bank that provides loans to governments in the region to support education projects. There are also a number of national government-led initiatives, such as conditional cash transfers to households in Guatemala or performance-based grants to local governments in Peru.

Finally, there are several multilateral initiatives that are either global in scope or targeted to certain categories of countries regardless of their location. Examples include the *Education Cannot Wait* Fund, which targets countries in emergency and protracted crisis situations, the Global Partnership for Education's Multiplier Fund (MEF) which targets low- and middle-income countries on all continents, and the *International Finance Facility for Education (IFFEd)* which targets lower middle-income countries.

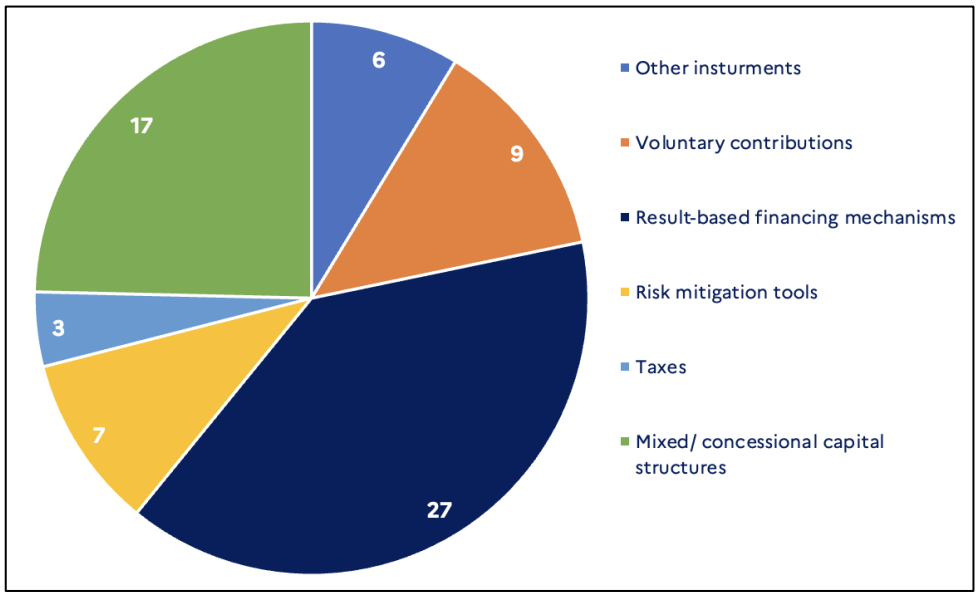

Figure 6: Distribution of initiatives by instrument category (Source: KOIS)

In terms of financing instruments, results-based financing is the most represented category. In particular, there exist ten impact bonds, including the social impact bond focused on early childhood development in South Africa, which aims to prepare young children from disadvantaged backgrounds for school through home-based interventions. These mechanisms are characterised by their small scale: the largest being the 14 million dollars *Skill Impact Bond* in India. Other results-based funding mechanisms include government-wide instruments such as the *Education Programme for Results (EP4R)*, a performance-based lending programme between the World Bank and Tanzania. For example, the Debt Reduction and Development Contract (C2D) deployed by the French Development Agency (AFD) for highly indebted countries such as Côte d'Ivoire makes it possible to convert the debt of beneficiary countries into grants reserved for poverty reduction programmes. These other transactions can be larger in scale than impact bonds: the EP4R programme, which is the largest in terms of amount in this category, is a loan totalling 160 million dollars.

The second most represented instruments are mixed or concessional capital structures. In these mechanisms, funders accept lower financial returns and/or higher risk exposure for the benefit of the recipient of the funds or to attract private investors with a more commercial risk/return profile. This study identified several examples of philanthropic investors investing in impact companies, especially in the education and new technologies sector (or *"Edtechs"*). For example, the UBS Optimus Foundation has invested concessional equity to attract private investors in the *EdTech* company *Kreedo*, which partners with Indian private primary schools to improve their learning outcomes. There are also mixed funds where the participation of philanthropic funders de-risks the capital invested by the private sector. The REFFA fund mentioned above is structured in this way: the German government via BMZ and KfW covers the junior tranches while the senior tranches are funded by private investors. Finally, there are diaspora bonds, where members of a country's diaspora subscribe to bonds and accept a lower return than the market. India, for example, has issued several such bonds for education, totalling 11 billion dollars.

Then, voluntary contributions include large multilateral grant funds, such as the Global Partnership for Education (GPE) fund and the *Education Cannot Wait* fund, which amount to 458 million and 1 billion dollars respectively. This category also includes matching funds, in which donors commit to contribute an additional amount for every dollar raised by other donors. For example, this instrument has been launched by the French government, which doubles its donations to UNICEF in support of projects aimed at the empowerment, civic participation and professional integration of girls and adolescents in the Sahel by matching each donor's donation to the organisation. The ability of these funds to aggregate funds from a variety of sources under a single mandate means that they can leverage the funding capacity of countries and donors and thus allocate large amounts of capital more effectively.

In addition, we have identified some initiatives based on risk mitigation mechanisms, including catalytic funds that use guarantees to leverage additional capital such as the *IFFEd*, which aims to offer multilateral development banks a portfolio of donor guarantees to provide more and better loans for the education sector. On a smaller scale, we can also point to revenue-sharing agreement models such as Lumni, which finances the school fees of students in Colombia and Peru in exchange for a portion of their future earnings.

This wide variety of instruments is reflected in the size of the deals, which can range from half a million dollars for the smallest (the Colombia *Workforce Development for Disadvantaged Populations* impact bond is 750,000 dollars, for example) to billions of dollars (the IFFEd multilateral mechanism aims for a funding size of 10 billion dollars). Investments in school infrastructure can present larger deal sizes, particularly for universities: for example, an expansion project at San Ignacio de Loyola University in Peru mobilised almost 80 million in investment dollars, with the Canadian Climate and Private Sector Fund providing concessional debt financing[55]. On average, however, transactions in the education sector remain smaller than in other sectors, with a median amount of 34 million dollars for the initiatives identified and for which information is available. This observation, shared by several of the experts interviewed for this study, is also made by Convergence for blended finance, where education is the sector with the smallest transaction sizes.

The main actors in these innovative finance transactions remain the major donor countries, notably through their ministries or national development agencies (e.g., AFD, BMZ, SIDA). These players are involved in 32 of the identified innovative finance transactions in education. In addition, there are international organisations such as UNICEF or multilateral development banks such as the World Bank, which are involved in 8 of these transactions. There are also several philanthropic actors involved as donors or investors, from large international foundations (e.g., UBS Optimus, Bill & Melinda Gates, Dell, CIFF) to local foundations (e.g., Corona and FirstRand foundations). Furthermore, private investors, local banks, private equity funds and individual investors have also contributed to these transactions. Finally, the transactions often involve international (e.g., Save the Children, International Rescue Committee) or local (e.g., Educate girls in India, Mothers2mothers in South Africa) non-governmental organisations, or social enterprises (e.g., Impact Water) as service providers and recipients of funds.

[55] Convergence

II. Innovative financing, a context-specific approach

On a global scale, progress remains to be made on each of the dimensions of education. However, the interventions to be carried out and the means to finance them vary according to the context of each country. The rest of this report is exploring different innovative financing mechanisms more in detail, highlighting the situations where it is more favourable to implement them.

Three countries were chosen to explore the varied applications of innovative finance in different contexts: Niger, Guatemala, and Bangladesh, all three members of the Innovative Finance Pilot Group. Beyond their distinct geographies, these three countries have diverse and unique characteristics, documented in the following pages, which make their comparative analysis particularly interesting. The table below illustrates in a few key figures the specificities of their education systems.

EDUCATION		Niger	Guatemala	Bangladesh	Median of countries surveyed[56]
Access and quality	Educational poverty (%)	98.7%	80.5%	57.2%	68.1%
	Primary school dropout rate (%)	33.5%	10.6%	5%	6.5%
	Secondary school dropout rate (%)	64.9%	32.8%	25.7%	12.8%
	Pupils with the minimum mathematics level at the end of primary school (%)	7.9%	6.7%	47.3%	19.1%
	Pupil/teacher ratio in primary school	36.4	20.3	30.1	24.8
	Gender Parity Index (GPI) in terms of access to primary and secondary education[57]	0.84	0.98	1.15	1.00
Conditions	Primary schools with single-sex toilets (%)	34.1%	76.2%	95.9%	81.5%
	Primary schools with electricity (%)	5.4%	9.1%	NC	79.9%
Private	Primary pupils in private education (%)	3.6%	12.8%	23.9%	10.8%

[56] Countries surveyed includes the totality of the country except for high-income countries.

[57] A GPI between 0.97 and 1.03 indicates parity between the genders. A GPI below 0.97 indicates a disparity in favour of males. A GPI above 1.03 indicates a disparity in favour of females. *Source: UNESCO Institute for Statistics*

	Secondary pupils in private education (%)	12.7%	56.1%	95.1%	10.3%
Financing	Share of education in total public expenditure (%)	13.2%	23.1%	14.7%	14.7%
	Share of public spending on education in GDP (%)	3.5%	2.8%	2%	4%
	Public expenditure er primary school pupil ($) *US$ PPP 2017*	114 $	1 140$	330 $	1 330 $
	Share of ODA in public spending on education (%) *Extrapolation*	28,4%	2,2%	2,3%	NC

For each of the three countries analysed, three innovative financing mechanisms that are particularly well suited to respond to the educational challenges observed are presented, regardless of whether they have already been implemented by the countries in question or not. Each of these financing mechanisms are illustrated with case studies showcasing some of their most emblematic applications in other countries. The selection of innovative financing mechanisms for each country is the result of a methodological decision-making process aimed at highlighting, on the basis of a contextualised analysis, the applicability criteria and success conditions of each of these financing tools. This selection is not intended to be an exhaustive representation of the applications of innovative finance in each country. It is also not exclusive, as some of the financing mechanisms selected for one or other of our three countries of analysis can be explored and applied in other contexts.

1. Niger: In the face of accumulating educational difficulties, the priority is to provide additional resources and funding to support the education system

A. A political, socio-economic, and environmental context that remains unfavourable for an access to quality education for all

Like many of its Sahelian neighbours, Niger has a combination of socio-economic and political difficulties, which have had a negative impact on its education system. The country's political instability is indeed a first obstacle for the access of education. In addition to the numerous regime changes and military coups that have taken place since the country's independence in 1958, there have been armed conflicts, some of these led by jihadist groups. Beyond the macroeconomic and political effects that limit the government's ability to improve the education system, this insecurity has a direct impact on access to educational infrastructure. The unstable security context

led to the closure of 300 Nigerien schools in 2020, depriving 22,000 children of education[58]. Furthermore, due to its geographical location in the heart of the Sahel bordered by countries also marked by insecurity (Libya, Mali, Burkina Faso, and Nigeria), Niger has to manage significant migratory flows in addition to internal population movements. The United Nations High Commissioner for Refugees estimated the number of refugees and asylum seekers was 295,877 and the number of internally displaced persons was 376,809 in 2022[59]. These population movements increase the pressure on an already fragile education system, which is struggling to respond adequately to the specific needs of these refugee or displaced populations.

Niger is also raking at the bottom of the 2021 human development index which is drawn up each year by the United Nations Development Programme (i.e.,189th out of 191 countries[60]). The economic precariousness and poverty of families is an additional obstacle to children's access to education. For example, Niger has the highest rate of job insecurity in the world, reaching 94% in 2021[61]. Children are often mobilised by families to participate in income-generating activities, often agricultural, a sector that represents the main occupation of 80% of the country's population[62]. The country also suffers from strong gender inequalities. In fact, the Gender-related Development Index as measured by the United Nations Development Program, which reflects inequalities between men and women in health, education, and financial autonomy, was 0.835 in 2021, placing Niger in the lowest performing group of countries[63]. Niger is also characterised by the proportion of the youth in its population, a consequence of its massive demographic growth[64]. The population growth rate was 3.7% in 2021 and the share of young people aged 0 to 14 years 48%. The education system continues to struggle to accommodate this growing segment of the population. The population of this country, two-thirds of which is covered by the Sahara, is also predominantly rural (83%[65]) and sparsely populated, making it even more difficult for pupils to access schools close to their homes. The country must also deal with climate change, which has resulted in a reduction in the school cycle in recent years from 9 to 5 months, particularly because schools built mainly in straw huts (especially in rural areas) are not rain resistant[66].

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[58] UNICEF Press Release, 2021

[59] UNHCR Data Portal. Data from 2022.

[60] Ranking established in September 2022 based on the Human Development Index 2021. *Source:* Human Development Reports*, United Nations Development Programme*

[61] *Source: Socioeconomic sustainability Dashboard,* Human Development Reports*, UNDP.*

[62] Analysis of the education sector. Elements for new orientations in the framework of the 2nd phase of the PSEF. 2020. Republic of Niger. International Institute for Educational Planning IIEP-UNESCO.

[63] Gender Development Index, Human Development Reports, Unites Nations Development Programme.

[64] *Source:* United Nations Population Fund 2022 data.

[65] *Source: 2021 data from the World Bank.*

[66] This observation is shared by the support unit for the implementation and monitoring of the Education and Training Sector Program.

Finally, Niger also suffers from a climate that is conducive to natural disasters, such as floods and droughts, which damage the existing insufficient and often precarious school infrastructure and make educational conditions difficult, especially when water and sanitation infrastructure is lacking or deficient.

B. An education system among the least efficient in the world[67]

In Niger, education is a national prerogative. The Ministries of Primary Education, Literacy, Promotion of National Languages and Civic Education, as well as Secondary Education, are responsible for pre-school and primary education and secondary education respectively. Law No. 98-12 of 1 June 1998 (commonly known as LOSEN) establishes compulsory and free schooling from the age of 7.

Access to education is a major issue in Niger. As mentioned above, the need for school infrastructure is massive in the country. Just to cover the needs of the first year of the primary cycle would require the opening of 10,000 new classrooms and the recruitment of nearly 10,000 teachers. In addition to the need to build new schools, existing schools lack the basic infrastructure necessary to guarantee good educational conditions. For example, only 5.4% of primary schools in the country have electricity. Furthermore, only 34% of primary schools have gender-neutral toilets, which is a significant barrier to girls, adolescents, and young women's education[68]. All of this is impacted by the fact that more than 80% of the Nigerien population is rural. The lack and weakness of school infrastructure in rural areas (most schools are built in straw huts and not in materials that are more resistant to the vagaries of the weather) coupled with the dispersion of the population constitutes an additional obstacle to children's access to education. UNESCO statistics denote an over-representation of rural children among those who are not in the education system, with 91% of them being from rural areas as opposed to 9% from urban areas[69].

Moreover, although schooling is theoretically free and compulsory from the age of 6 to 16, drop-out rates are still high, particularly at secondary level. Between 2010 and 2020, average dropout rates were 41% for primary and 65% for secondary schools[70]. Likewise, inequalities in access to and retention in education remain glaring between girls and boys. Girls are significantly less likely than boys to be enrolled in primary school: 55% compared to 60% for boys in 2021 according to the United Nations Population Fund. In addition, the literacy rate among Nigerien girls and young women over 15 years of age is almost half than that of their male compatriots (27% for girls

[67] Analysis of the education sector. Elements for new orientations in the framework of the 2nd phase of the PSEF. 2020. Republic of Niger. International Institute for Educational Planning IIEP-UNESCO.
[68] Figure for the year 2017 (most recent statistic available). *Source: UNESCO.*
[69] Analyse du secteur de l'éducation. Eléments pour de nouvelles orientations dans le cadre de la 2e phase du PSEF. 2020. République du Niger. Institut International de planification de l'éducation IIPE-UNESCO.
[70] *Source:* United Nations Population Fund 2022 data.

against 47% for boys in 2018, according to the same source). The high rate of early marriages, attributable to gender norms and social relations in the country, may be a factor, affecting an average of 76% of girls, adolescents, and young women before the age of 18 between 2005 and 2020[71].

In addition to the issue of access, the quality of education provided is still largely insufficient. Niger has an education poverty rate of 98.7%, as measured by the World Bank in 2019, which is the highest rate observed among all the countries for which this indicator is available (i.e., 139 countries). As a reminder, the educational poverty indicator measures the proportion of ten-year-olds who are unable to read and understand a simple text appropriate to their age.

Furthermore, the country suffers from a shortage of teachers and professors, especially qualified ones. The ratio of pupils to qualified teachers is one of the highest in the world, with 65 primary school pupils for every teacher[72]. Even though the official level of qualification for teachers in the country is theoretically the teacher's diploma (13 years of study and 2 years of training), 80% of Nigerien teachers have the status of assistant teachers (10 years of study and 2 years of training) and 10% have no qualification. The demands of the sector, coupled with the low level of salaries, hinder the recruitment of profiles that are sufficiently prepared for the teaching profession, thus affecting the quality of student learning. The recruitment of contractual teachers to compensate for the shortage of qualified teachers has unfortunately not solved the problem: in 2017, 10 000 contractual teachers were expelled after obtaining a mark of less than 5/20 in their evaluation. Moreover, social conflicts, marked recently by massive teacher strikes, prevent the smooth running of school activities, and constitute an additional obstacle for access to quality education. As a result, according to UNESCO data[73], only 8% of pupils manage to acquire the minimum level in mathematics at the end of the primary education cycle.

C. Need for additional resources to strengthen Niger's education system

Niger's general budgetary poverty has an impact on the performance of its education sector, remaining far from the funding necessary to achieve the goals of SDG 4. The need for funding is all the greater as population growth puts pressure on a national education system that is struggling to meet the needs of all school-age children. For this country, education funding comes mainly from the budgets of ministries and communities. Although education has long been one of the priority sectors in the state budget, with more than 13% of total public expenditure devoted to education,

[71] Ibid.

[72] Averaged over the years 2010 to 2021. *Source: Quality of Human Development Dashboard,* Human Development Reports*, UNDP.*

[73] Analysis of the education sector. Elements for new orientations in the framework of the 2nd phase of the PSEF. 2020. Republic of Niger. International Institute for Educational Planning IIEP-UNESCO.

the sector is impacted by the low level of total public expenditure in the country. The government's room for manoeuvre to increase public spending on education remains narrow, given the state of public finances and the Nigerien economy: the country already devotes nearly 3.5% of its GDP to education, as opposed to the 4% recommended by the Incheon Declaration for the implementation of SDG 4.

With expenditures growing twice as fast as revenue, the Nigerien state is increasingly dependent on debt and external aid. However, access to debt is likely to become increasingly difficult for this country in a context of rising interest rates, and given a very poor credit rating of 0/100, generally attributed to countries in default.

As for official development assistance, it represents a third of state revenue. The country received 46.1 billion CFA francs (FCFA) or the equivalent of 68 million dollars in 2016, a third of which was channelled directly into the budgets of the ministries responsible for education[74].

Debt puts increasing pressure on African countries' budgets[75]

The already high level of debt in Sub-Saharan African countries has been exacerbated by the COVID-19 pandemic, which has forced countries to borrow. The rise in debt levels has also been accompanied by an increase in the cost of debt (even before the current rise in rates). Between 2010 and 2018, the average public debt of the countries in the region rose from 40% to 59% of GDP. This ratio has more than doubled in countries such as Cameroon, Congo, Nigeria, and Angola. An analysis by the IMF and the World Bank estimates that the amounts paid by governments for debt servicing have almost doubled over the period: whereas this item represented less than 7% of government revenue, it now represents 12%.

In countries where public spending is already constrained, this additional pressure on budgets risks reducing spending in key areas such as health, infrastructure, and education.

Despite free schooling (from age 6 to 16), households contribute significantly to the financing of education. The share of households in the financing of education reached 58% in 2021 according to UNESCO. This contribution is broken down into school fees (i.e., Nigerien law provides that school maintenance is the responsibility of families), supplies, canteen, and transport. Despite the need to mobilise new resources for education, it seems complicated to significantly increase the contribution of families, the majority of whom are in great financial difficulty. The costs associated with education (e.g., transport, uniforms, materials, meals) are thus factors which, combined with household poverty, have an impact on children's schooling.

[74] Ibid.
[75] Global Campaign for Education – How Africa Can Lead on Education in A Post COVID-19 World, 2021

The private education sector, which is still very underdeveloped, does not provide sufficient educational support in the country, since only 2.3% of primary schools were under private management in 2019, representing less than 4% of pupils enrolled in primary school and less than 13% in secondary school. These schools include Catholic mission schools and Franco-Arab schools following the official curricula. There are also community schools (0.03% of primary schools), which often end up being transformed into public schools[76].

Finally, the country has various informal education structures such as denominational schools (catechism schools, itinerant or permanent Koranic schools), literacy and training centres, or shared training centres. The literacy and non-formal education centres, which enable young people and/or adults to acquire a basic level of reading, for example, welcomed nearly 48,000 pupils in the 2015-2016 school year, a figure that remains anecdotal if compared to the 2.6 million pupils enrolled in primary education in the same year. Women and girls accounted for between 65% and 80% of those enrolled in these schools[77].

Debt swaps, a relevant solution to free up resources for education

Debt swaps can be broadly defined as the cancellation of a country's external debt in exchange for the government's commitment to mobilise the domestic resources thus freed up for specific purposes. Debt swaps thus allow for the diversion of public resources from debt servicing to development spending, while helping to reduce the debt overhang from which many developing countries suffer. The mechanism has been used several times in the field of education, notably between Cameroon and France, Germany, and Indonesia or between Spain and several Latin American countries (e.g., Ecuador, Honduras, Nicaragua).

A debt swap requires a specific context, first, the existence of bilateral debt that the creditor government can cancel. The debtor country must also have a stable government in order to ensure smooth collaboration with the creditor country on monitoring the use of the funds released by the debt swap. These instruments also have some limitations: unlike a grant, a debt swap does not generate an immediate cash inflow, which depends on the original payment schedule. Finally, if the borrowing country is already facing difficulties in repaying its debt, the instrument may not actually free up budget for education-related expenditure.

Multi-party grant funds to mobilise additional resources

In the face of an under-resourced school system, and to reach its huge youth population, it is crucial for Niger to further develop its enrolment capacity (i.e.,

[76] UNESCO PEER Database – Niger Education Profile, 2018
[77] Ibid.

building classrooms, recruiting, and training teachers). Subsidies are all the more necessary for this country, as it cannot finance these expenses through debt, given its current financial situation. Niger's vulnerability to human and natural disasters also makes emergency education interventions particularly necessary and appropriate. Multiparty grant funds can address both of these issues. It is important to mention that, as the lack of resources for education is a problem for many countries, multilateral grant funds continue to play a key role in funding education, not only in Niger.

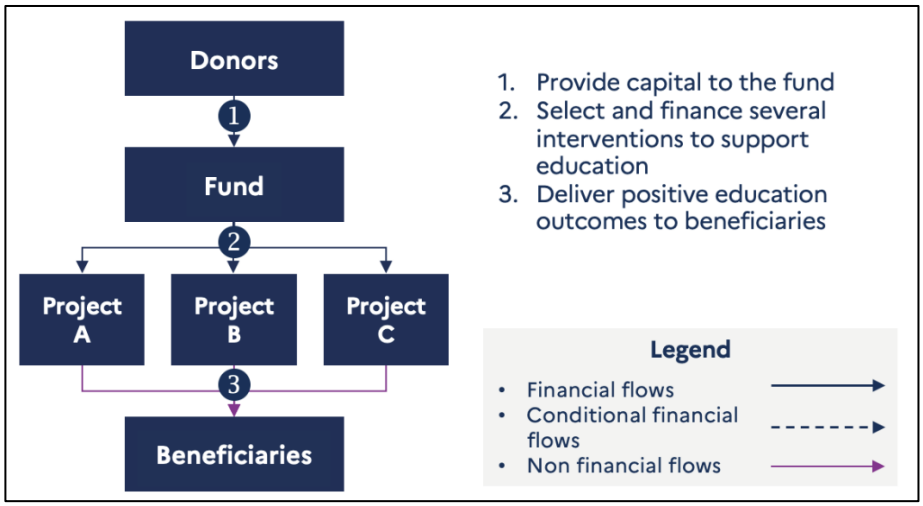

Figure 7: Schematic diagram of a multiparty grant fund (Source: KOIS)

The main feature of these funds is the consolidation of contributions from several donors under one entity (i.e., governments, development agencies, foundations, UN agencies) in order to support initiatives and generate a larger scale of impact than individual contributions. These funds are managed by a designated fund manager or a consortium of organisations that decide on the allocation of grants to initiatives or governments. Several of these funds have been implemented to finance the education sector, ranging from several million dollars for more local initiatives (e.g., the *Early Learning and Nutrition* Fund in Côte d'Ivoire) to billions of dollars (e.g., *Education Cannot Wait*).

Since 2002, the Global Partnership for Education (GPE) has allocated more than 200 million dollars to the Nigerian government for interventions aimed at strengthening its education system in the long term, notably by contributing to the implementation of sectoral plans for education, but also to respond to emergency situations such as the COVID-19 pandemic. The *Education Cannot Wait* fund has allocated 23 million dollars since 2016 to non-governmental or UN organisations active in education in Niger.

From the point of view of the beneficiary country, these funds are powerful mechanisms for injecting new resources into the financing of education. Very flexible, these funds can finance a very diverse nature of interventions as well as actors (i.e., governments, non-governmental organisations).

"Our bilateral funding and support in Africa gives us a better understanding of how initiatives are deployed at local level. Without this understanding, it is difficult to be relevant to discussions in the governance bodies of large multilateral initiatives. Examples of bilateral initiatives can be brought to the table to highlight specific issues: in the board of a multilateral fund, we have, for example, campaigned for gender equality with concrete examples from the field. "

Interview extract

From the donors' point of view, these initiatives allow the concentration of resources on common development issues with the aim of generating more impact and supporting more coherent actions over the long term, particularly necessary in the field of education in order to strengthen the steering and management of education systems as a whole. The pooling of funds within a single structure also helps to minimise transaction costs. Some donors are now choosing to favour these forms of multilateral funding over bilateral funding, such as Germany, which concentrates its funding on the *Education Cannot Wait* fund and the Global Partnership for Education (GPE).

However, these initiatives do not provide sustainable capital and funds need to be replenished regularly to support other projects. Furthermore, the time needed to implement and operationalise these funds, as well as to integrate new contributors, can sometimes be long, as some of the donor contributors interviewed for this study pointed out. This is particularly the case for a fund such as the GPE, which directly finances governments and must go through long negotiation phases to determine the conditions for granting its contributions. The risk of cannibalisation and dispersion between these different vehicles, which are intended to be complementary, were also highlighted. The actors interviewed also highlighted a structural risk of loss of funding between the multilateral fund and the field: for example, these funds may finance an international NGO that delegates implementation to a local NGO. With human resource costs levied at each level coupled with operating costs, sometimes only a small proportion of the initial sum is left for activities in the field.

Education Cannot Wait: responding to emergencies and prolonged education crises

Key features

- **Launch date:** 2016
- **Geography:** Global
- **Amount**: 1.1 billion dollars raised since inception
- **Stakeholders:** UNICEF-hosted fund, contributed by donor countries, development banks and foundations
- **Funding purpose:** To fund education in emergencies or protracted crises

Background and purpose

Many children are affected by one-off or prolonged crises, such as natural disasters or conflicts. By diminishing access to quality education, these crises jeopardise the future of millions of children with disastrous long-term consequences for many countries.

The United Nations has set up the *Education Cannot Wait* Fund to respond to these situations, and to ensure that all children affected by these crises can continue to receive a quality education. The fund specifically focuses on reaching girls as well as children from marginalised groups: refugees, internally displaced persons, children with disabilities etc. Interventions aim to improve access to and continuity of education, equality in school, notably between the sexes, quality of learning and the safety of the learning environment.

Intervention

Education Cannot Wait does not fund governments directly. The fund provides grants to organisations implementing actions on the ground to improve education through two funding windows:

- ***First Emergency Responses*** **(FER):** restoring access to education in emergencies (30% of funds allocated)
- ***Multi-Year Resilience Programme*** **(MYRP):** strengthening education in protracted crises (70% of funds allocated)
- ***Acceleration Facility (AF)***: support education preparedness, planning and response in sudden-onset and protracted crises (3% of allocated funds).

FER are emergency funds and are therefore characterised by their rapid deployment: within one month, funds can be transferred to actors on the ground who then use them to restore access to education (e.g., infrastructure repairs, support, and guidance for teachers). MYRPs, with multi-year funding allocations that can address all education cycles and issues, tend to target countries' structural

education challenges. Many countries benefit from both funding windows simultaneously.

Impact and learning

The fund has mobilised more than 1 billion dollars since its inception in 2016, including almost 400 million dollars in 2021. Nearly seven million children have benefited from interventions supported by the fund since its creation. In 2021, ECW supported 32 countries, through 174 grants.

The fund's rapid reaction to the education crisis caused by the COVID19 pandemic

has enabled it to support an additional 12 million children and adolescents through 50 FER[78]. *Education Cannot Wait* also acted in response to the earthquake in Haiti in August 2021 with a 1.5-million-dollar FER. Its grants helped build temporary schools to restore access to education, provide money to poor families to cover their children's school fees, and enable schools to offer meals and water and sanitation facilities.

ECW's speed of intervention is a real added value compared to other multilateral funds, particularly because of its mandate to fund organisations directly rather than local governments. Moreover, ECW can intervene more easily in contexts where collaboration with governments is no longer possible (e.g., coups d'état, unrecognised regimes).

Conditional cash transfers to overcome household financial barriers to education

In Niger as in other Sub-Sahara African countries, household poverty prevents children from accessing school, either because of the cost of education itself or because of the opportunity cost to families of sending their children to school rather than having them participate in household income-generating activities. Removing the financial barriers of families is therefore an area of intervention that is often targeted to increase access to education for the most vulnerable children.

[78] ECW annual report 2021

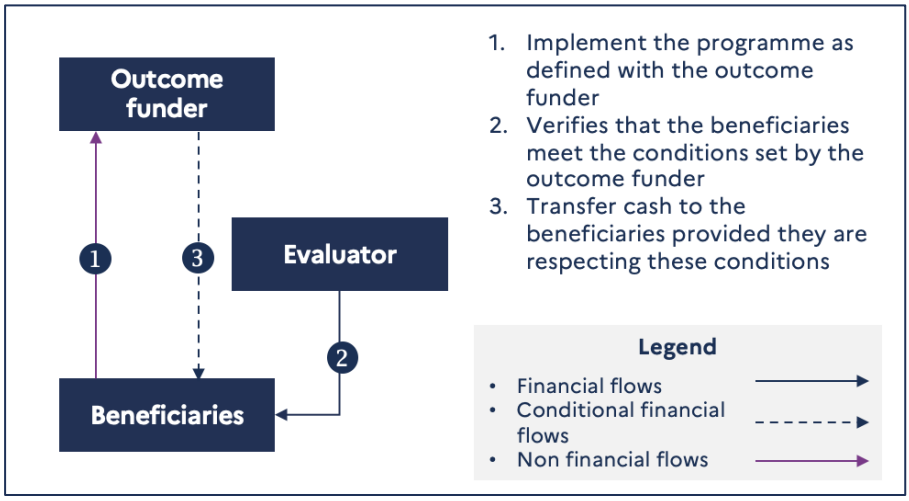

Figure 8: Schematic diagram of a conditional cash transfer (Source: KOIS)

Conditional cash transfers (CCTs) are programs in which a third-party payer (i.e., most often the domestic government or another government, international development agency, foundation, or other donor) provides money directly to households provided they meet certain pre-defined conditions. In the case of CCTs granted to promote access to education, indicators typically tracked include school enrolment and school attendance. An evaluator or the third-party payer itself verifies the eligibility (i.e., compliance with these conditions) of households for payments. These CCT mechanisms can amount to tens of millions of dollars, as in the case of the Mi Bono Seguro program, implemented in Guatemala in 2017, which provided a total of 40 million dollars to 154,000 disadvantaged households.

The instrument can be used to respond to situations of prolonged poverty or to address emergency contexts. For example, the CCT program set up by the government of Turkey in 2017 for refugee children, particularly Syrian children, with funding from the European Union, has enabled 368,000 children to access and stay in education[79]. The instrument has also been deployed in Cameroon (Social Safety Net Program in Cameroon[80]) and in Niger, notably in the framework of programmes to respond to migratory crises and to receive refugees by the United Nations High Commissioner for Refugees[81].

CCTs share with other results-based finance instruments the advantage of guaranteeing the efficiency of funding mobilized by donors, by clearly linking it to impact. Indeed, the payment of funds to beneficiaries is conditional on the verification of the achievement of result objectives determined in agreement with the third-party payer(s) (e.g., proof of enrolment of children in school, monitoring of

[79] UNICEF Turkey - The "Conditional Cash Transfer for Education" (CCTE) Programme for Syrians and Other Refugee Children Launches into its second phase in Turkey, 2018
[80] UNICEF PEER database – Cameroon Education Profile
[81] Aligning humanitarian cash assistance with national social safety nets in refugee setting. UNHCR.

absences to verify their retention in school etc.). They are also relatively simple, time-tested structures that can be easily implemented on a large scale by donors. Finally, even though governments can remove some financial barriers to education by covering certain expenses (e.g., supplies, transportation, meals), CCTs are a powerful lever for negating the opportunity cost to families, particularly more vulnerable ones, of sending their children to school rather than to work.

However, the instrument also shares the limitations of purely grant-based instruments in terms of sustainability of resources and dependence on the third-party payer. CCT payments can be interrupted from year to year depending on donor priorities. Moreover, in a context of high inflation, the amounts provided for in the framework of CCTs may lose value in proportion to inflation, which reduces the financial contribution to beneficiaries and makes it necessary to index payments to inflation or at least to revalue them.

"CCTs can create a situation of dependency of the recipient country as well as the households on the donor. For this reason, it is better to use this instrument in a humanitarian context rather than for development purposes. An alternative would be, instead of paying households to send their children to school, to support the provision by schools of basic goods and services (e.g., meals, sanitation) as another, more sustainable incentive for children to attend school."

Interview extract

To be effective, CCTs must be supported by an extensive verification process, usually through the verification of documents that prove that the beneficiary is complying with the terms of the contract (e.g., verification of civil status, which many children do not have and school attendance records). These processes become increasingly complex due to their common large-scale nature but can be partially automated if the information systems used allow for it (e.g., verification is much easier if schools have a digital attendance record, but this presupposes that schools are electrified, that they are equipped with computer equipment and that they have trained individuals to use this equipment)[82]. Finally, without a robust evaluation based on counterfactuals, the use of CCTs does not allow for the assertion that recipients would not have complied with the terms of the contract in the absence of the payment to be made. Programs may target a subpopulation where the problem is particularly prevalent (e.g., rural communities where access to education is lower than elsewhere), however it is difficult for them to discriminate within this subpopulation, particularly for equity reasons. While CCTs can provide direct funding to families targeting one or more specific issues, it is important that they are part of broader programmes to strengthen and improve the education system.

[82] Mercy Corps – The Cash Transfer Implementation Guide, 2017

Conditional Cash Transfer for Education (CCTE) for refugees in Turkey[83]

Key features

- **Launch date:** 2017
- **Geography:** Turkey
- **Amount**: 150 million euro for the second phase launched in 2019
- **Stakeholders:** European Union, governments of the United States and Norway (financing), UNICEF, Red Crescent, Turkish government
- **Funding purpose:** money transfers to refugee families to ensure the schooling of their children

Background and objectives

The Syrian refugee crisis, which has been ongoing for almost a decade, has resulted in millions of people fleeing to neighbouring countries, many of whom are children. Turkey is home to the largest number of refugees, migrants, and asylum seekers (over 4 million): more than 3.7 million are Syrians, including 1.8 million children. Despite progress and commitment from the Turkish government, hosting so many refugees puts enormous pressure on the country's public services, especially on the education sector. In addition to that, although more than 770,000 refugee children are enrolled in school, many households cannot afford the costs associated with sending their children to school (i.e., uniforms, meals, transportation, school fees). The CCTE program intends to remove the financial barriers preventing refugee children from accessing and staying in education.

Intervention

The CCTE program consists of bi-monthly payments to families, provided that their child has been in school more than 80% of the time. It is an extension of an existing program targeting Turkish families since 2003, and now extended to all refugee families whose children are enrolled in public schools in the country.

[83] CCTE Factsheet – August 2022

The amounts paid are based on the gender and class of the children. Additional payments are also made to families at the beginning of each term. The program also includes a child protection component that targets the most vulnerable children. This component is implemented by outreach teams that visit families whose children do not meet the program's attendance requirements. They assess and identify the needs of children and families in order to respond to them in a personalized and systematic way.

Impact and lessons learned[84]

800,000 children have benefited from the cash transfer program since its inception. Refugee children's access to school is satisfactory: 77% of children were in school attendance in the 2017/2018 school year, and 82% in the 2018/2019 school year. The two-thirds of CCTE beneficiary children always met the attendance requirement in 2018/2019, and teachers also believe that children have been more diligent since the program was implemented. Some parents say their children would attend school with or without CCT, but others feel that the program allows them to send their children to school more regularly. The child protection component has reached 135,000 children, of whom 12,000 have been referred to specialized services.

Overall, the program is achieving its goals of providing refugee children with regular access to education. CCTE also contributes to a sense of equality for refugee households, as they receive the same assistance as vulnerable Turkish families. However, the program cannot address issues such as discrimination against children in school, security, and inflation, all of which are external factors that influence children's access to school. Other key lessons emerge from the program evaluation: adapting a program that already existed at the national level facilitated its implementation, especially since the CCTE shares some key features (call centre, payment platform) with another Turkish CCTE. The integration of the child

[84] UNICEF Turkey – Programme Evaluation of the CCTE for Syrians and Other Refugees in Turkey, 2020

protection mechanism also enhances the effectiveness of the program and allows it to reach the most vulnerable children.

Performance-based grants to increase the efficiency of resources invested in education

In contexts where resources available for education remain insufficient, it is necessary to maximize the impact of each euro mobilized in education funding. Performance-based financing instruments make it possible to identify the initiatives and actions that generate the most impact and to allocate resources to them as a priority, while encouraging actors to monitor and improve the performance of their interventions. In Niger, such mechanisms would therefore make it possible to allocate funding (from the state or donors) to actors whose interventions have the greatest impact on children's education.

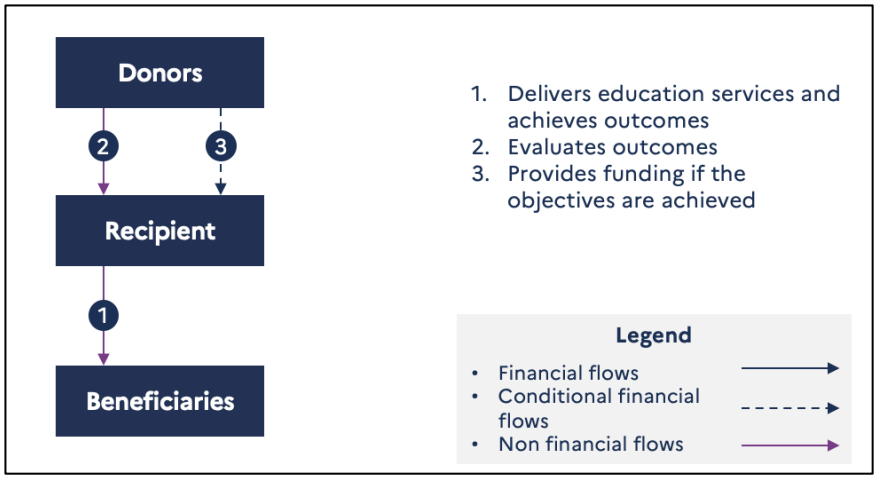

Figure 9: Flow chart of a performance-related grant (Source: KOIS)

Performance-based grants are a variation of traditional grants: the resources allocated by the donor depend on the performance of the recipient on a set of predefined indicators. This mechanism can guide the allocation of additional resources, but it can also inform government budgetary trade-offs (e.g., prioritizing the allocation of funds to schools that meet the right conditions). Donors can be domestic or international governments, development agencies, or other development finance institutions. Recipients can be both public (e.g., state, or local government agencies, public schools) and private (e.g., NGOs, private schools).

These instruments, which provide incentives for education providers to maximize the effectiveness of their interventions, are particularly appropriate for improving the quality of education. Performance-based grants can also incorporate targets for student enrolment and retention, and thus be used to improve access to education.

Like all outcome-based finance instruments, the main added value of performance-based grants is that they maximize the effectiveness of the resources mobilized by donors. Another advantage is their flexibility: they can be directed to a wide variety of actors: directly to schools (e.g., in Cameroon or Indonesia), to local public

structures (e.g., *Performance commitments* for local governments in Peru) or to NGOs. This mechanism allows for the transformation of recipient practices by creating a culture based on results and transparency. It allows for the creation of a pool of evidence on the actual impact of interventions providing information to governments and donors on the initiatives that really generate results. Moreover, operational and financial risk is translated from the donor to the recipient, as grants are only provided once the agreed results are achieved.

Fonds Commun Sectoriel Education (FCSE) a mix of multilateral funds and performance-based financing[85]

AFD has set up with six other donors the FCSE, a multilateral fund that provides grants to the Government of Niger to support the implementation of its education and training sector program. The fund is structured in several tranches, some of which are fixed and others variable, i.e., conditional on the government's achievement of predefined objectives (e.g., school construction, changes in public policy regarding teacher compensation). It is flexible and aligned with national procedures, which the government can use as it wishes to plan and finance its education system in a long-term perspective (with some safeguards). This instrument is considered a proven mechanism by all stakeholders.

However, performance-based grants are still donations and therefore not sustainable sources of funding. They also require strong reporting and auditing systems to track indicators such as the number of teachers hired or the faculty attendance rate. Finally, because recipients must advance funds before expected results materialize, they may face cash flow problems and may not have the financial capacity to make the investment necessary to implement the interventions.

[85] Source: AFD and interview with the support unit for the implementation and monitoring of the education and training sector program (CAMOS) which implements funding from the Fonds Commun Sectoriel Éducation.

Result-based financing for public elementary schools in Cameroon [86]

Key features

- **Launch date:** 2018
- **Geography:** Cameroon
- **Amount**: total amount not known, between 500 and 1,000 dollars per school per year
- **Stakeholders:** Government of Cameroon, World Bank, BMZ, Norad, USAID
- **Funding purpose:** awarding grants to schools and teachers on the basis of the results observed through a set of indicators

Context and objective

Although Cameroon has made significant progress in terms of access to education (with almost universal access to primary education), there is still a long way to go to provide all children with access to quality education, especially in poor and rural areas. Quality of education remains insufficient, with only 11% of students having reached the minimum required level in mathematics at the end of primary school[87]. Even though the country needs additional resources to make progress towards SDG 4, it also needs to make more effective use of the resources at its disposal, particularly at the school level.

With this in mind, the World Bank, through the *Results in Education for All Children* (REACH) program, supported the Cameroon Ministry of Basic Education in piloting a results-based funding mechanism for the country's public elementary school and their teachers, conditional on the achievement of simple objectives on several indicators. This mechanism was intended to improve transparency, performance monitoring and financial management of schools, as well as the quality of education and community satisfaction with it.

Intervention

The government piloted a performance-based funding mechanism in 20 elementary schools in northern Cameroon, with grants allocated to each targeted school. An initial grant was paid to schools that met a set of basic preconditions (e.g., signing a contract, opening a bank account). Schools then received additional payments each quarter, based on their performance in areas such as student retention, teacher attendance, financial transparency, community

[86] Results-Based Grants and Teacher Incentives Improve Performance at the School Level – World Bank Group, Décembre 2019
[87] UNESCO Database

satisfaction, and textbook use. At the end of the year, schools could also receive a bonus based on the number of goals achieved.

Total annual payments for each school ranged from 500 to 1,000 dollars, well above the usual government funding for schools of 200 dollars. Schools used 70% of this additional funding to roll out their action plan and improve educational conditions, while the remaining 30% was paid out as bonuses to teachers.

Impact and lessons learned

Although results varied across schools, the program overall improved student enrolment and retention, teacher engagement, and transparency: for example, teacher attendance, which was 67% in the first quarter, rose to 97% in the second quarter and 87% in the third quarter.

Several lessons emerge from this program: the model must remain simple and appropriate to the context, in particular to adapt to the sometimes-limited capacities of schools in rural areas, in terms of management and performance monitoring. The modalities must be clear for all parties, especially in terms of incentives, to avoid potential demobilization (e.g., in the case where teachers were hoping for a greater reward than the amount they actually received). The indicators tracked must be simple and easy to follow, and effective mechanisms must be in place to prevent fraud. Finally, a major determinant of the intervention's success was the quality and level of commitment of the lead teacher in each school.

Cameroon now intends to roll out this mechanism at a larger scale, covering 3,000 schools by 2023, or in other words, 1.2 million students.

2. Guatemala: priority to strengthening the quality of education, particularly through results-based financing mechanisms

A. A politically stable country but with massive inequalities that threaten equal access to education

After 36 years of civil war, Guatemala has experienced a relatively peaceful political climate since 1996, which has allowed for greater continuity in the implementation of the country's education strategy and reforms. Education is compulsory and free from 0 to 15 years of age. Primary education is the responsibility of the state, while secondary education (junior high and high school) is mostly private or dependent on educational cooperatives that operate on a tripartite basis, bringing together the Ministry of Education, municipalities, and parents, sometimes with the assistance of non-governmental organizations. The government also participates in the financing of informal education, through programs for school dropouts (accelerated primary education for youth and adults, online secondary education programs, municipal training centres...)[88].

Guatemala is in the upper middle-income bracket according to the World Bank, with a GDP per capita of 5,025 dollars. The country is also in the middle group in terms of Human Development Index (135th out of 191 countries). Despite a relatively low proportion of precarious employment (33% in 2021[89]), Guatemala is one of the most unequal countries in the world, with 59% of the population living below the poverty line[90] and 260 families monopolizing 57% of the country's wealth[91].

In terms of access to education, Guatemala's performance is relatively good. The literacy rate of 15–24-year-olds reached 95% in 2018 according to UNESCO statistics. In addition, the primary school dropout rate is only 10.6%. The availability of qualified teachers is not an issue since the pupil/teacher ratio in primary school is low: only 20 pupils for 1 teacher. In terms of equal access to education for girls and boys, progress has been significant. This progress is reflected in a gender-specific Human Development Index of 0.917 (compared with a world average of 0.958), which measures the difference in years of schooling between girls and boys[92].

However, there is a gap in access to education between primary and secondary school. The school dropout rate is more than three times higher in secondary school (33% according to UNESCO data).

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[88] Réseau Inter-Agences pour l'Education en Situations d'Urgence - Éducation non formelle pour les adolescents et les jeunes dans les situations de crise et de conflit : une proposition de taxonomie, 2020
[89] Source: *Socioeconomic sustainability Dashboard,* Human Development Reports*, UNDP.*
[90] Most recent data from 2014. Source: World Bank
[91] French Treasury, 2019
[92] Human Development Reports, United Nations Development Program

The country's highly unequal situation is also expressed in terms of education, not only between rich and poor but also and above all between different regions of the country. Landlocked and/or marginalized areas, often populated by indigenous communities, disproportionally suffer from a reduced access to education. To contribute to their families' resources, more than 20% of Guatemalan children are forced to work rather than go to school[93]. Marginalized areas populated mainly by indigenous communities are particularly affected, with nearly 70% of children reportedly forced to work[94].

The Covid-19 crisis has exacerbated these inequalities. At the height of the pandemic, nearly 3 million children stopped going to school. Only 17% of Guatemalan households had access to the internet.[95]. This digital divide prevented many students from receiving a quality education. In addition, school closures deprived many students of access to the school meals on which they depend. Several measures were put in place by the Guatemalan government to address these difficulties, including extending the school cycle by two weeks to provide additional language and maths classes, and providing food portions for children to take home when schools were closed.[96]. The health crisis was further exacerbated by two hurricanes that devastated the region in November 2020, affecting an estimated 900,000 children[97]. Children in Latin America and the Caribbean have in fact experienced some of the longest and most uninterrupted school closures in the world, resulting in an estimated loss of 1.5 years of learning. The decline in the quality of and access to education could cost current students in the region a 12% drop in lifetime earnings. In addition, some reports indicate that school dropouts could increase by at least 15% because of the pandemic.[98].

Additionally, although the country is not home to major conflicts, it is plagued by crime-related violence and is among the 12 countries with the highest homicide rate in the world[99]. This violence, which can directly affect children (e.g., forced recruitment into gangs, sexual assaults), can have deleterious consequences on their schooling, leading to multiple school dropouts due to fear of insecurity on the way to school or when their families are forced to move after receiving threats[100]. Finally, Guatemala is a country subject to the hazards of natural disasters: it experiences the rainy and hurricane season from May to November and is located in an area of high

[93] Humanium – Children of Guatemala
[94] BICE – Schools without walls in Guatemala, 2020
[95] United Nations Association Guatemala – Análisis de los efectos e impactos socioeconómicos, 2020
[96] World Bank - Acting now to protect the human capital of our children, 2021
[97] UNICEF - Normal life washed away Guatemala, 2020
[98] World Bank - Acting now to protect the human capital of our children, 2021
[99] Les Echos
[100] UNHCR – Childhood stolen by street gangs, 2016

seismic activity. These disasters regularly lead to significant destruction of infrastructure, particularly schools, as was the case in November 2020.

B. An education system of very poor quality in relation to both state and household expenditure

While the problem of access to education has not been completely resolved, the real challenge for the country lies in improving the quality of the education provided. This is evidenced by the fact that the level of educational poverty (i.e., children aged ten who are unable to read and understand a simple text adapted to their age) is 80.5%[101]. In addition, the proportion of students who have acquired the minimum level of mathematics by the end of primary school is only 6.7%, which is even lower than the proportion in Niger. Moreover, the fact that Spanish is the language of instruction and official language of the country, creates a real barrier for the children of indigenous populations and is a significant reason for school failure.

This situation can be explained by the insufficient level of initial and in-service training of schoolteachers. Although figures on the level of teacher training are not available, some reports note that most teachers only have the equivalent of a bachelor's degree and are not able to provide quality education to children[102]. Finally, the quality of education in the private education system is not good either, illustrated by the fact that the level of students is only higher than that of public-school students by a very low margin (especially in mathematics and reading in the primary cycle).

Several service providers are implementing initiatives to improve the quality of education

Indigenous communities living in rural areas of Guatemala often do not have access to a close enough public school. Several NGOs have therefore set up low-cost or free schools to give children in these communities' access to education. In addition to access, these NGOs are also committed to providing quality education that is superior to the one provided in the country's public schools. This is the case of *Long Way Home with its Hero Schools*, where students from the Mayan community of San Juan Comalapa receive a multidisciplinary education based on innovative methods. The mention of the *MAIA Impact School*, which offers quality education to young girls from indigenous communities, inspired by the methodology of the American private schools of the KIPP network is also relevant.

[101] Data from2017. Source: World Bank
[102] Child Aid – The Global Education Crisis

There are also structures such as FUNDAP, which develops support programs for private schools in rural areas to improve their learning outcomes (for example, it assisted 13 schools in 2021).

Key resources needed to ensure quality education are also insufficiently available, especially textbooks: more than 90% of schools in rural areas do not have access to them[103].The UN Committee on the Rights of the Child notes that less than 15% of classrooms have sufficient space, materials, and supplies. The quality of educational infrastructure also needs to be improved: nearly 9,000 public schools did not have access to potable water or electricity in 2021[104].

Yet Guatemala's public expenditure per primary school student is particularly high, reaching 1,140 dollars. Education is financed by the state, which devotes a very large share of its budget to education: 23.1% of total public spending[105], more than the Incheon target of 15-20%. However, education spending remains low overall compared to the wealth produced by the country, representing only 2.8% of Guatemala's GDP[106]. Official development assistance, which is mainly allocated by the United States and the Inter-American Development Bank, makes only a small contribution to the financing of education, the third largest allocation after economic and social infrastructure[107].

As for the participation of households in the financing of education, although precise data is unavailable, we can nevertheless assume that its share in total education spending is significant. This is evidenced by the preponderance of the private sector, particularly in secondary education: 13% of primary school students and more than half of secondary school students were enrolled in private schools in 2020 and 2018 respectively[108]. Non-profit cooperative schools accounted for 4% of students in

[103] Guatemala Literacy Project
[104] NPR – Why lots of kids still aren't back in school in Guatemala, 2022
[105] Data from 2017. *Source: UNESCO.*
[106] Data from 2017. *Source: UNESCO.*
[107] OECD
[108] *Sources: UNESCO, World Bank.*

2019[109]. The USAID 2021 report on the state of (non-public) education in Guatemala estimates that annual tuition costs can range from 450 to more than 800 dollars per year, which represents between 10 and more than 18 percent of GDP per capita. In addition to school fees, families often have to pay for school supplies, transportation, and uniforms, even in public schools.

C. A favourable context for the mobilisation of private capital

Unless there is a systemic change that boosts the country's tax revenues, it seems complicated to envisage in the medium term a significant increase in education focused public spending by the Guatemalan state. Philanthropic capital and official development assistance no longer prioritize upper-middle income states such as Guatemala and therefore it does not seem likely that they to contribute on a large scale to the improvement of this education system. Thus, it is necessary for Guatemala to maximize the efficiency of the resources already devoted to education, especially in order to improve quality, which remains insufficient.

In terms of mobilising new resources, private capital can be a promising source to be mobilised, particularly in a context where the country enjoys a favourable environment for private investment. The business environment is relatively robust (with an ease of doing business index of 62.6, higher than the median of the countries surveyed[110]), despite the still significant prevalence of corruption. Regulations are also favourable to foreign investors, who receive the same treatment as domestic investors. The financial sector is particularly well developed, with a Financial Market Development Index of 4.9/5[111], driven by the strength and dynamism of its banking system; Guatemala even ranks 13th/140 in terms of the strength of its banking system, according to the World Economic Forum in 2018-2019[112]. The mobilisation of resources from the private sector, if properly regulated and complementing existing public funding, can help address some of the challenges of national education systems and contribute to strengthening education as a public good. The country also has more informal financing structures, such as the credit union MICOOPE, which has a loan portfolio of almost 1.5 billion dollars, or NGOs offering micro-credit, such as FUNDAP or *Génesis Empresarial*. Banks and these informal structures regularly provide loans to private schools. For example, *Banrural*, one of the three largest banks in the country, currently has a total of 3,000 loans outstanding for private schools (with a default rate of 4.6%), while *Génesis Empresarial* has almost 2,500 loans outstanding (with a default rate of 1.8%)[113].

[109] UNESCO Peer Database – Guatemala Education Profile
[110] World Bank, 2020
[111] World Economic Forum, 2018
[112] French Treasury, 2019
[113] USAID CATALYZE EduFinance – Market Assessment of Non-state Education in Guatemala, 2021

Impact Bonds improve the efficiency of the resources mobilized and thus the quality of education

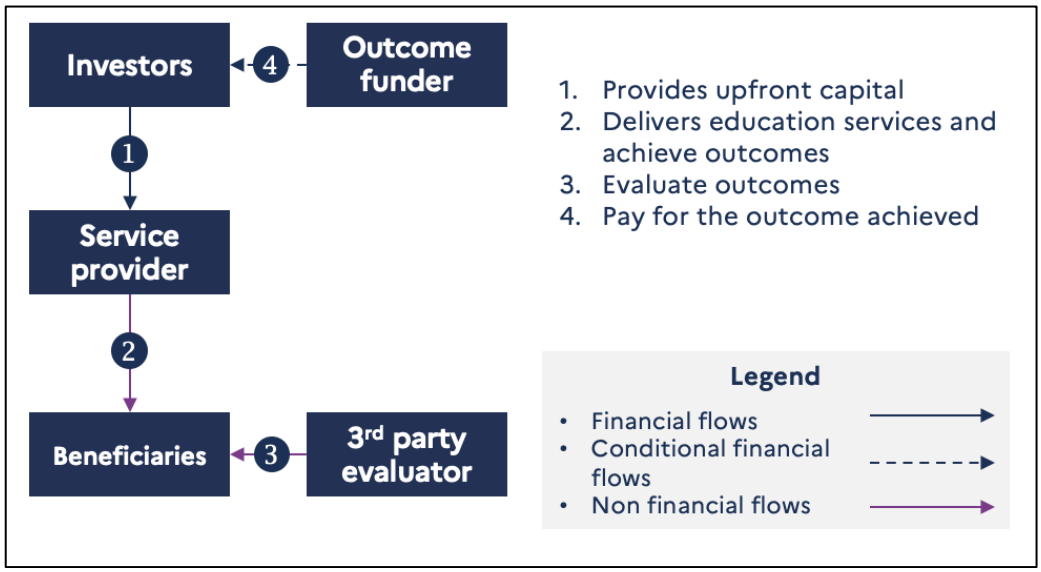

Figure 10: Diagram illustrating how an Impact Bond works (Source: KOIS)

Impact Bonds are results-based financing instruments in which private investors pre-finance one or more interventions implemented by one or more service providers and are reimbursed, with a potential financial return, by outcome funders according to the level of impact achieved as measured by an Independent Evaluator on the basis of previously defined indicators and targets.

A distinction is made between Social Impact Bonds[114], where the outcome funder is the government of the country or a local public agency through which the intervention is funded, and Development Impact Bonds, where the outcome funders are international governments, development agencies, philanthropic organizations, or foundations. Investors can be institutional investors, impact investors, development banks or foundations. Service providers are associations, non-governmental organizations, or social enterprises.

Originating in 2010 in the United Kingdom, Impact Bonds have so far been particularly used in the education sector in low- and middle-income countries. Among the 24 Impact Bonds launched in these countries since 2015, twelve have focused on this sector, eight of which are dedicated to vocational education and access to employment[115]. The particularity of these financing mechanisms lies in the central place allocated to the evaluation of the impact of the interventions financed, as it is the trigger for the flow of payments between the outcome funders and the investors. The transfer of execution risk to investors by the outcome funders and the payment

[114] Social Impact Bonds should be distinguished from Social Bonds, which are bonds issued by companies, financial institutions, states, or local authorities, exclusively intended to finance projects creating a positive social impact.
[115] GOLab – Impact Bond Dataset

by the latter of a potential return on investment in the event of positive results can be justified by the innovative nature of the project and the uncertainty about the actual materialization of the desired impact results.

These funding mechanisms thus seek to focus on more ambitious impact indicators, belonging to the category of "outcome" rather than "output" indicators. For this reason, Impact Bonds are particularly well suited to funding interventions aimed at strengthening the quality of the education system: this is the case, for example, with the *Quality Education DIB* and the *Educate Girls DIB,* both of which aim to improve the learning outcomes of primary school students in India. As versatile instruments, they can also be applied to other educational issues: access and retention of students (*Proyectà tu futuro* in Argentina), preparation for elementary school (*Early Childhood Development* in South Africa), and educational conditions (Menstrual Health and Hygiene in Ethiopia). In Guatemala, these financing mechanisms could be adapted to the financing of the new actors in education that are emerging with the objective of strengthening its quality. An Impact Bond would allow these different organizations to demonstrate the positive impact of their interventions, and thus to facilitate their eventual scaling up and national dissemination.

This mechanism guarantees to the outcome funder that the resources they provide are well used and yield impact, due to the fact that they are not disbursed in case of failure. Impact Bonds also offer service providers greater flexibility: breaking away from the traditional model in which service providers receive funding to carry out a specific sequence of actions allows them to innovate and adapt their interventions so that they achieve the expected impacts, and thus to develop new, more efficient modes of intervention.

This great flexibility of Impact Bonds allows them to finance both non-commercial projects and social enterprises that are not yet profitable. This is why they can also be implemented in countries where the private sector and the ecosystem of social entrepreneurs are still underdeveloped.

Due to their nature, these instruments do not constitute sustainable sources of financing. However, their objective is to demonstrate, through a robust impact assessment, the relevance and efficiency of the interventions financed in order to achieve the desired objectives. This proof of concept must allow, when the Impact Bond has come to an end, in the case of non-commercial projects, for a reappropriation and direct financing by the local government. Thus, the deployment of these instruments must be carried out in countries where close collaboration with domestic governments is possible in order to prepare for their future replication. Variations of this mechanism are also emerging to strengthen the role of local governments that do not have the financial capacity to get involved in financing such projects. The latter receive financial support in the form of a loan or donation from a development bank.

However, Impact Bonds remain complex and costly to structure. The paradigm shift towards results-based funding (rather than funding for specific activities) is leading to many changes in the way both service providers and donors operate. Moreover, aligning the interests of the various stakeholders around relevant, measurable, achievable but ambitious impact indicators and objectives sometimes requires lengthy negotiations. For the organisations involved in structuring such mechanisms, this process represents a significant financial and human investment, to which must be added the costs of rigorous evaluation, which are higher than for projects not financed on the basis of results. These costs are insufficiently absorbed by the size of the projects financed, which remains relatively small: the average value of the transactions for the ten Impact Bonds in education identified in this study is in fact 4.5 million dollars. However, the growing experience of stakeholders on the structuring of Impact Bonds is expected to facilitate a reduction of transaction costs, increasing the financial feasibility of the instrument.

"The added value of an Impact Bond does not lie so much in its potential to mobilize more capital, but rather in the fact that it brings a results-based approach to an ecosystem that is not necessarily used to it. It therefore allows for the transformation of the practices of different actors (i.e., NGOs, governments) based on the rigor brought by the private sector, particularly in terms of performance evaluation and monitoring. By involving several stakeholders, Impact Bonds are also a good way to build relationships between different branches of the ecosystem that are not used to working together.

On the other hand, structuring requires a lot of effort, between negotiations, feasibility studies, legal costs, or the evaluation mechanism, especially in view of the size of the transactions. However, the fact that actors are beginning to accumulate experience in structuring Impact Bonds will reduce these transaction costs in the future."

Interview extract

To address these barriers, pay-for-performance funds are being developed. These funds, capitalized by donors, aim to finance only projects based on their results. Pooling resources under one roof and standardizing the structure of funded projects (e.g., common evaluation framework, single contracts) should reduce the costs of setting up such mechanisms. A payment-by-results fund dedicated to education has existed since 2018 and is the subject of the following case study.

The Education Outcomes Fund (EOF)

Key features

- **Launch date:** 2018
- **Geography:** Africa and Middle East, for the moment in Ghana and Sierra Leone
- **Amount**: 46 million dollars (objective: 1 billion dollars)
- **Stakeholders:** fund created by the Global Steering Group for Impact Investment and the Education Commission, supported by UNICEF, local governments, FCDO, UBS Optimus and Ford Foundations
- **Funding purpose:** supporting projects that improve education at all levels through performance-based payments

Background and objectives

The EOF was born out of two observations. On the one hand, the crisis of the education sector materialized by the millions of young people who do not have basic reading and numeracy skills and the mass unemployment of the young generations. On the other hand, the insufficiency and fragmentation of funding for education, focused on activities that are too specific and not complementary enough, leading to a detriment of results.

EOF's results-based approach allows donors to define the results they want to finance, and to pay only for the impact that is actually achieved and measured, thus encouraging actors to maximize impact for beneficiaries. Working closely with governments, the fund will then scale up the programs that demonstrate the best results with the best value for money, maximizing the efficiency of resources mobilized in education. Beyond enabling the implementation of these programs, the EOF aims to move governments from a means-based approach to a results-based approach.

Intervention

The fund's mission has three main objectives:

- Improve learning outcomes and employment for children and youth,
- Strengthen education and employment systems in a sustainable manner by improving the capacity of schools, governments, and sector service providers,
- Disseminate results-based financing mechanisms to make them efficient and must-have development tools.

EOF is currently deploying 30 million dollars in funding to Ghana. The funded interventions target out-of-school children, with the goal of getting 70,000 children

back into school. They will also provide additional support to primary school teachers to improve learning outcomes for approximately 100,000 children across the country. Interventions are also looking to respond to lessons learned from the COVID-19 pandemic through distance education and will focus on protecting girls and other vulnerable populations. EOF is also active in Sierra Leone with a total of 16 million dollars in funding.

In both countries, priorities and impact objectives were defined in close collaboration with the national governments. Tenders were then issued to select the service providers who will carry out the actions that will lead to these impacts. The service providers must also provide the necessary pre-financing for the deployment of their actions, either through investors or through their own funds.

EOF-funded interventions have now been selected and beginning to be deployed in the field. The results will then be measured by a specialized firm. For the learning outcome indicators, the assessment will be based on existing national examinations in Ghana and on the administration of an examination to a sample of students in Sierra Leone. The final payment will be made by FCDO and foundations with national governments contributing about 10%.

Impacts and Lessons Learned

As the interventions are just beginning to be rolled out, impact results are not yet available. However, several lessons can be drawn from the structuring process. First, it is essential to rely on countries whose governments have demonstrated their willingness to participate in the program and adopt results-based approaches, while aligning program objectives with government priorities. The government of Sierra Leone, under the leadership of its Minister of Education, has been particularly active. It may also be necessary to accompany partner governments in the implementation of results-based approaches: for example, the EOF is providing technical assistance to Ghana until the end of the program.

The structuring process has also been simplified by outsourcing the search for investors and contracting with them to service providers at the bidding stage. In addition to this, the use of a dedicated fund at the country level (the approach used in Sierra Leone) to channel funding rather than through the government (the approach used in Ghana) proved to be considerably simpler and faster to implement.

Performance-based lending: results-based debt financing

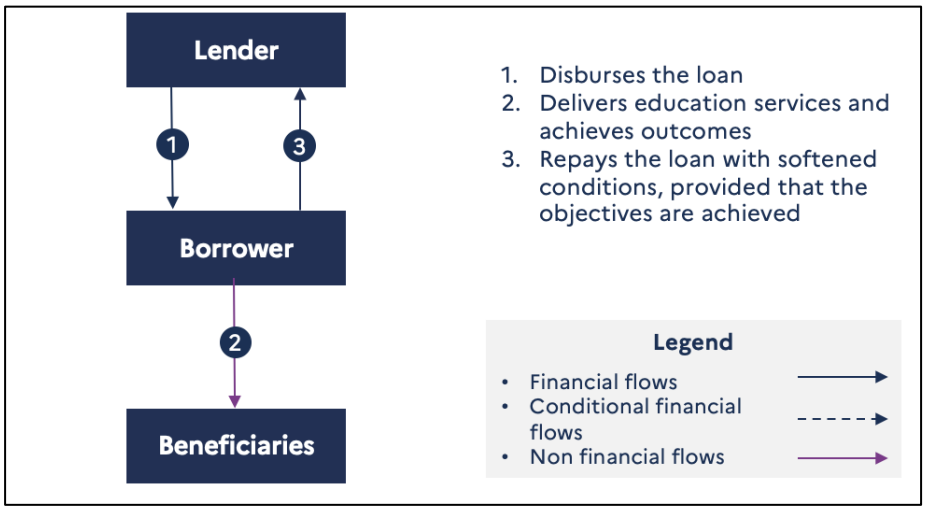

Figure 11: Diagram illustrating how performance-based lending works (Source: KOIS)

Performance-based loans function like standard loans, except that disbursement and/or repayment terms vary depending on the borrower's performance on a set of indicators. In some cases, the loan is structured in several tranches that are progressively disbursed when predefined targets are met. In the case of a Social Impact Incentive (SIINC), the borrower benefits from a waiver of a portion of the amount borrowed or a reduction in the interest rate based on its performance.

This principle can be applied in a wide variety of models and to several types of actors. Lenders can be foundations, development banks, or more commercial investors. Borrowers may be governments, but also social enterprises or private schools, and funds may sometimes be channelled through a financial intermediary (e.g., a microfinance facility). Optionally, independent evaluators can also be mobilized to verify the borrower's performance on the basis of specific predefined indicators.

The World Bank's performance loan to Tanzania - a model illustrating the transformative potential of performance finance approaches

This model consists of allocating a loan package to a country, dividing it into several tranches, and disbursing each tranche only when predefined targets are met. This model is used by the *Education Programme For Results (EP4R),* which was launched in 2014 with, among other things, a performance loan from the World Bank to the government of Tanzania, supported by SIDA and FCDO.

The goal of the program was to improve the learning outcomes of the country's students, as measured in national exams. According to SIDA, this program has had very satisfactory results and has allowed for a real shift in the approach of the different levels of the administration towards results-oriented approaches. However, this change took time to implement and required close collaboration with

the government over several years (including technical assistance to set up the evaluation system).

Implementing such a program requires a high level of commitment from the recipient government, robust information systems for evaluation, and extensive change management support for all levels of government to understand what is expected of them in terms of reporting.

This highly versatile tool could be applied at a both large scale (between a development bank and a government) and local scale (micro-credit). Regardless of the scale, performance-based lending focuses on improving the efficiency and impact of the borrower's activities. Like other results-based finance instruments, performance loans thus instil a culture of results and transparency in the borrower. They also lead to greater collaboration between the lender and the borrower. The World Bank's loan model for Tanzania, for example, could be replicated in Guatemala to improve the quality of public education. If applied to loans taken out by the country's private schools, they would help improve their practices and learning outcomes.

If their objectives are met, the SIINC mechanisms allow enterprises to access more easily debt financing, all of this in markets where the cost of capital is an issue. They also help strengthen the creditworthiness of impact enterprises in the eyes of other investors by proving that they can repay a loan. Finally, these financing mechanisms are more sustainable, as the debt repayment can be reused to support other impact-generating projects.

The borrower must therefore be relatively solvent and have sources of income to access this type of financing, which de facto excludes many structures active in the education context. As with other results-based financing mechanisms, these loans must also be supported by a robust evaluation mechanism, which represents an additional cost.

Dell Foundation and Varthana - *Social Impact Incentives* to improve the quality of private schools

Key features

- **Launch date:** 2017
- **Geography:** India
- **Amount**: 3 million dollars (loans from the Dell Foundation to Varthana)
- **Stakeholders:** Dell Foundation (investors and third-party payer), Varthana (social enterprise) and Gray Matters India (evaluator)
- **Funding purpose:** support the development and performance of low-cost private schools in India

Background and Objectives

Low-cost private schools are growing rapidly in India. Their market size was estimated to be almost 5.2 billion dollars by 2020[116]. More and more low-income and disadvantaged families, especially in urban areas, are enrolling their children in private schools to provide them with a better-quality education. However, studies show that more than 75% of the children enrolled in these schools have learning results below the level expected for their age. It is therefore necessary to enable these schools to improve their performance in terms of student learning. Access to funding is one of the barriers to school growth.

The Dell Foundation, which was already involved in funding programs for these schools through support for dedicated structures (such as the ISFC created by Gray Matters in India), wanted to capitalize on this experience by integrating a payment-by-results mechanism to improve the quality of learning delivered by these schools. The Foundation launched this project with the objective of supporting 337 low-cost private schools in improving the learning outcomes of their students.

Initiative

The initiative involves the Dell Foundation and Varthana, a microfinance company that specializes in lending to these private schools in India. The Foundation makes an initial interest-bearing loan to Varthana, who then uses the money to provide loans and technical support to the 337 project schools. These loans are linked to several objectives related to improving student learning outcomes. Depending on performance on this indicator, schools are forgiven up to 10% of the loan amount, thereby reducing the interest they pay. Depending on the achievement of results, the Foundation also forgives a portion of Varthana's loan and interest, in order to incentivize the NGO to the success of the program. For each school, results are measured and verified by Gray Matters India.

[116] FSG – Understanding the Affordable Private School Market in India

Impact and lessons learned

The results are promising: more than half of the schools reportedly improved their learning outcomes beyond the target[117]. According to the Dell Foundation, one of the benefits of this new mechanism is that it has put the quality of learning at the centre of private school owners' concerns, whereas before the existence of this mechanism they were usually focused on financial management. The evaluation mechanism also allows schools to identify their weaknesses, and therefore to implement targeted remedial actions. Beyond the impact on the quality of learning, this approach is particularly interesting and sustainable for the Foundation as an impact investor: they only pay for the impact that is attained and the capital recovered in the form of interest and loan repayment can be reinvested in other impact projects[118].

However, the initiative has some limitations. Few schools were eligible for the mechanism for two main reasons: the weakness of their impact measurement and evaluation systems and the inability of some schools to repay the debt incurred. As a result, the mechanism could not be deployed at scale, resulting in relatively high structuring costs for the number of beneficiary schools. Moreover, Varthana highlighted the lack of support for the initiative from the government, pointing out the role it could have played in improving the financial situation of some schools (e.g., by granting tax exemptions or reducing the cost of their loans), thus allowing the target group of beneficiary schools to be expanded[119].

[117] Convegenius Insight – Varthana Case Study
[118] Stanford Social Innovation Review – A New Impact Investing Model for Education, 2018
[119] Social Success Note Playbook. *A blended finance tool for social impact*. Aspen Network of Development Entrepreneurs & Varthana.

Education bond issuance increases public spending on education by capitalizing on the country's strong financial position

Guatemala's limited fiscal resources prevent it from investing at a large scale to modernize its education system. Any solution that allows the country to mobilize additional resources for its education system is therefore attractive. With one of the lowest levels of public debt in the world[120] and a strong financial position, one way for the country to invest in education could be through a bond issuance.

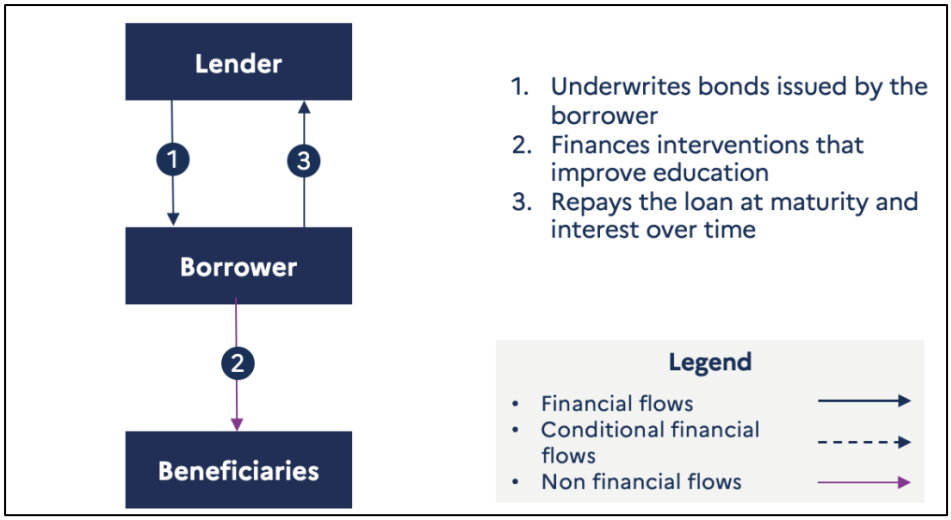

Figure 12: Diagram illustrating how education bonds work (Source: KOIS)

Dedicated education bonds operate on the model of a traditional bond issue: a borrower issues bonds to raise long-term capital at a defined interest rate, which are subscribed to by investors. The borrower commits to use the proceeds to fund education improvement initiatives. For investors, these instruments are considered low-risk, long-term investments. As proof of the interest dedicated bonds have generated, such model has developed considerably in recent years, particularly in the environmental sector: the year 2021 will see 500 billion dollars in green bond issues (compared to 100 billion dollars in 2017)[121].

Investors can be private or public, with or without impact-related objectives. Borrowers are national governments or development banks. These issues are generally large-scale operations that amount to billions of dollars, and follow the prevailing rates on the bond market, depending on the level of credit risk assigned to the country.

These mechanisms are thus particularly appropriate for financing large-scale interventions, such as the implementation of a national education plan. However, in order to benefit from acceptable financial terms, the issuer must also have a sound financial situation and controlled debt as well as access to the capital market, which

[120] Public debt in Guatemala only represented 31.6% of its GDP in 2020 (World Bank)
[121] Climate Bonds Initiatives - 2022

is the case of few low- and middle-income countries. For this reason, many bond borrowers use development banks with more favourable credit ratings as intermediaries.

Using a very traditional financial mechanism, these bonds have the advantage of being simple instruments, known to both investors and issuers. Additionally, by offering rates in line with market rates, these financing instruments have the advantage of being appealing to a large number of potential investors, including commercial investors who would not originally have an impact-related investment thesis.

On the other hand, as debt instruments, these bonds require cash inflows to make interest and loan payments. Thus, there is a risk that the government will reduce spending in other areas in order to repay the loan. Moreover, the amounts raised through these mechanisms are not truly additional to the debt that a country would incur elsewhere to finance education. In the case of a multilateral bank, the use of these bonds does not necessarily mean that it will offer more loans for education, as the funds raised may just replace the loans it already makes for education.

Education, Youth and Employment (EYE) Bonds in Latin America

Key features

- **Launch date:** 2015
- **Geography:** Latin America and the Caribbean
- **Amount**: 4.3 billion dollars in cumulative bond issues since its inception
- **Stakeholders:** Inter-American Development Bank (IDB)
- **Funding purpose:** To finance education, youth, and employment projects through debt

Context and objective

Solving the problems of poverty and inequality in Latin America requires massive investments in human capital that unfortunately remain insufficient to date. To help finance these challenges, the IDB offers loans to governments in the region to finance initiatives that improve education, from primary education to vocational training and employability.

IDB's education financing is guided by five objectives: (i) ensuring that education services meet the highest standards, (ii) ensuring that students entering the education system are ready to learn, (iii) providing all students with access to quality teachers, (iv) ensuring that all schools have access to adequate resources to support student learning, and (iv) achieving that all students graduate from the education system with the skills needed to succeed in their working lives and contribute to the creation of value for their societies.

Intervention

The EYE program is based on a bond issuance, the proceeds of which are used by the bank to lend funds to governments to finance education, youth, or employment projects of various scales, ranging from 4 million to 200 million dollars. The bonds are issued in a variety of currencies and are triple-A rated (i.e., de-linked from the individual risk of the underlying projects). From the investors' point of view, they guarantee a financial return in line with the classic returns of a AAA bond while generating impact through their investment. The IDB thus acts as an intermediary between the investors and the governments that ultimately receive the financing, which thus benefit from more attractive financial conditions thanks to the IDB's credit rating. Investors can be of all types: for example, the A$300 million Kangaroo EYE bond issued in 2022 brought together investors including Australian asset managers, banks and central banks, insurance companies and pension funds.

Impact and lessons learned

Between 2018 and 2022, the program planned to support 3 million students and train 179,000 teachers through the various projects funded. The program has benefited Guatemala, for example, where the government received a 50-million-dollar loan to improve the coverage and quality of pre-primary and primary education. Beyond the benefits for governments and populations, observers believe that the added value of EYE bonds is above all that they allow traditional investors to finance projects with a real social impact through an attractive financial instrument[122].

[122] NORRAG – Education, Youth and Employment Bond, 2020

3. Bangladesh: Supporting a thriving private sector for education through innovative finance

A. Although some challenges remain, Bangladesh has made significant progress in providing access to education

Bangladesh's impressive development trajectory since independence is also reflected in its education system, which now outperforms the majority of the countries studied, and in particular the three countries on which we have focused our analysis. Education in Bangladesh is free and compulsory from age 5 to 11. Its primary cycle is the exclusive responsibility of the state, and more precisely of the Ministry of Primary and Mass Education, which is responsible for the strategy as well as for the financing of infrastructure, teachers, educational materials, and uniforms. However, NGOs play a major role in this first cycle of the education system, especially in pre-primary education. Secondary education, which is not compulsory, is structured as a public-private partnership. The Ministry of Education, which also oversees higher education and vocational training, sets policy, and subsidizes secondary schools (including teacher salaries). There also exist private schools that are not subsidized and not supervised by the state. Finally, informal education is partly funded by four government agencies: the Bureau of Informal Education, the Directorate of Youth Development, the Department of Social Services, and the Bangladesh Computer Council. Other informal education initiatives, including literacy and adult and youth education, are carried out by NGOs and the private sector.

A few places above Guatemala in the human development rankings with a Human Development Index of 0.661 (placing it 129th out of 191 countries)[123], Bangladesh faces different socio-economic challenges. The country's strong economic growth (an average of 6.4% over the last five years according to the World Bank) is not enough to compensate for the poverty of a population that is still predominantly rural. According to the World Bank's classification, Bangladesh is in the bottom bracket of middle-income countries, with a per capita GDP of 2,503 dollars in 2021[124]. Although the country is much less unequal than Guatemala, its demography remains a major challenge in terms of access to education. Indeed, although its population growth is now measured (1% in 2021 according to the World Bank), Bangladesh is the 8th most populated country in the world, with more than a quarter of its population being of school age[125].

The continuity in reforms allowed by the relative stability of the country is reflected in the significant progress made in access to education. The state has thus globally taken up the challenge of ensuring access to primary education, which is almost

[123] Ranking established in September 2022 on the basis of the Human Development Index 2021. *Source:* Human Development Reports, *United Nations Development Program*

[124] Source: World Bank

[125] 26.3% of young people under 15 in 2021. Source: World Bank

universal, through the construction of thousands of schools, particularly in rural and isolated areas. The school dropout rate is particularly low at the primary level: 5% in 2010[126]. However, Bangladesh still has progress to make in terms of access to secondary education, as the drop-out rate is five times higher than at primary level, at around 26% according to the latest UNESCO figures[127]. Gender inequalities in education are less pronounced than in Niger or Guatemala, with, for example, almost 96% of schools having gender-neutral toilets, thus reinforcing the enrolment of girls, adolescents, and young women. In addition, the literacy rate for girls, adolescents and young women aged 15-24 is slightly higher than that of boys, adolescents, and young men of the same age, 96% versus 94% respectively[128].

However, this progress was undermined by the COVID-19 crisis, which reduced children's access to education for 18 months due to school closures. The broadcasting of lessons on national television did not allow for continuity of learning for all. Indeed, only 4.8% of households in the lowest wealth quintile owned a television, compared to 90% in the highest wealth quintile, which led to a high degree of inequality in access to education during the COVID-19 period[129]. However, more than 200 radio courses in line with the national curriculum were developed by UNESCO for primary school levels, a modality more accessible to the population. These contents and materials were complemented by online courses and the use of mobile phones to maintain the link between teachers and students. Nevertheless, an Asian Development Bank survey found that two-thirds of learners surveyed had no direct contact with teachers during the closure. Similarly, the BRAC rapid assessment study found that 14% of students reported not studying, while 56% of students did not participate in online courses, with the proportion being higher for ethnic minorities, disabled students, and children in rural areas. A UNICEF report also found that one in ten girls aged 12-15 said they did not return to school after the reopening[130].

Bangladesh still has progress to make in terms of access to secondary education, since the school dropout rate is five times higher than that of primary education, at around 26% according to the latest UNESCO figures[131]. The country, indirectly affected by the ethnic conflict in neighbouring Myanmar, is also welcoming a massive influx of Rohingya refugees. Nearly one million refugees have reached Bangladesh since 2017, half of whom are children. This influx of refugees, mostly concentrated in the Cox's Bazar area, is creating immense pressure on the region's public services, which are not designed to accommodate such a large population. Finally, the poverty of Bangladeshi families can also constitute an obstacle to children's access to education, as the

[126] Data from 2010. Source: UNESCO.
[127] Data from 2010. Source: UNESCO.
[128] Data from 2019. Source: UNESCO Institute for Statistics
[129] UNICEF - Bangladesh Multiple Indicator Cluster Survey, 2019
[130] UNICEF – Bangladesh Case Study, October 2021.
[131] Data from 2010. Source: UNESCO.

poorest families are often forced to make their children work. In the slums of the capital city of Dhaka, for example, 15% of children aged 6-14 and 50% of children aged 14 were reportedly working full-time in textile workshops in 2016[132].

From an ecological and environmental perspective, the country remains highly exposed to natural disasters such as flooding and erosion, especially in the delta region which hosts the majority of the population. These disasters lead to the destruction of school infrastructure. In addition to these specific disasters, Bangladesh is suffering from the irreversible consequences of climate change, with 20% of its territory at risk of being swallowed up by rising water levels, resulting in the need to replace an equal proportion of the country's school infrastructure[133]. In this scenario, more than 20 million children will be seriously exposed to climatic dangers, floods, cyclones, extreme heat and droughts, causing frequent interruptions of schooling[134].

B. The quality of Bangladesh's education system still varies widely between primary and secondary education for reasons related to both education policy and secondary education financing.

In terms of educational quality, Bangladesh outperforms Niger and Guatemala at least in primary education. The rate of educational poverty (i.e., the proportion of ten-year-olds unable to read and understand a simple text appropriate to their age) as defined by the World Bank is the lowest (57.2%)[135]. Additionally, this country also stands out from the two previous ones in terms of the level of its students at the end of primary school, with more than 47% achieving the minimum level required in mathematics[136].

However, several challenges remain in terms of the quality of the education system, particularly at secondary level. Although progress has been made in this area, there are still not enough trained teachers for the size of Bangladesh's school population and the infrastructure is not always adequate to accommodate the number of students. Indeed, Bangladesh ranks below the median of the countries surveyed in terms of the number of students per teacher, a ratio that stood at 30 according to UNESCO in 2018[137]. Also, one third of Bangladesh's teachers teach without a diploma, showcasing their low training and preparation level[138].

One of the major problems the country faces is the disparity between the primary and secondary cycles in terms of quality of education. This is due to two main factors: the prioritization of universal and free access to secondary education in the context

[132] Overseas Development Institute - 2016
[133] UNICEF – Bangladesh country profile
[134] UNICEF Canada – Les changements climatiques au Bangladesh, 2019
[135] Data from 2017. Source: World Bank
[136] Data from 2017. Source: UNESCO.
[137] Data 2018. Source: UNESCO
[138] Humanium - Bangladesh

of achieving SDG 4 (sometimes to the detriment of defining clear objectives and measures to improve educational quality) and the absence of a unified strategy for educational quality. This last factor is itself linked to the nature of the secondary education system, which is characterized by the existence of different types of schools (i.e., subsidized vs. private independent). A recent report by the Global Partnership for Education, citing the Bangladeshi Ministry of Education, points to the need for curriculum reform and unified expectations for secondary school graduation skills[139].

The level of public funding for education is notoriously low in Bangladesh, both in terms of spending per pupil in absolute numbers (330 dollars per primary school student, far from the median of the countries surveyed of 1,330 dollars) and in terms of public spending on education as a proportion of GDP (2%, far from the Incheon target of 4%-6%)[140].

> "*Access to education has long been the preferred focus for improving education, to the detriment of more qualitative dimensions such as teacher training. This is partly related to the short-term nature of policy cycles: building schools is quick and shows concrete results for a policy maker, while the benefits of investing in teacher training are less immediate. However, the countries with the greatest educational difficulties are beginning to realize that this is a key issue.*"
>
> *Interview extract*

Low public spending forces households to contribute significantly to the financing of education. Although their share of education financing has been decreasing since 2018, it is still significant as it represented nearly 71% in 2021 according to the Global Education Monitoring Report. It should be noted that the share of financing by households is more significant in secondary education, which also reflects the state's responsibility related to primary education.

A powerful resource that could be leveraged by the state to finance education is its diaspora. More than 10 million expatriates regularly send money back to their home countries. These remittances amounted to more than 22 billion dollars in 2021[141]. By way of comparison, the education budget was 3.5 billion dollars in 2019[142].

[139] Education Sector Analysis (ESA) for Bangladesh, Global Partnership for Education, 13 April 2020.
[140] Figure calculated from two data sources: KNOEMA estimates that public spending per primary school student was 7.1% of GDP per capita in 2016, while the World Bank estimates GDP per capita at $4,642 in 2016.
[141] World Bank - 2022
[142] Countryeconomy.com - Bangladesh

Diaspora bonds as enablers for a state to finance itself on advantageous terms

These bonds are bonds issued by a national government to its diaspora to mobilize funds to support various sectors of the country's development. These instruments are generally characterised by the provision of lower interest rates compared to those of the capital markets, thanks to a "patriotic discount" that the diaspora agrees to grant to its country of origin, thus allowing governments to finance themselves on more advantageous terms. This instrument, similar to a traditional bond, is also easy to structure and allows large sums of money to be raised quickly: India and Israel have issued 44 billion and 33 billion dollars in diaspora bonds respectively, some of which were dedicated to education.

Diaspora bonds, however, can only be applied to countries with a large diaspora, that has sufficient financial capacity to contribute to such mechanisms. Despite the "patriotic discount," the borrowing government must also be in a sound financial and credit risk position to be able to offer suitable terms to its investors.

C. The private education sector as a powerful lever to meet the challenges of the Bangladeshi education system

In order to further improve quality and access to education in the country, leveraging the private sector seems critical given its weight in the national education ecosystem, especially at the secondary level.

Moreover, the development of the education technology sector (or *EdTech*), characterized by the emergence of an ecosystem of start-ups, has accelerated rapidly, particularly in the context of the COVID-19 pandemic and school closures[143]. This trend can be supported by the rapid spread of Internet in the country: Bangladesh's internet coverage has doubled in five years and 67% of the population will have access to it by 2021. Smartphone use is also spreading among the population, 41% of phone users are now using a smartphone and this share will increasing to 62% by 2025[144].

The dynamic *EdTech* sector in Bangladesh

Many start-ups offering online education solutions for different educational cycles have developed in Bangladesh. For example, *Durbin Academy* offers video tutorials in different subjects for secondary school children, *Thrive* and *EduHive* offer digital solutions to improve education in schools. *Bohubrihi* is an e-learning platform offering coding courses.

[143] The Business Standard – Bangladesh set for an EdTech revolution, 2022
[144] Future Start-up - 7 EdTech Start-ups Looking to Take Online Education Mainstream in Bangladesh, 2021

These enterprises, whose clients can be schools or families directly, complement the education received in schools and thus contribute to improving access and the overall quality of education in the country. However, they remain largely independent of the State, not controlled by it, and not issuing recognised diplomas or certifications. Indeed, while there are some EdTech platforms recognised and supported by the Ministry of Education, the State has difficulty in legislating on independent private start-ups. *EdTech* start-ups, which regularly raise funds to expand, therefore represent a real opportunity for impact investing. Some experts estimate that the size of the market in Bangladesh will reach 700 million dollars by 2025[145].

Bangladesh is also a pioneer in social entrepreneurship: its theorist Muhammad Yunus created the Grameen Bank in 1976, the world's first microcredit institution. In its wake, several social enterprises have emerged in sectors such as health and education. This is for example the case of BRAC, an international NGO that now finances 73% of its operations through its social enterprises. Through its various programs, the NGO reached 11% of Bangladeshi children in 2014. BRAC operates low-cost schools across all education cycles, including initiatives to reach children from marginalized communities: for example, they have developed "boat schools" that travel to children in the delta region. *Light of Hope* provides complete e-learning solutions for schools in rural areas of the country with limited or no access to electricity: the solutions include computer equipment, digital teaching aids and solar energy systems to power them. However, the NGO's action faces economic and social limitations that have a direct impact on access to education: the most vulnerable families targeted by their various programmes sometimes continue to prefer to involve their children in income-generating activities at the expense of their regular schooling, even though the NGO offers adapted programmes with more flexible timetables. A UNESCO analysis of the BRAC model has highlighted the importance of dialogue and the involvement of national authorities in the implementation of a more comprehensive response to the problem of improving the livelihoods of the lowest income families[146].

Even though BRAC may not have problems to access capital given its size, this is not the case for smaller scale social enterprises: 35% out of 141 Bangladeshi social enterprises responding to a survey cited access to debt as a key barrier to their growth, the second most cited factor. In addition, only 9% of enterprises had received commercial loans, falling to 3% for concessional loans. This issue affects a large number of social enterprises active in the education sector, which accounted for almost one-third of the 141 companies surveyed[147].

Impact investment funds to support the development of innovative education solutions

[145] UpSkill Classroom – EdTech in Bangladesh, 2021
[146] UNESCO Institute for Lifelong Learning. BRAC Education Programme, Bangladesh.
[147] British Council – The state of social enterprise in Bangladesh, 2016

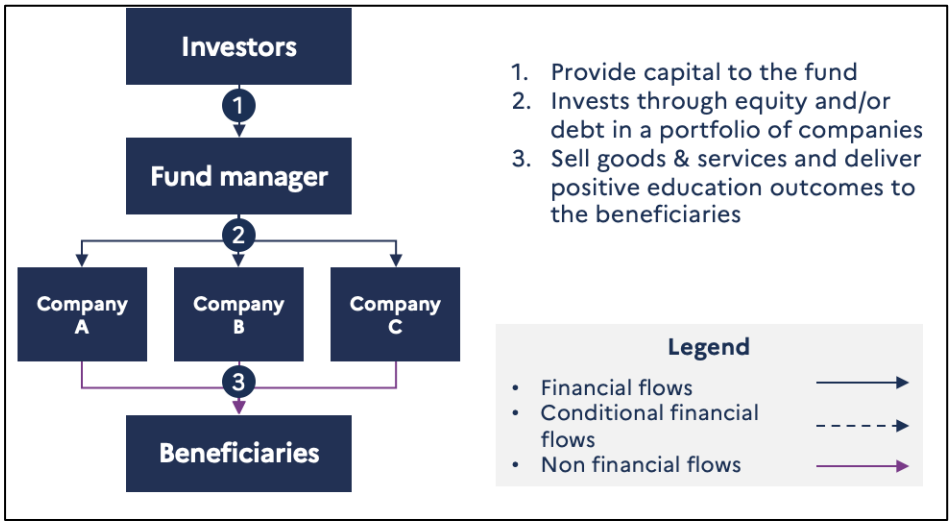

Figure 13: Diagram illustrating how an impact investment fund works (Source: KOIS)

Impact investment funds are structured in the same way as traditional funds: investors (who may be traditional commercial investors or specialized impact investors) transfer capital into a fund, managed by a fund manager. The size of these funds typically ranges from 10 million to 100 million dollars. The fund manager identifies investment opportunities that must be approved by an Investment Committee. These funds can invest in a variety of vehicles: equity, quasi-equity, and debt. A technical assistance package, financed through a grant, can also accompany investments to provide personalized support and expertise to companies. Like traditional investment funds, they can be positioned at different stages of a company's maturity cycle (e.g., seed, Series A, Series B). Unlike traditional funds, impact investment funds finance companies that generate a positive social or environmental impact.

These funds therefore only target actors that generate income through commercial activity, so as to allow for the repayment of debt or the increase of enterprise value in the case of an equity investment. In the context of education, they are therefore appropriate to finance private education organizations, companies offering education-related solutions either to schools (e.g., *EdTech* solutions improving the quality of education, such as the *10 Minute School* platform that offers video lessons and online tests to complement school-based education) or directly to families (e.g., digital distance education solutions).

Impact investment funds are instruments known to investors, offering traditional investment actors the possibility of positioning themselves in the impact sector via transactions similar to what they know. These mechanisms are also an important lever for financing economically viable and therefore sustainable projects, thus reinforcing the financial independence of the education sector. Impact funds, which are often more open to risk-taking, also provide an additional support than the one provided by local financial markets, which are more cautious about financing education projects with unproven economic models according to them.

Impact funds focus only on activities with a revenue-generating potential, thus excluding most educational initiatives which are not commercial in nature, whose prospects for financial returns are too distant in time compared to their investment horizon, or initiatives that target the most vulnerable populations. Furthermore, the portfolio of investment-ready initiatives in the education sector and in low- and middle- income countries today is very small. Existing models most often require more concessional funding or significant additional in-kind support to help them grow and scale.

Gray Matters: impact investing for education and equality

Key features

- **Launch date:** 2006
- **Geography:** Low- and middle-income countries, in particular India
- **Amount**: 125 million dollars of investment since inception
- **Stakeholders:** Gray Matters Capital
- **Funding purpose:** financing innovative enterprises that have a positive impact in education and for women

Background and Purpose

Many private companies are developing innovative solutions to improve children's education in low- and middle-income countries, either by primarily focusing on children or by doing so more broadly on schools, with the aim of improving the quality of education. Even though these companies have business models that combine impact and revenue generation, they sometimes struggle to attract investors because they are perceived as less profitable or riskier than companies that address more commercial markets.

Gray Matters Capital aims to fund companies that combine high societal impact with returns aligned with the market. To do this, Gray Matters invests in early-stage companies and funds, creates companies to fill market gaps and offers alternative financing mechanisms.

Intervention

Gray Matters deploys this through several different modes of intervention in education finance. For example, the organization has raised the edLABS fund, which aims to invest 8 million dollars in Indian companies whose solutions improve the quality of education. Established in 2017, the fund has invested in five companies with solutions including an artificial intelligence-based teaching platform and a 21st century key skills learning platform. Investments are made through a variety of

instruments, including debt, equity, bonds, convertible shares, and other more innovative structures that incorporate performance-based financing to provide greater flexibility to investee companies.

Gray Matters also provides financing services for low-cost private schools in India, Pakistan and Nigeria. The Indian School Finance Company (ISFC), for example, provides loans to private schools in the country. Previously, these schools had difficulty accessing financing from the formal financial sector and were forced to cancel expansion plans or borrow from more informal markets at high cost. The ISFC allows them to expand and improve their activities on financially acceptable terms.

Impact and Lessons Learned

The added value of Gray Matters is to allow innovative and very young companies to access capital and thus develop, all of this in conditions where traditional financiers generally choose not to commit. The flexible financing structures offered by Gray Matters are also interesting for young companies: the funds can be disbursed in different tranches; each one being paid out according to the achievement of predefined objectives. This gives companies access to a stable and predictable source of funding that supports their step-by-step development, while incentivizing the achievement of specific impact goals. However, it should be noted that Gray Matters only invests in young companies with a proven business model, leaving out innovative education companies looking for seed capital. In addition, some investment terms may not be appropriate for the business model or maturity of some companies. For example, performance-based funding may be channelling revenue streams for very young companies whose business model is still under construction.[148]

Social Success Notes (SSN) to enhance the attractiveness of social enterprises to private investors

The objective of a Social Success Note is to facilitate the granting of credit to social enterprises by commercial investors, as well as improving the conditions under which loans are provided to social enterprises (e.g., interest rate, repayment period). In these results-based mechanisms, the impact achieved by the social enterprise is rewarded by additional payments from outcome funders (e.g., philanthropists, donors) directly to the investors, thereby enhancing their return on investment.

[148] Source: Interview with Gray Matters conducted by KOIS for the report

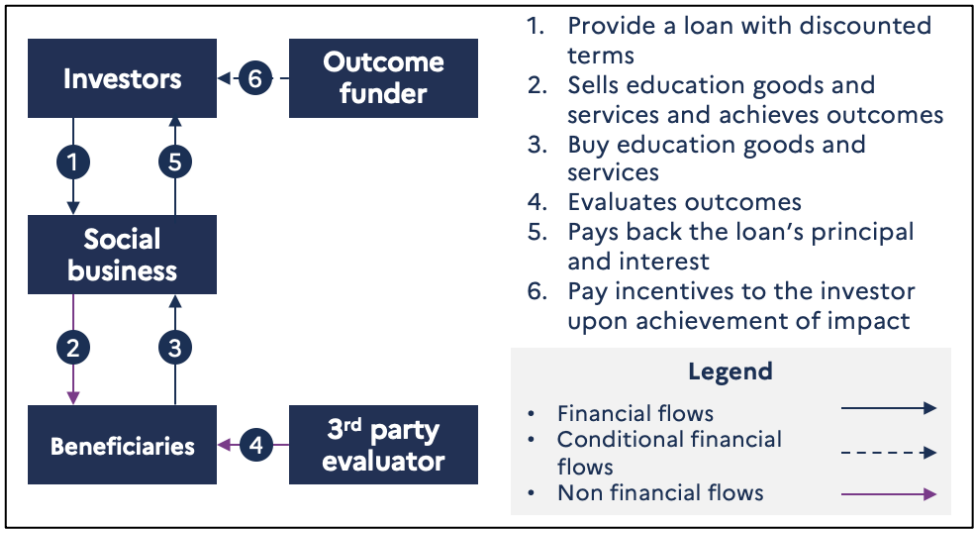

Figure 14: Diagram illustrating how a Social Success Note works (Source: KOIS)

Unlike Impact Bonds, in these mechanisms the service providers financed must be social enterprises and have a commercial activity. These instruments aim to finance enterprises in transition, not yet mature for direct investment, in order to familiarize them with the requirements and constraints of loan repayment.

SSNs are appropriate in contexts where there are private companies or organizations active in the education sector (e.g., private schools or companies selling goods or services to schools), which cannot access debt financing due to their maturity and their profile deemed too risky by traditional investors.

SSNs leverage public and philanthropic capital to attract larger-scale investment in education, a sector that has been neglected by traditional investors. These investors are given the opportunity to fund impactful interventions that offer a prospect of market-aligned financial returns if the social enterprise achieves its impact goals. The enterprises can then benefit from soft loans, while proving that they are creditworthy enough to repay a loan, making it easier to attract other investors in the future. The social mission of these enterprises is preserved through payments that reward the impact by outcome funders. SSNs are transitional financing tools for social enterprises, intended to pave the way for access to more traditional, commercial financing structures (e.g., loans on market terms).

Still a relatively new financing instrument, SSNs are not well known to investors and donors and have only been implemented at a small scale to date. As with Impact Bonds, these mechanisms require a rigorous evaluation because results are linked to the disbursement of payments from the outcome funders. Moreover, since they are aimed at social enterprises or commercial organizations, they remain inappropriate in countries where private education is not widespread and the ecosystem of private actors in this sector is not well developed.

Impact Water Social Success Note: Improving Educational Conditions by Relying on the Private Sector

Key features

- **Launch date:** 2018
- **Geography:** Uganda
- **Amount**: 500,000 dollars in loans and 200,000 dollars in additional payments if the targets are met
- **Stakeholders:** UBS Optimus Foundation (Investor), Impact Water (Operator), Rockefeller Foundation (Outcome funder) and Yunus Social Business (Structurer) and Socio Economic Data Centre (Evaluator)
- **Funding purpose:** support the development of the enterprise of Impact Water

Background and objectives

Impact Water is a social enterprise that provides environmentally friendly and affordable water purification systems to schools without access to clean water. The company also offers access to these products on credit. Operating in a difficult market with low margins, Impact Water did not have the capacity to access adequate financing to fund its scale-up.

Intervention

The UBS Optimus Foundation gave a loan of 500,000 dollars to Impact Water for five years, providing the social enterprise with the working capital to purchase and install its water purification systems, which was crucial due to the fact that schools pay for these systems in several instalments.

The Socio Economic Data Centre (SEDC) evaluates the number of schools and children who now have access to clean water thanks to Impact Water, in order to determine the amount of additional payments made to the investor by the Rockefeller Foundation.

Impact and Lessons Learned

The intervention, deployed over five years aims to provide 1.4 million children with access to clean water in 3,600 schools. As the project is ongoing, however, figures on the actual impact achieved are not available.

The SSN mechanism allows Impact Water to grow faster while preserving its impact and staying true to its mission through access to affordable capital. More broadly, the model aims to demonstrate the viability for commercial investors to invest in social enterprises.

SSN also aligns the interests of stakeholders optimally. Even though debt is priced at only 5% for Impact Water, the UBS Optimus Foundation's return can be as high as 10% if impact goals are met with Rockefeller Foundation payments. The end-payer, the investor, and the social enterprise all benefit when impact goals are met and share the execution risk. This model allows for significant leverage: in this pilot, the Rockefeller Foundation's 200,000 dollars allocation generates significant leverage by attracting 500,000 dollars in debt from the UBS Optimus Foundation.

As the intervention ends in 2023, there is still little evidence to assess its limitations and potential obstacles or drawbacks. However, the process of structuring the mechanism has shown two limitations. The inability of the existing financial and legal structures to carry the mixed finance mechanism has led to additional financial and legal engineering costs. As a result, the transactional cost is too high to deploy a single intervention.[149]

IFFEd: a new multilateral education finance fund for lower middle-income countries

In the process of being finalised, IFFEd is a project that aims to address the issue of education financing in lower middle-income countries. Currently, low-income countries have access to new sources of funding for education, including dedicated pockets of World Bank funding, international aid, and multilateral grant funds such as

[149] Social Success Note Playbook. *A blended finance tool for social impact*. Aspen Network of Development Entrepreneurs

the Global Partnership for Education (GPE) and Education Cannot Wait. On the other hand, lower middle-income countries face structural challenges: they are losing access to some of the funds they once enjoyed as low-income countries, all of this while their tax base is not sufficient to cover their education needs. Recent analyses show that of the 40 billion dollars in funding allocated to middle-income countries by multilateral development banks, only 1% would go to education in Africa and Asia combined. In order to improve their education systems, these countries are therefore forced to borrow money at high rates, increasing the pressure on their fiscal situation. These lending conditions often have led them to reducing the amount of their development lending: World Bank research suggests that as countries move from low to lower middle income, the amount of human development lending they take out drops by 60%[150]. To continue investing in their education systems, these countries need affordable debt financing[151].

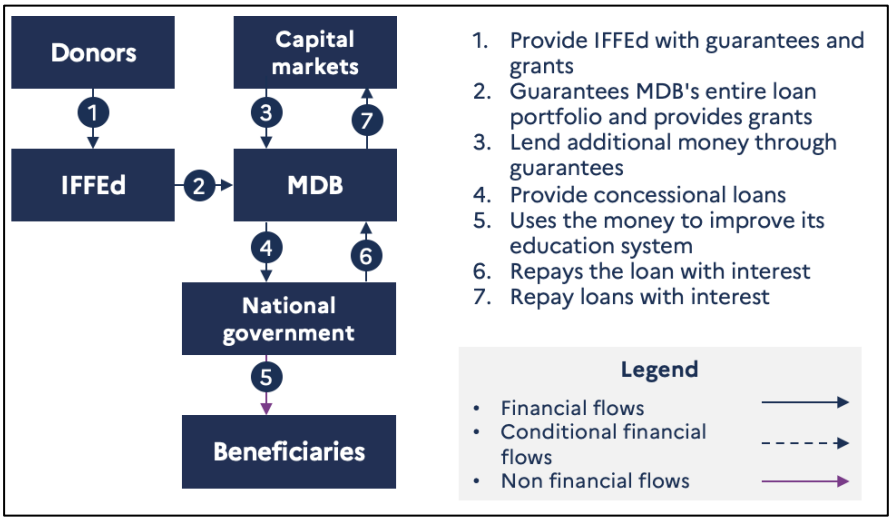

Figure 15: Diagram illustrating how the IFFEd works (Source: IFFEd & KOIS)

The objective of this facility is to enable recipient governments to receive soft loans from Multilateral Development Banks (MDBs), such as the African Development Bank and the Asian Development Bank, the two entities which will be the first to participate in the fund. The IFFEd will be a donor-funded fund, with primarily governments as donors. The first tranche of the fund, to which the Netherlands, the UK and Sweden have already committed, is expected to unlock $2 billion in funding for education projects from 2023 before scaling up to $10 billion in funding by 2030. These donors provide either guarantees (of which 15% are effectively transferred to MDBs) or grants. IFFEd then offers MDBs its portfolio of guarantees allocated by donor countries. In the event of default on one of MDBs' loans to a country (not only in the field of education), the MDB can receive funds from this portfolio of guarantees. The amount of

[150] Banque Mondiale - Investing in Human Capital: What Can We Learn from the World Bank's Portfolio Data?
[151] The Education Commission – IFFEd prospectus

guarantees that MDBs can receive depends on the share of education loans in their total lending, which is intended to strengthen their involvement in this sector.

This portfolio is treated as quasi-equity on the MDBs' balance sheets, which increases the maximum amount of loans they can underwrite and thus allows them to raise more money in the conventional capital markets. With this additional money, MDBs then offer loans for the education systems of lower-middle-income countries. Each loan includes a grant from IFFEd that equals to 10% of the loan amount, allowing the terms of the loan to be reduced to make it more concessional.

Countries must meet several conditions to be eligible for an IFFEd loan: they must have a credible education sector action plan, commit to increasing public spending on education, have the capacity to take on additional debt, commit to results-based approaches and performance monitoring, and commit to including the most marginalized children in their education efforts. IFFEd is a financial instrument for MDBs, which are the ones responsible for selecting recipient countries and ensuring that they meet these conditions.

The main advantage of the IFFEd would be its ability to generate an extremely high leverage effect on donor contributions. For every dollar contributed by donors as a guarantee, 0.15 dollars are immediately cashed in by IFFEd, with the remainder being disbursed only in the event of default. One dollar of IFFEd guarantees should enable a development bank to raise four dollars on the capital markets. Therefore, the leverage of IFFEd is estimated to be x27 (i.e., 0.15 dollars in guarantees allows for a 4-dollar loan for education). When including IFFEd's share of grants to make the loans more concessional, the leverage is estimated at x7.

IFFEd also has the advantage of increasing the mobilization of domestic resources for education by beneficiary countries (as this is one of the eligibility conditions), which helps countries to ensure the financial sustainability of their education systems. Finally, IFFEd was conceived as a financial instrument with a simple governance structure that relies on development banks, and not as a new structure like Education Cannot Wait or the Global Partnership for Education. Thus, it does not further fragment the global architecture of education financing by adding a new structure where the debates that are already taking place in other multilateral initiatives will be replicated.

The innovative nature of the IFFEd is, however, a source of complexity: donors interviewed concede that it is sometimes difficult to explain how the mechanism works to other potential donors. The IFFEd also plans to target upper-middle income countries, which excludes the most vulnerable countries with the greatest needs often prioritised by major international donors. Finally, the creation of this new financing mechanism within an already fragmented and disparate ecosystem is likely to increases the existing risk of cannibalisation and competition between these

initiatives; IFFEd's capacity to attract new sources of funding for education is therefore not demonstrated.

Conclusion

The annual funding gap for education to achieve the goals under SDG 4 by 2030 is estimated at 200 billion dollars annually. This shortfall has been exacerbated by the COVID-19 pandemic and its disastrous consequences on education worldwide and is likely to grow even larger as a result of the current economic crisis and the pressure it is putting on national budgets. The challenges remain major, both in terms of access and quality of education, as highlighted by the analysis of the educational contexts of the three countries illustrated in this report.

Innovative finance is a powerful lever to increase the resources devoted to education, by mobilizing new sources of financing and improving the efficiency of the capital allocated to this sector. However, innovative financing instruments have not yet reached their full potential in supporting education and remain used on a too small scale. Education differs from other fields in being primarily a state prerogative, with sovereign governments setting their own priorities. Moreover, the horizons for return on investment and materialization of education outcomes are particularly long. These characteristics lead to an over-representation of domestic governments and large international donors in education funding and to the prevalence of grant-based funding approaches. The sector still struggles to attract more diverse sources of capital from philanthropic and non-traditional funders, including private actors (e.g., foundations, corporate social responsibility, development banks, impact investors). Whereas more innovative and non-grant-based funding mechanisms (e.g., performance finance, mixed and concessional capital structures, impact investing) are emerging, they are yet to account for a small share of overall innovative finance transactions.

This report identifies a series of opportunities for the application of innovative finance in different contexts, leveraging the example of three distinct countries: Niger, Guatemala, and Bangladesh. Mobilizing new sources of financing for education can be based not only on multiparty grant funds dedicated to education (e.g., GPE, Education Cannot Wait), but also on blended funds aimed at mobilizing private investment through the use of guarantees or concessional capital (e.g., IFFEd), impact investment funds, and diaspora bonds. Results-based financing approaches (e.g., impact bonds, results-based grants or loans) have also been successfully implemented with the aim of increasing the efficiency and transparency of resources mobilized by linking them directly to impact, while also helping to transform sector practices. Innovative finance can thus, when deployed to its full potential, support, strengthen and develop public education through the mobilisation and allocation of additional, predictable, and stable resources over time. It can also play a major role in supporting and developing the private not-for-profit sector, through the strengthening of private education provision only as a complement to the public education provision guaranteed by the state. Furthermore, it has the potential to implement adapted financing tools (e.g.,

Social Success Notes, Social Impact Incentives, impact investment funds), capable of removing the barriers to access to capital for emerging structures such as social enterprises or EdTech start-ups. However, it remains crucial that the deployment of innovative finance for the benefit of the private sector can contribute to the strengthening of education as a public good and does not feed the dynamics of profitability and commercialisation because "the search for profit is incompatible with the commitment to guarantee free pre-primary, primary and secondary education" as stated in the UNESCO 2021 World Education Monitoring Report.

Still largely unknown, innovative finance tools will need to be adopted in the future by a wider range of actors (i.e., philanthropic organizations, local governments, commercial investors) in order to be implemented at a wider scale, help close the funding gap and address education challenges faced by low- and middle-income countries.

Appendix

1. List of instruments

Instrument	Advantages	Limitations
VOLUNTARY CONTRIBUTIONS		
Multi-party grant funds *Funds from several donors under one entity.*	• Greater impact than individual contributions. • Reduction of transaction costs due to pooling of funds under a single structure. • Suitable for emergency interventions needed in countries prone to human and natural disasters. • Flexibility, funds can finance a diverse range of interventions and actors. • Alternative for funding when debt/ equity is not an option.	• Does not constitute a sustainable source of financing and needs to be replenished regularly. • Long time needed to implement, operationalise the fund and integrate contributors. • Risks of cannibalisation and dispersion between vehicles. • Structural risk of loss of funding between the multilateral fund, intermediaries, and the final beneficiaries.
Conditional cash transfers *Third party payer provides money directly to households that meet specific criteria.*	• Contributes to removing financial barriers for families. • Link to impact guarantees the efficiency of funding mobilised by donors. • Simple, time-tested structure that can be easily implemented on a large scale. • Reduces families' opportunity cost of sending their children to school rather than work.	• Can create a situation of dependency for the recipient country and households on the donor. • Extensive verification process to prove the beneficiary complies with the terms of the contract. • Robust evaluation needed to assert that the recipients would not have complied with the terms of the contract in the absence of the cash transfer. • Can be costly for financially constrained governments
RESULTS BASED FINANCE		
Performance based grants *Resources allocated by the donor depend*	• Encourages actors to monitor and improve the performance of their operations. • Informs government of budgetary trade-offs.	• Does not constitute a sustainable source of financing and needs to be replenished regularly.

on the performance of the recipient on a set of predefined indicators.	• Maximizes effectiveness of resources mobilized by donors. • Flexibility, can be allocated to a wide variety of actors.	• Requires strong reporting and auditing systems to track indicators, representing an additional cost. • Recipients must advance funds before expected results materialise, potentially leading to cash flow problems and diminished financial capacity.
Impact bonds Private investors pre-finance an intervention and are reimbursed by outcome funder depending on the achievement of the level of impact.	• Allow service provider to demonstrate the impact of interventions, facilitating its eventual scaling up and national dissemination. • Guarantee to the outcome funder that the resources they provide yield impact. • Transfer execution risk from outcome funders to investors. • Foster innovation by service providers to increase efficiency and achieve greater impact. • Enable financing for both non-commercial projects and social enterprises that are not profitable yet.	• Does not constitute a sustainable source of financing. • Typically, small ticket size can lead to an insufficient absorption of costs. • Elaborate and costly funding instruments to structure. • Collaboration with governments to integrate practices at a national level can be complex in certain contexts.
Performance based lending *Disbursement and/or repayment terms vary depending on the borrower's performance on a set of indicators.*	• Highly versatile, can be applied at a small and large scale. • Instils a culture of results and transparency in the borrower. • Leads to greater collaboration between the lender and the borrower. • Strengthens creditworthiness of impact enterprises, unlocking access to more debt financing. • Offers concessional funding when objectives are met. • Sustainable nature, debt repayment can be reused to support other impact-generating projects.	• Requires robust information systems for evaluation representing an added cost. • The borrower must be relatively solvent and have sources of income, de facto excluding many structures active in the education context.
MIXED OR CONCESSIONAL CAPITAL STRUCTURES		

Social Success Notes (SSN) *Impact achieved by the social enterprise is rewarded by additional payments from outcome funders directly to the investors, thereby enhancing their return on investment.*	• Gives access to finance to organizations that cannot access debt financing due to their maturity and a profile deemed too risky by traditional investors. • Capitalizes on public and philanthropic capital to attract larger-scale investment in education. • Strengthens creditworthiness of social enterprises, unlocking access to more traditional commercial financing structures.	• Not suitable in contexts where private education is not widespread as service providers financed must have a commercial activity. • Not very well known to investors and donors as it has only been implemented at a small scale. • Requires rigorous evaluation, representing an additional cost.
International Finance Facility for Education (IFFed) *Concessional funding and guarantees for LMICS through development banks.*	• Treated as quasi-equity on the development banks' balance sheets, which increases the maximum amount of loans they can underwrite and thus allows them to raise more money in the conventional capital markets. • Each loan includes a grant from IFFed that equals to 10% of the loan amount, allowing the terms of the loan to be reduced to make it more concessional. • Generates an extremely high leverage effect on donor contributions. One dollar of IFFed guarantees should enable a development bank to raise four dollars on the capital markets. • Increases the mobilization of domestic resources for education by beneficiary countries, which helps countries to ensure the financial sustainability of their education systems. • Simple governance that relies on development banks, and thus does not further fragment the global architecture of education	• Complexity: donors concede that it is sometimes difficult to explain how the mechanism works to other potential donors. • Elaborate eligibility standards exclude some countries (e.g., those that do not have the capacity to take on additional debt).

	financing by adding a new structure.	
OTHER		
Education bonds *Borrower commits to use the loan proceeds to fund education improvement initiatives.*	• Simple, low-risk investments, offering rates in line with market. • Appealing to both private and public investors not necessarily focused on impact. • Appropriate to finance large-scale interventions.	• The borrower must have a sound financial situation and controlled debt as well as access to the capital market, which is not the case for many LMICs that need to use development banks with more favourable credit ratings as intermediaries. • Risk that the government will reduce spending in other areas to repay the loan. • Amounts raised may not mean additional financing and simply replace loans already made for education.
Impact investment funds *Investors transfer capital into a fund, that invests in a variety of vehicles with a focus on impact.*	• Offer traditional investment actors the possibility of positioning themselves in the impact sector. • Reinforce the autonomy of the education sector by supporting economically viable projects. • More open for risk-taking and provide additional support to local financial markets, which are more cautious about financing education projects with unproven economic models.	• Focus only on activities with revenue-generating potential, excluding most educational initiatives which are not commercial in nature or whose prospects for financial returns are too distant in time. • Portfolio of investment-ready initiatives in the education sector and in developing countries is currently very small. • Existing models most often require more concessional funding or significant additional in-kind support to help them grow and scale.

2. Data used in the selection and analysis of country contexts

GENERAL	Niger	Guatemala	Bangladesh	Median of countries studied
Demography				
Population (millions)	25	17	166	12
Demographic growth (%)	3.7%	1.5%	1%	1.4%
Population <15 years (%)	49.5%	32.9%	26.3%	30.8%
Population density	19.8	159.7	1277.6	78.6
Rural population (%)	83.2%	47.6%	61.1%	46.8%
Politics				
Global Peace Index From 1 (better) to 5 (worse)	2.7	2.1	2.1	2.1
Political instability index	4	2	2.7	2.9
Corruption perception index 0 (worse) to 100 (better)	31	25	26	34
Economics				
Income category	Weak	Upper intermediate	Lower intermediate	NA
GDP/capita ($) US$ PPP 2017	1,310 $	9,769 $	6,613 $	8,144 $
Economic growth (%) Average of last 5 years	4.6%	3.3%	6.4%	2.1%
Population below poverty line (%) National poverty like	40.8%	59.3%	24.3%	26.8%
GINI Index	37.3	48.3	32.4	38.7

From 0 (best) to 100 (worst)				
Finance				
Financial Market Development Index From 1 (worst) to 5 (best)	NC	4,9	3,6	3,8
Credit rating	0	43	40	31
Ease of Doing Business Index From 0 (worse) to 100 (better)	56.8	62.6	45	59.7

3. List of interviews conducted

	NOM	ORGANISATION	FONCTION
	Léa Rambaud	Coalition Education	Project Manager
	Graham Lang	Education Cannot Wait (ECW)	Chief of Education
	Marianna Knirsch	BMZ - Federal Ministry for Economic Corporation and Development	Senior Policy Advisor Education
	Abdelkader Galy	CAMOS	President
	Andrew Apampa	CONVERGENCE	Manager, part of the Content Team Senior Associate

	Krishna Malhotra		
PROPARCO	Claire Devey Pauline Boulanger Eric Zontstop	PROPARCO	Senior Investment Officer Investment Officer Senior Investment Officer
GRAYMATTERS CAPITAL	Srinita Mitra	Gray Matters Capital	Venture Manager
Sida	Helena Reutersward	Swedish International Development Co-operation Agency (Sida)	Senior Policy Specialist
AFD	Veronika Chabrol	Agence Française de Développement (AFD)	Deputy Head Education & Employment
LGT	Marcia Parada	LGT Venture Philanthropy	Investment Manager
Ministry of Foreign Affairs of the Netherlands	Loes Van Driel	Ministry of Foreign Affairs of the Netherlands	Program Manager Innovative Finance
EOF EDUCATION OUTCOMES FUND	Jared Lee	Education Outcomes Fund (EOF)	Chief Programs Officer
the Education Commission	Nick Vaughan	The Education Commission	Special Adviser, Innovate Finance
UNESCO	Paula Razquin	UNESCO	Program Specialist

4. List of financing mechanisms

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Mixed or concessional capital structure				
Education Venture Fund	Pooled investment vehicle that invests in education start-ups and social entrepreneurs in exchange for ownership in those companies.	• Mobilizes additional resources towards promising initiatives • Supports investees in developing their activities and growing • Promotes innovation	• Requires potential for growth and future profitability	
Private Equity Fund	Classic private equity fund (i.e., seeking financial returns) that invests in companies working in the education sector (e.g., EdTech).	• Enables the scaling of innovative solutions with viable business models in the education sector	• Only invests in income-generating activities, de facto excluding most education initiatives	• Acumen Latin America Early Growth Fund (ALEG)
Student financing	Loans with favourable conditions (grace periods, low interest rates...) for students, especially those from disadvantaged backgrounds, to finance their higher education.	• Grants access to tertiary education to youth who otherwise may not have received it • Widely available and easily accessible • Simple to set up	• High risk of default compared to other loans/ financing mechanisms. An estimated 15% of student loans are in default at any given time in the United States	• LEAP Programme • African Student Financing Facility
Education bond	Bond issued by a low-risk organization (government, development bank) whose funds are then used to finance education projects.	• Allows to raise large amounts of money • Standards instrument, simple to structure • Allows to raise capital from individual investors	• Requires a financially strong issuer, able to repay the funds raised. The countries with the highest education needs are often not AAA countries.	• EYE Bond • Education Support Bond Africa/Japan

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Bridge Fund	There can be significant lags between a donor's commitment to a project and the actual receipt of the funds. A Bridge Fund overcomes this delay by advancing funds to the operators, who reimburse them upon receipt of the donor's funds.	• Accelerates access to funding and saves time on project deployment or commodity purchases • High impact investment with very low risk for the lenders • Funds are quickly repaid, and can be reused multiplying the impact of a single capital package	• Usable only in very specific contexts for expenses for which there is already a financial commitment	• UNICEF Bridge Fund
Public-Private Partnership (PPP)	Long term contract between a government agency (and/or donor) and the private sector where the private partner delivers and funds public services.	• Mobilizes private sector expertise which can improve efficiency and speed • Private contractor raises capital for the project	• The private sector may neglect certain "public good" aspects usually handled by public actors with a focus on the project profitability	• Partnership Schools for Liberia
Diaspora Bond	Bonds issued by a country to raise capital from its expatriate nationals.	• Attracts new sources of capital by making it investable for individuals • Gives access to debt financing at better rates and longer tenors than the market thanks to a "patriotism discount" • Secures funds in a simple and inexpensive way • Can mobilize funds on a large scale to meet the financing needs of development programs	• Presupposes that the issuing country has a substantial, financially well-off, and patriotic diaspora • Requires a series of credit enhancement/ investor protection measures (e.g., partial, or full guarantees from a donor agency that would ensure payment of coupons and repayment of principal in the event of default) • Requires some political and economic stability so that the investment is not perceived as too risky • The projects financed by these bonds must generate AA" class revenue streams	• Bangladesh Diaspora Bond • India Diaspora Bond • Israel Diaspora Bond

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Microloan to students / families	Funding provided directly to students or their families by non-banking institutions to fund access to education	• Very small loan amounts, allowing for a large number of beneficiaries • Microloans are usually given to women (in the family) in LMICs countries, who are on average more likely to pay back than men	• Relatively high default rates	
Multilateral Education Fund	An instrument that aims to raise the profile of a particular issue and to crowd in sustainable and scalable funds from donor, domestic government and private sources using both traditional and innovative financing mechanisms, as well as providing technical support to accelerate improvements in the relevant systems at country level.	• Increased efficiency by pooling funds allowing to reduce costs and enable a coordinated deployment of the funds • Technical assistance increases the chances of success	• Complex to structure due to the number of actors involved	• The World Bank Global Financing Facility
Revolving Fund	A fund whereby the capital raised for financial instruments is reused, or 'revolved' after it has been used once.	• Funds can be reused and re-deployed several times during the lifetime of the fund, allowing for a larger number of beneficiaries	• Fund lifecycle can be quite long for certain types of projects which may take longer to redeploy capital multiple times	
Impact Investment Fund	A fund whose investments are made with the intention to generate positive, measurable social and environmental impact alongside a financial return.	• Highly popular financial tool which attracts new sources of capital to education by making it investable for commercial investors • Funds financially sustainable projects, which allows to reinforce the self-	• Horizon terms (~7 years) are not aligned with the actual financial returns of improving education • Can only target projects with a clear financial sustainability, which often excludes public education	

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
		sustainability of the education system	• Needs a relatively solid business environment • Typically lacking in impact measurement practices, especially for indirect impact	
Microloan to schools	A non-bank financial institution offering microloans to schools (for a fee), similar to the microcredit model. The loans can be combined with other forms of support (financial management training, etc.).	• Allows organizations not eligible for credit through traditional banks to access capital	• Schools need to generate an income in order to repay the credit, therefore making the instrument more applicable to private schools	• IDP Rising Schools Programme
Results based financing mechanism				
Education Outcomes Fund	A fund fed by investors, to finance operators carrying out projects around education. The investors are repaid by outcome payers according to the achievement of predefined objectives certified by an independent evaluator.	• Attracts capital from various sources • Serves as proof of concepts through impact evaluation mechanisms • Reduces transaction costs by pooling multiple projects • Helps strengthen local ecosystems, especially on the culture of results and transparency.	• Complex to structure due to the number of actors involved • Requires measurable outcomes that can be directly attributed to the intervention	• Education Outcomes Fund
Performance-Based Contract	Contract in which an operator receives payments only upon achievement of predefined objectives.	• Provides an incentive for the operator to achieve predefined results • Links funding to concrete outcomes	• May pose cash flow problems for the operator, who must commit working capital to complete the intervention that will trigger payment • Puts the risk on the operator, which may limit the appetite of operators for this type of financing	• Helvetas SKY Project

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Conditional Cash Transfer (CCT)	Beneficiaries (vulnerable households) receive cash payments from an outcome payer if they meet certain conditions (e.g., sending their children to school).	• Simple structure which can be implemented unilaterally by the outcome funder (especially if it is a government), and at a large scale • Ensures the value for money for the outcome funder	• Thorough individual verification process needed • Can be costly for financially constrained governments	• Guatemala Catch up clubs
Cash on Delivery Aid	Donors pay for measurable and verifiable progress on specific outcomes (e.g., $100 dollars for every child above baseline expectations who completes primary school and takes a test).	• Strengthens government accountability to citizens • Focuses on results and supports innovation	• Requires reliable and precise information about the outcome measure • Payments are only made once the outcomes are achieved leading to cash flow implications	
Debt Swap	Transaction in which a lender cancels the debt of a borrowing country, on the condition that the borrower invests a certain amount of money (freed up by the debt cancellation) in the education sector.	• Reduces the problems of over-indebtedness in recipient countries, while allowing them to invest in education	• A swap can only be applied in very specific contexts at the states' level (existence of a debt, which the lending State can afford to cancel) • Depending on the maturity of the underlying debt, the budgetary gains of the swap may be realized rather slowly • Does not free up additional financing for development • Fungibility of debtor country budgets is a concern, it might result in no additional budget going to education than would have been the case anyway • Requires the donor country to carefully monitor that the	• Debt swap France/Cameroon • Dept swap Germany/Indonesia • Debt swap Spain/El Salvador

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
			released funds are used for the intended purpose. This can reduce the borrowing country's autonomy.	
Debt Conversion Development Bond (DCDB)	Another kind of debt swap: the creditors write off a loan, and the beneficiary country uses the fiscal space created to issue a bond that will be repaid with the money that should have been used to repay the initial debt. The proceeds of the bonds will be used to finance development project such as education	• Unlike a debt swap where the beneficiary country "earns" money at several maturities (since it does not have to pay what it should have paid at t0, t1, etc.), the DCDB gives access to new money immediately through the issuance of a bond.	• Same disadvantages as for a debt swap • Few applicable contexts • Recipient country must have an immediate need to significantly increase spending on education, and must be able to spend the proceeds quickly and efficiently (risk of bottlenecks)	
Impact Bond (IB)	Investors provide upfront funding for development programmes, and are later remunerated by an outcome funder (donor, government) if the programmes achieve pre-agreed results as certified by an independent evaluator	• Links payments to a quantified impact on predefined outcomes • Transfers the risks to investors • Encourages innovation for operators and allows to prove relevance of business models before scale-up	• Requires defining attributable and measurable indicators • Complex to structure given the large number of stakeholders, even though IB amounts are usually relatively low (thus high transaction costs relative to the amount)	• Early Childhood Education Social Impact Bond • Educate Girls Development Impact Bond (DIB) • South Africa DIB • Quality of Education India DIB
Loan-Buy Down	Donor repays part of the loan or the interest upon the achievement of pre-agreed outcomes. The money is usually set aside by the donor in a trust fund.	• Of interest to countries that would otherwise not apply for a loan and where the triggers for the buyout are outcomes or reforms that could not otherwise be achieved. • Buybacks can make more resources available to large countries, currently capped by the Global Partnership for	• In the case of a buy-down at loan inception, there is a risk of increasing a country's indebtedness if it does not meet the targets • As with any result-based finance mechanism, the associated indicators and targets need to be carefully chosen so that they are relevant to the impact	• Buy Down China for Education

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
		Education (GPE) at $100 million.	sought, and can be easily monitored • As a debt instrument, it may not be sufficiently attractive to countries traditionally funded by grants. In addition, this mechanism may encourage donors to increase loans at the expense of grants	
Performance-Based Grant	A facility that provides grants based on the achievement of predefined targets on specific indicators. Recipients may be private (NGOs) or public (local governments, public schools, etc.)	• Improves value-for-money while transforming recipient practices by instilling a culture of results and transparency	• As this mechanism remains a donation, it is difficult to attract new actors (private sector) to education financing. • Can pose cash flow problems for recipients of funds (need for working capital to finance interventions)	• Peru's "Performance Commitments" • Cameroon's result-based finance mechanism at the school level
Social Success Note (SSN)/ Social Impact Incentives (SINC)	SSN - Donors provide additional returns to a mainstream investor if the social business investment delivers pre-agreed social outcomes SINC - Donors reward enterprises with premium payments if the social business or project delivers pre-agreed social impact indicators, providing additional revenues, and improving profitability to attract investment to scale	• Leverages public or philanthropic funds to catalyse private investment in underserved markets with high potential for positive impact. • Generates additional revenues (SINC), enabling businesses to attract investment to scale • Easier to structure and more flexible than comparable instruments (such as SIBs) • Can be combined with any type of investment from any kind of investor	• Requires the accurate measurement of the social outcomes generated by an independent evaluator • Social businesses must have a revenue-generating business model, de facto excluding a lot of education interventions	

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Performance-Based Loan	A lender allocates a loan envelope gradually disbursed as predefined targets on specific indicators are met	• Reduces transaction costs and streamlines coordination between lender and receiver • Improves transparency through regular reporting on indicators • Incentivizes the achievement of project targets	• Performance appraisal process can be detrimental to educational projects due to a focus on financial reward rather than development needs • In case of unrealistic or inflexible goals, it can restrict the access to funds	• Tanzania Education Performance for Results Program
Risk mitigation mechanism				
Catalytic Fund	Fund using various instruments (guarantees, donations) to de-risk projects and thus attract new investors to these projects.	• High leverage on the invested capital • Wider variety of potential sources to raise funds	• Fund investments can be complicated to structure, as they must always be accompanied by investments from other players	• IFFEd • GPE multiplier • USAID Catalyze EduFinance
Guarantee	In the event of a borrower's default, the donor undertakes to pay the borrower all or part of the amount due, thereby de-risking the loan for the borrower who can therefore offer more favourable terms. Collateral often accompanies other financial mechanisms.	• Allows for high impact investment with a relatively low level of risk (since in most cases the guarantee funds are not disbursed) • Guarantee funds can revolve through a multiplier of the fund capital, since when individual projects pay back their loans, new guarantees can be issued. • May build trust and encourage repeat funding to the same beneficiaries once the guarantee fund has expired	• The initial risk of the borrower cannot be too high, otherwise the guarantee is not sufficient to attract investors • Limited use of guarantees as leveraging mechanism for education results in less information available to draw conclusions - past projects have only showed small increases in lending • Guarantees are not considered a sustainable or scalable blended finance structure for the education sector (from IFC's experience)	• USAID Development Credit Guarantee

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
Matching Fund	A donation-based fund, in which each donation generates an additional and proportional donation by another actor.	• Produces leverage on donations • May encourage actors who would not typically donate	• Lack of transparency may result in contributors doubting the fund	• UK Aid match
Blended Fund	Fund combining philanthropic investors (public actors, Development Finance Institutions (DFIs)…) and private actors. Public and DFI funding has a high level of concessionally and therefore takes a high level of risk, which makes it possible to attract private investors by offering them risk-return profiles more in line with their standards. The fund is thus structured in several tranches with different levels of seniority.	• Attracts private capital • Provides investors with a first experience on investing in education, which may lead them to re-enter the sector in the future • Unlike a catalytic fund, funds are catalysed at the time of fundraising and not on a per investment basis.	• Can be complicated to structure because it requires several types of actors	• Regional Education Finance Fund for Africa
Technical Assistance Facility (TAF)	Provision of support to beneficiaries such as start-ups in a selected industry to increase transparency, reduce uncertainty, and thus mitigate risk involved for investor. Support can range from any activity along the value chain, depending on the goals of the TAF.	• Reduces risk for investors by supporting beneficiaries in the deployment of their intervention or in the development of their services • Regional approach proven to be successful, as it allows for flexibility between different areas	• Initial setup is tedious, as it requires collaboration with a number of different partners	• Pacific Financial Technical Assistance Centre
Income-Contingent Loan (ICL)	An ICL is a loan offered by the government with debt collection in the form of taxation after graduation. The taxation charges cease once the student has repaid the loan in full. The government is the investor and shares the risk with the student.	• Gives access to education to students that could otherwise not be able to afford it • Reduces the burden on the students as level of repayments is linked to the income	• Higher total amount paid back by beneficiaries (as compared to regular loans) due to a much longer payment term • Inflexibility of the instrument for the beneficiaries	

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
			• Only applicable to tertiary education	
Income-Sharing Agreement (ISA)	A private investor pays for post-secondary tuition fees as an equity investment and receives a percentage of the student's future income for some period of time as a repayment for the investment. The private investor and the student share the risk.	• Gives students more flexibility and an alternative to taking out student loans (it is still considered debt however) • Reduces the burden on the students with level of repayments linked to the income	• Declining in popularity in United States' universities today due to lawsuits and problems with the federal government • Interest rates are around half that of student loans, however payment terms are much longer equating to a higher total amount being paid back by the student	• African Leadership Finance Company • Lumni
Voluntary contribution				
Grant-Based Fund	Fund financed by public and/or private actors with an exclusively philanthropic vocation: the fund disburses donations to organizations so that they can implement education projects.	• Can address any context since they it does not require a financial return (particularly suited for the LMICs) • Simple structure which minimizes transactions costs by pooling funds • Flexibility allows to quickly channel fundings for emergency situations	• The philanthropical dimension of this instrument excludes most investor categories	• Child Learning and Education Facility • Early Learning and Nutrition • Global Partnership for Education • Girls Rising and Global Education Fund
Fast Track Initiative (FTI)	Partnership between donors and developing countries to accelerate progress towards the SDG 4. An FTI is built on mutual commitments: 1) partner countries have agreed to give priority to primary education and to develop sound national education plans, and 2) donors have agreed to	• Allows mobilization of large sums of money • Incentivizes the benefiting country to prioritize education • Coordinated donor support increases the efficiency of donor support	• Typically large scale, complicated, and time consuming to set-up, resulting from the need to coordinate the large number of parties involved.	• The Education for All -- Fast Track Initiative

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
	increase support in a transparent, coordinated manner.			
International Legacy Fund	A legacy fund is designed to receive donations at a future date when a bequest or similar estate planning strategy takes effect.	• In some cases, a tax benefit is applicable • Different types of assets can be donated	• Donations are effective only at an undefined future date • Administrative requirements to claim the estate	
Travellers Savings Fund for Development	A mechanism that aims to influence tourism organizations or tourists to donate to education projects.	• Mobilizes donations from new sources • Mitigates currency risks by mobilizing contributions locally	• Typically only small amounts are collected	
Corporate Social Responsibility (CSR)	Donations or investment by companies under their corporate social responsibility programs.	• Allows mobilisation of large sums of money or new sources of money for education objectives	• Can lack transparency and effective disclosure practices • Vast majority of CSR efforts are largely immeasurable since corporates lack the tools to measure social impact • Can be inefficient, uncoordinated and have high costs associated with the funding and management of CSR activities	
Individual (micro) donation	A form of charitable donations from ordinary citizens in which the donated amount is very small (<$100).	• Allows mobilisation funds from individual citizens willing to contribute to a cause • Grants possibility to access to a global audience through platforms like GoFundMe, when paired with a good marketing strategy	• Requires a partner with a widespread reach with many inlets to collect funds from a large number of people • High credit card transaction fees (up to $0.3) represent a barrier, although this is increasingly mitigated by mobile fintech platforms	

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
		• Rise in popularity of through online platforms in recent years		
Community-Based Loan	A community using a portion of its savings to contribute to a fund that then provides interest-bearing loans to community members so that they can engage in economic activity and pay school fees for their children. The loans are then repaid to the fund with interest, which is redistributed to community members according to their contribution.	• Offers loans to individuals who are not eligible for loans from conventional banks. • Relies on local support and peer control to reduce defaults • Allows for more flexibility on repayments if needed	• Low solvency of households receiving the loans can result in default • High transaction costs to set it up as it requires creating a local association (which involves training and assistance).	• Save for School - Côté d'Ivoire
Taxes and charges				
Mandatory CSR Expenditures	Regulation obliging companies exceeding a certain level of wealth / profit / turnover to spend a given proportion of their profits on a specific theme (for example, education).	• Allows mobilization of sums of money from new sources in a short span of time.	• Can only be implemented at the government level • May lead to avoidance mechanisms (tax evasion)	• India Section 135 of the Companies Act 2013
Earmarked Sin Tax	A Sin Tax is a tax specifically levied on certain goods deemed harmful to society and individuals, such as alcohol or tobacco. The funds collected can then be dedicated to sectors such as education.	• Allows mobilization of sums of money from new sources in a short span of time.	• Can only be implemented at the government level	• India's Tax on Tobacco • Thailand's Tax on Alcohol and Tobacco
Privately Managed Levy	Tax levied on the activities of private companies to finance technical training managed by a private NGO.	• Allows mobilization of sums of money from new sources in a short span of time. • Technical training programs are more aligned with the needs of the private sector, in	• Generally only applicable to tertiary professional training	• Brazil training levy

Instrument	Brief description	Advantages	Disadvantages	Examples of initiatives
		terms of content and quantity: the number of places offered is thus consistent with actual market demand.		

5. List of identified innovative finance initiatives in education

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Acumen Latin America Early Growth Fund (ALEG)	Private Equity fund investing in equity and mezzanine debt in SMEs in the agribusiness, education, and energy sectors. Includes a technical assistance envelope.	Private Equity fund	Indicators depend on projects	Latin America, with a particular focus on Colombia, Peru, Honduras, El Salvador, and Guatemala	o MacArthur Foundation o ALIVE Impact Ventures o IBD-Lab (former Multilateral Investment Fund of the Inter-American Development Bank) o Dutch Good Growth Fund o Institutional investors from Latin America such as Bancoldex, Fundación Bancolombia, Fundación Sura and Fundación World Women's Banking Colombia	$28M	2020
African Leadership University - African Leadership Finance Company (ALFC)	Financial company (AFLC) launching an income share agreement initiative for students attending the African Leadership University with the aim	Income Share Agreement	N/A	Kenya	o African Leadership University o AFLC	*Not available*	2018

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	of increasing access to higher education.						
African River Fund	Private Equity fund investing in SMEs operating in a variety of impact sectors, particularly in education.	Private Equity fund	N/A	Central and Eastern Africa	○ XSML Capital ○ ProparCo	$85M	2020
African Student Finance facility (ASFf)	Structure combining student loans (with beneficiaries selected based on expected future income) with advanced market commitments for training and education organizations.	Student Financing	N/A	Kenya and South Africa	○ Dalberg Capital Partners	$30M	*Unknown* (planned launch was 2016)
Blue Orchard's Regional Education Finance Fund for Africa (REFFA)	Fund offering different types of financing (loans, savings for education) and technical assistance to 9 institutions. It targets private education organizations and families of primary school students.	Blended Fund	N/A	Africa	○ German Development Bank (KFW) ○ German Ministry for Economic Cooperation and Development (BMZ) ○ BlueOrchard Finance Ltd ○ Foundations, family offices and NGOs	Targeted size: $100M Structure: Junior tranche ($23M) Mezzanine tranche ($15M) Senior tranche ($62M)	2012

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Brazil training levy	Tax levied on the activities of private companies to finance technical training.	Tax	Integration in professional market	Brazil	○ Private companies ○ SENAI (NGO in charge of managing the levy) ○ Brazilian government	*Not available*	*Not available*
Bridge International Academy	Multi-country primary and pre-primary private education provider which received investments from various private actors	Impact Investment	N/A	Kenya, Uganda, Nigeria, and India	○ Bridge International Academy ○ Gates Foundation ○ International Finance Corporation (IFC) World Bank ○ VC Funds ○ Pershing Square ○ Omidya Network	$100M	2015
Buy-down China Education	The United Kingdom´s Department for International Development (DFID) repayment of $34.5M of a $100M International Bank for Reconstruction and Development (IBRD) loan to China to encourage China to continue its collaboration with the World Bank on health and education.	Buy Down	N/A	China	○ Chinese government ○ DFID ○ World Bank	$34.5M	2003
CLEF (Child Learning and Education Facility)	Grant to build or expand schools (2,500 classrooms), and provide learning methods to 10,000	Grant	Number of children receiving quality education Number of schools targeted	Ivory Coast	○ Ivory Coast Government ○ Jacobs foundation ○ UBS Optimus foundation ○ 15 corporations from cocoa and chocolate industry	Seed financing: CHF 45M	2030 (end of project)

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	primary schools in cocoa-growing areas, Number of classrooms built Number of Farmers reached					Targeted envelope: CHF 162.4M	
Conditional Cash Transfers in Guatemala	A range of conditional cash transfers to incentivize parents to send their children to primary and secondary school.	Conditional Cash Transfer	Enrolment and retention of children in school	Guatemala	○ Guatemala Government	$40M for 154K households (one of the CCTs)	2012
Debt Swap France/Cameroon	Cancellation of part of Cameroon´s national debt to France with the condition that the country used the amount to improve its education system.	Debt Swap	Number of teachers under contract Pupils per teacher Children enrolled in school Number of children completing primary school	Cameroon	○ French Government (AFD) ○ Cameroon Government	$55.3M	2006-2011
Debt Swap Germany/ Indonesia	Three Debt Swap contracts between Germany and Indonesia, to increase government spending on the construction and equipment of schools as well as teacher training.	Debt Swap	N/A	Indonesia	○ German Government ○ Indonesian Government	1st swap: €25.6M 2nd swap: €23M 3rd swap: €20M	2003-2006

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Debt Swap Spain/ Latin America	Cancellation of several Latin American LMICs' debt by the Spanish Government to increase spending on their respective national education systems.	Debt Swap	N/A	Ecuador, Honduras, Nicaragua, Bolivia, Paraguay, Peru, and El Salvador	o Spanish Government o Other Governments	El Salvador: $10M Peru: $27M	2005-2009
Dell Foundation and Varthana - result-based financing	Loan from the Dell Foundation to Varthana which then provided microcredits for low-cost private schools. Segments of debt were cancelled performance of schools.	Performanc e-based loans	Student's learning outcomes	India	o Dell Foundation o Varthana o Gray Matters India (evaluator) o 337 low-fee private schools	$3M	2017-2020
Early Childhood Education Social Impact Bond (SIB)	SIB aimed at financing the development of private nursery schools, improving the quality of education and access for children from disadvantaged backgrounds.	Impact Bond	Number of children in school Percentage of children from disadvantaged backgrounds or with a handicap Quality of learning measured with MELQO initiative (Measuring Early learning Quality and Outcomes)	Uzbekistan	o World Bank o Ministry of Preschool Education of Uzbekistan o Private nursery schools	$10M	Cancelled

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Early Childhood Development SIB South Africa	SIB aimed at improving children's cognitive, social, psychological readiness for school through home-based interventions.	Impact Bond	Number of children in the program Retention of children in the program School Readiness, measured with the ELOM tool (Early Learnings Outcomes Measures)	South Africa	○ Standard Bank Tutuwa Community Foundation (SA) ○ LGT Venture Capital Futuregrowth (SA) ○ Mothers2mothers ○ Volta Capital ○ Western Cape Foundation for Community work ○ Creative Consulting and Development Works ○ Tshikululu Social Investments ○ Western Cape Government	$1.4M	2017
EdFin Microfinance Bank	Provision of microcredit to private schools in Nigeria with the aim of improving the quality of education and the learning outcomes of students.	Micro-loans to Schools	N/A	Nigeria	○ Gray Matters US ○ Private schools	*Not available*	*Not available*
Educate Girls Development Impact Bond (DIB)	DIB aimed at improving the access and quality of education for children from marginalized and rural communities, especially girls.	Impact Bond	Number of children enrolled in school Learning outcomes	India	○ UBS Optimus Foundation ○ Educate Girl ○ Children's Investment Fund Foundation (CIFF) ○ IDInsight	$11M	2015-2018
Education Cannot Wait (ECW) - Afghanistan	Intervention to support education in Afghanistan since 2017 with a focus on girls' education and	Grant	Number of children who have access to school	Afghanistan	○ UNICEF ○ International Rescue Committee (IRC) ○ Save the Children ○ WADAN	Total: $58.8M Multi-Year Resilience Program	April 2020 - June 2021 (Covid -19 FER)

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	community-based education to reach children and adolescents in the crisis-affected areas.		Percentage of girls attending school Number of teachers who are trained to address mental health and counselling issues			(MYRP): $50.2M First Emergency Responses (FER): $7.4M Covid-19 FER: $1.3M	December 2017 - December 2022 (FER Round) March 2019 - September 2023 (MYRP Phase)
Education Cannot Wait - General	Two Grant programmes: First Emergency Responses to safeguard education during conflicts or disasters and the Multi-Year Resilience Program to strengthen national education systems in the longer term.	Grant Fund	Indicators depend on the projects	No specific geography	○ UNICEF ○ National governments ○ Local service providers	$ 1.07BN (as of 2021)	2017 (creation)
Education Cannot Wait - Haiti	First Emergency Response (FER) in context of 2021 Haiti earthquake, with the aim of: ○ Creating safe learning environments. ○ Providing access to education.	Grant	Number of children and adolescents supported with school feeding programmes	Haiti	○ Education Cannot Wait ○ UNICEF ○ World Food Programme ○ Haitian Ministry of National Education and Vocational Training and National Office for Partnership in Education	$1.5M	2016 (creation) September 2021- October 2022 (implementation)

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Education Outcomes Fund - Ghana	Intervention to enable 70,000 out-of-school children to attend primary school and improve primary school learning outcomes for 100,000 children.	Education Outcomes Fund	N/A	Ghana	○ Ghana Government ○ United Kingdom's Foreign, Commonwealth and Development Office (FCDO) ○ Korean Development Agency ○ Bank of America	$30M	2022-2025
Education Support Bond Africa/Japan	Bond issued by African Development Bank to Japanese investors.	Regular Bond for Education	N/A	Africa	○ African Development Bank ○ Japanese individual investors	*Not available*	2013-2018
ELAN (Early Learning and Nutrition)	Grant to improve access to basic services essential to the well-being of young children, and provision of training for caregivers.	Grant	Number of under 5-year-old children receiving healthcare Number of infrastructures renovated and equipped	Ivory Coast	○ Ivory Coast Government ○ TRECC Consortium (Jacobs Foundation, Bernard Van Leer Foundation, UBS Optimus Foundation) ○ 12 corporations from the cocoa industry	Seed financing: CHF 15M Targeted size: CHF 40M	2025 (end of project)
Enko Education	Investment and technical support provision by ProParco in EnKO, a pan-African operator of private schools, colleges, and high schools.	Impact Investment	Number of children in school Job creation	Sub-Saharan Africa	○ Enko ○ Proparco	$1.6M	2016

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Finance For Jobs Project (F4J)	Impact Bond launched by the World Bank to promote employment of youth in Palestine through access to tertiary education	Impact Bond	N/A	Palestine	○ FMO ○ Palestine Investment Fund ○ European Bank for Reconstruction and Development (EBRD) ○ Invest Palestine ○ World Bank	$6.8M	2019
Girls Rising and Global Education Fund	Grant fund using the principles of traditional Venture Capital to provide grants to social entrepreneurs active in the primary and secondary education sector.	Grant Fund	N/A	India and Kenya	○ Girl Rising ○ Global Education Fund Foundation	*Not available*	2017
Global Partnership for Education	About $368 million annually for education 2017-19. $960 million in 2020. • Hosted at the World Bank. • Funding channelled through grant agents.	Grant Fund	N/A	Low Income Countries	○ National Governments	$960M in 2020	2011
GPE multiplier fund	Catalytic fund that can be invested as a grant or used to lower interest rates on concessional loans from MDBs, bilateral donors, or other non-traditional sources of development finance.	Catalytic fund	N/A	Global	○ GPE ○ Development Finance Institutions ○ MDBs ○ UN Agencies ○ National governments ○ Other donors	Since 2018 a total of $458M in grants, having unlocked more than $1.9Bn in additional financing from partners.	2021-2025

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
						Country allocations ranging from $5M to $50M	
GPE multiplier fund - Ethiopian refugees	Intervention to complement the action carried out by other partners to integrate refugees into the Ethiopian education system.	Catalytic fund	N/A	Ethiopia	○ GPE ○ World Bank ○ Denmark Government	Total: $80M GPE: $20M World Bank: $55M Denmark: $5M	2021
GPE multiplier fund - Tajikistan	Catalytic fund with the aim of building and renovating school infrastructure, improving math and language instruction in primary grades as well as strengthening the national education management information system.	Catalytic fund	N/A	Tajikistan	○ GPE ○ Islamic Development Bank (IDB) ○ Tajikistani Government UNICEF	Total: $46,75M GPE: $10M IDB: $30M Tajikistani Government: $6M UNICEF: $750K	2020-2024
GuarantCo Acorn	Partial credit guarantee to investors financing the construction of student housing in Nairobi.	Guarantee		Kenya	○ Stantic ○ Emerging Africa Infrastructure Fund	KES 5M	*Not available*

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Helvetas' Skills and Knowledge for Youth Project	Payments given to vocational training providers per beneficiary completing a training as well as additional payments once individuals are integrated into the labour market.	Performanc e-based contracts	N/A	Ethiopia	o Helvetas o Public and private training organizations o Ethiopian Government	$2M	2015
IDP Rising Schools Programm	Provision of microcredit and training to low-cost primary and secondary schools catered to low-income families.	Micro-loans to schools	Number of schools financed Number of children enrolled in beneficiary schools	Ghana	o IDP Foundation o Sinapi Aba	*Not available*	2009
IFFEd	Grants and guarantees provided by IFFEd to MDBs so that these can provide greater and more concessional education financing.	Catalytic fund	N/A	LMICs	o Funders: UK, Netherlands, Sweden o Development banks	Objective to raise $10BN by 2030. First fundraising target is $1BN for guarantees.	2022
India Income Tax Act (Section 80G)	Exemption of income tax for philanthropic organisations and donors.	Tax	N/A	India	o Indian Government	*Not available*	*Not available*
India Section 135 of the Companies Act 2012	Indian companies above a certain size must donate an average of 2% of their profit over 3 years to philanthropic causes.	Mandatory CSR	N/A	India	o Indian Government	*Not available*	*Not available*

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
India's Diaspora Bonds	Bonds issued by the Indian government to its diaspora, the proceeds of which were allocated to education.	Diaspora Bonds	N/A	India	○ India Government ○ Indian diaspora	$11BN	1991,1998 and 2000
Israel's Diaspora Bonds	Bonds issued by the Israeli government to its diaspora, the proceeds of which were allocated to various sectors including education.	Diaspora Bonds	N/A	Israel	○ Israel Government ○ Israel diaspora	$33BN	1951 (1st issuance)
LEAP - Lending for Education in Africa Partnership	Loan fund for students from disadvantaged backgrounds who are unable to finance their studies. In addition to loans, the initiative offers services to students to help them transition into the professional sphere.	Student Financing	Number of students receiving a loan Social situation of beneficiaries Student satisfaction Total amount lent	Kenya	○ UKAID ○ Volta Capital ○ Universities and training institutions	£3.5M	2021
Lumni	Income sharing agreement to fund student tuitions.	Income Share Agreement	N/A	Colombia and Peru	○ Lumni	*Not available*	2002
Matching Fund - UNICEF and French Government	The government and UNICEF are launching a public-private matching fund to promote access to education for young	Matching Fund	Number of girls completing secondary education	Mauritania	○ UNICEF ○ French Ministry of Foreign Affairs	€1M	2019

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	girls. Each donation made to UNICEF for the education of girls in the Sahel triggers a donation of the same amount by the French Ministry of Foreign Affairs.						
Mother Teresa Middle School SIB	SIB aiming at school retention of young individuals at high risk of poor educational outcomes with a particular focus on students from indigenous communities.	Impact Bond	Increase in graduation rate	Canada	o Mother Teresa Middle School o Saskatchewanian Government o Mosaic Company Foundation	$700K	2016
Partnership Schools for Liberia	Delegation of the management of 93 public schools to 8 private operators, who also provide additional resources, budget, and teachers to each school. The schools retain their public nature during the program.	PPP	Learning outcomes Teachers' presence rate Students' time allocated to learning Parents and students' satisfaction regarding school	Liberia	o Liberian Government o 8 private service providers	*Not available*	2019
Peru's "Performance Commitments"	The Ministry of Education of Peru's allocation of additional	Performanc e-based grants	Number of teachers	Peru	o Peru Government o Local governments	*Not available*	2013

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Incentive Program	budgets for education for local authorities depending on the achievement of specific objectives regarding the quality of primary and secondary education.		School manuals purchased				
Proyectà Tu Futuro SIB	SIB to improve the high school completion rate in Buenos Aires and reduce unemployment among young adults.	Impact Bond	Completion of secondary education Placement in employment Retention in employment 4 and 12 months after the program	Argentina	o Government of the City of Buenos Aires (GCBA) o Acrux Partners, Social Finance and Alimentaris Foundations o Bank of the City of Buenos Aires o Bank of Galicia o Inter-American Development Bank (IADB) o IRSA Local Commercial o Exotrade S.A. (Organización Román) o Argentine Israelite Mutual Association (AMIA) o Fundación Forge o Fundación Pescar o Fundación Reciduca o San Martin Suárez (SMS) o Beccar Varela o Rattagan Macchiavello Arocena	$1.2M	2018

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Quality Education India DIB	DIB aiming for the improvement of learning of primary school children in Indian private schools through an innovative results-based financing mechanism.	Impact Bond	Learning outcomes	India	○ Michael and Susan Dell Foundation ○ Tata Trusts ○ Comic Relief ○ The Mittal Foundation ○ British Telecom	$3M	2018-2022
Result-based financing for schools in Cameroon	Allocation by the Cameroonian government of additional quarterly and annual grants to primary schools based on their performance on a set of criteria.	Performance-based grants	Enrolment and retention of students Teachers' attendance rate	Cameroon	○ Cameroon Government ○ World Bank Results in Education for All Children (REACH)	*Not available*	2018
Result-based financing for schools in the Jakarta region	Mechanism set up by the Indonesian government based on schools' performance, with the best ranked schools receiving additional funding. The success of this program then led to the deployment of this mechanism across the country's 173,000 public schools, or 33 million students.	Performance-based grants	N/A	Indonesia	○ Indonesian Government ○ World Bank REACH	*Not available*	2014
Save for School	Creation of local associations to which villagers allocate part of their savings with	Community-based loans	Number of Children enrolled in school as a result of the	Ivory Coast	○ Educate A Child ○ International Rescue Committee	*Not available*	2013

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	the aim of offering interest-bearing loans to families who cannot afford to send their children to school.		program Number of local associations created				
Save the Children - Catch Up Clubs	Initiative combining "performance-based contracts" where teachers recruited from local communities receive money if they set up "catch up clubs", and conditional payments to families unable to send their children to primary school for financial reasons.	Conditional Cash Transfers	Number of catch-up clubs set up Enrolment and retention of students	Uganda	○ Save the Children ○ Ugandan Ministry of Education	*Not available*	2021
Save the Children - Global Children's Impact Endowment Fund	A revolving fund - with a minimum of $2M under management - providing flexible funding to start-up companies or initiatives that have a positive impact for children in areas including but not limited to education, health, protection, climate.	Revolving fund	N/A	N/A	○ Save the Children	*Not available*	*Not available*

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Save the Children - Kumwe Hub	Social enterprise created by Save The Children Rwanda to support entrepreneurs whose activity generates a positive impact for children (0-9 years). The company combines an incubator and a fund that invests in grants, equity, and loans.	Impact Investment fund	N/A	Rwanda	o Save the Children Rwanda o Local social businesses	*Not available*	*Not available*
Sierra Leone Education Innovation Challenge	Partnership between the government, NGOs, social investors, and Education Outcomes Fund (EOF) to improve literacy and numeracy learning outcomes in public schools.	Education Outcomes Fund	Number of beneficiary children and schools	Sierra Leone	o Sierra Leone Government o FCDO o Bank of America o EOF o Private education providers	$16.2M	2022 - 2025
Skill Impact Bond	SIB aiming at unemployment reduction and training/skills development in India in response to the increase in job losses in the context of the COVID-19 pandemic.	Impact Bond	Number of young people supported Share of females among beneficiaries	India	o British Asian Trust o Children's Investment Fund Foundation o HSBC India o JSW Foundation o Dubai Cares o NSDC o Michael and Susan Dell Foundation (MSDF) o Oxford Policy Management o Dalberg Advisors o Nishith Desai o FCDO o USAID	$14M	2021

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
Social Finance India	Impact investment fund with a tranche dedicated to private schools in India through the EOF, and a tranche supporting the India Impact Fund of Funds to catalyse loans in education, health mental and housing.	Impact Investment fund	N/A	India	o Tata trust o Steering group on impact investment o EOF o India Impact Fund of Funds	$2BN	2018-2030
Tanzania Education Program for Results Additional Financing	Concessional loan from the World Bank's International Development Association to Tanzania, with disbursements being linked to the achievement of objectives in the implementation of Tanzania's education development plans.	Performanc e-based loans	Improvement of learning outcomes School supplies provided to children Retention and completion rate of education cycles	Tanzania	o World Bank o SIDA o Tanzanian Government	$160M	2017
India's tobacco tax	Taxes levied on the production of cigarettes, the revenues of which are allocated to different sectors including education.	Tax	N/A	India	o Indian Government	*Not available*	*Not available*
Thailand's alcohol and tobacco tax	Tax levied on the sale of alcohol and tobacco the revenues of which were used to finance 3	Tax	N/A	Thailand	o Quality Learning Foundation o Thai Government	$93M (per year)	1994

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	projects coordinated by the Quality of Learning Foundation.						
The Education, Youth, Employment (EYE) Bonds	AAA-grade bond issued by the IADB, to then provide loans to projects in the field of education.	Education bond	N/A	Latin America and the Caribbean	○ IADB	$4.8BN (cumulated issuance since creation)	2015
UBS Optimus Foundation - Impact Water	Social Success Note allowing the company Impact Water to sell and install water filtration systems in private schools in Uganda, who then pay in instalments aligned with the timing of school fees payments by families	Social Success Note	Number of systems installed Number of beneficiary schools and children	Uganda	○ UBS Foundation ○ Yunus Social Business ○ Impact Water ○ Socio Economic Data Centre	$500K for working capital loans and $ 200K for incentive outcome payment	2018-2023
UK Aid Match	The FCDO matches every £ donated by UK citizens to a selection of projects contributing to the SDGs.	Matching Fund	Indicators depend on the projects	Global	○ FCDO ○ British NGOs and charities	£290M	2013

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
UNICEF Bridge Fund	A fund providing loans to UNICEF to bridge the gap between donor commitment to UNICEF and the actual reception of funds, saving time, especially in emergency contexts.	Bridge Fund	N/A	Focus on Africa and South Asia	o UNICEF	$83M	2011
UNICEF Crypto Fund	A fund making cryptocurrency-denominated investments in companies that develop open-source software and data-driven solutions to address the most pressing challenges facing children and young people.	Grant Fund	Indicators depend on the projects	Global	o UNICEF o Ethereum Foundation o Huobi charity o Animca Brands	BTC 20,12 ETH 2059,25	2019
UNICEF USA Impact Fund for Children	Tax-exempt affiliate organisation of UNICEF USA with two funds under management (the Bridge Fund and the Fast Fund) to tackle the biggest challenges confronting children worldwide.	Impact Investment Fund	N/A	Global (currently in 25 countries)	o UNICEF o Investors and donors o Investees	$50-99M (Assets Under Management)	2011
UNICEF World Bank	Financial instrument leveraging the World Bank's expertise in capital markets and UNICEF's private sector	Impact Investment Fund	N/A	Latin American and Caribbean countries (49%) South Asian countries (34%)	o World Bank o UNICEF o Investees	$50M	2021

Name	Description	Instrument	Indicators	Geography	Stakeholders	Size	Date
	fundraising activities in emerging markets.			East Asia and Pacific countries (15%) European and Central Asian countries (2%) Top 5 countries receiving funds: Brazil, Chile, Colombia, India, and Mexico			
USAID Catalyze Edufinance Platform	Fund focused on building a sustainable supply of private capital from domestic and international finance providers, channelling it into non-state schools and education enterprises to increase access to quality education.	Catalytic fund	Indicators depend on the projects	USAID partner countries, currently in Africa and Latin America and the Caribbean	o Palladium Group o USAID	$250M aiming to mobilize $2BN	2019
USAID Development Credit Guarantees	Partial credit guarantees to improve access to finance for organizations in sectors and regions where private finance is underdeveloped.	Guarantee	Number of loans guaranteed	Ghana	o OISL (local non-banking financial institution)	$2.5M	2009

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