

# **Important or Just Trendy? The New World of Education Financing**

## **SEMINAR I:**

### **DO WE NEED NEW FORMS AND SOURCES OF FINANCING FOR EDUCATION?**

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CICE SEMINAR, HIROSHIMA UNIVERSITY

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# 1. About R4D: Results for Development Institute

## What is R4D?

- Results for Development Institute (R4D) is a Washington-DC based non-profit organization.
- R4D **works with leaders, globally and at the country level**, to provide analysis and design and test solutions to some of the world's biggest development challenges
- Major supporters include Rockefeller Foundation, Gates, DFID, Hewlett, and USAID

*R4D targets four areas in the fight against global poverty:*



# 1. Results for Development Institute

## R4D's education portfolio at a glance

**INNOVATIONS IN  
EDUCATION**



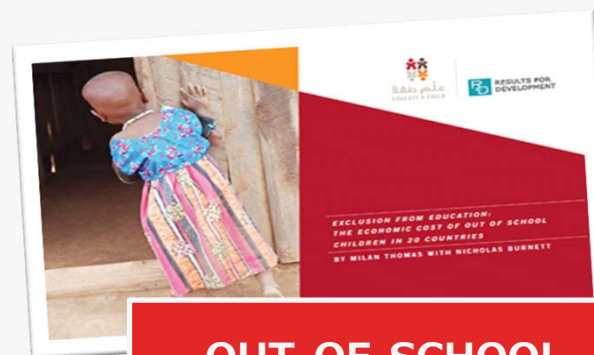
**SKILLS FOR  
EMPLOYABILITY**



**EARLY  
LEARNING**



**OUT-OF-SCHOOL  
CHILDREN**



**INNOVATIVE  
FINANCING**

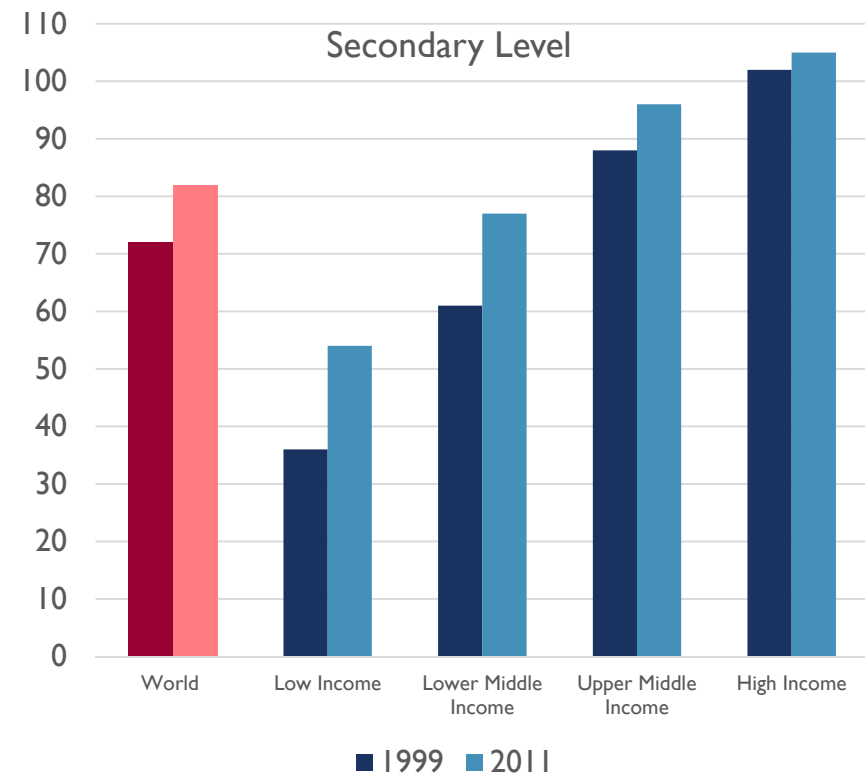
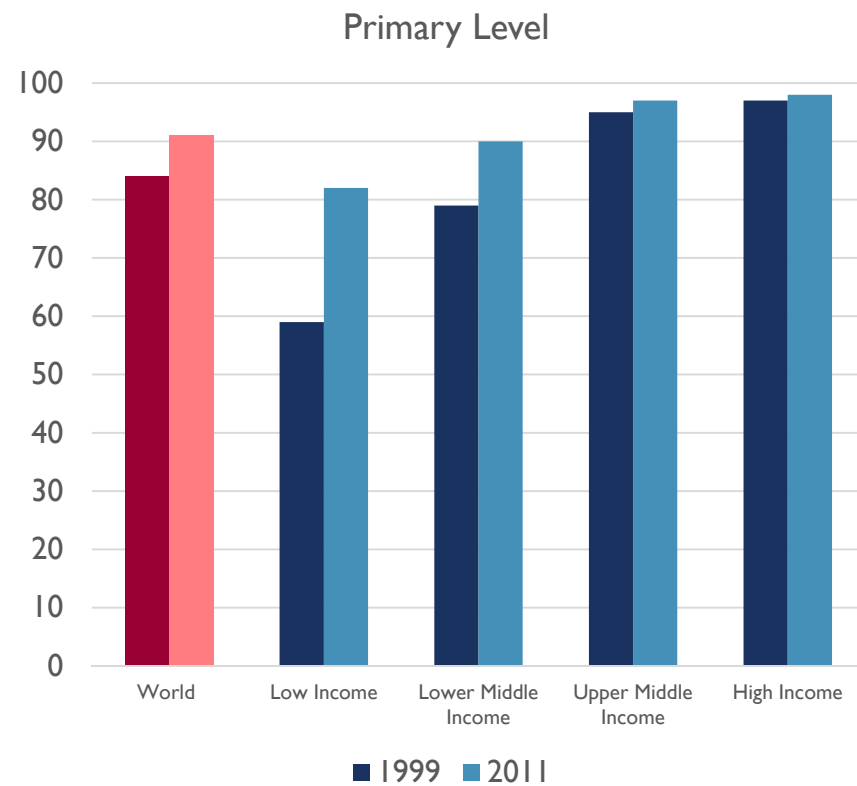


**The Ed Venture Fund**  
*Promoting Innovation in Education*



## 2. INTRODUCTION

### ■ Enrollment Rate

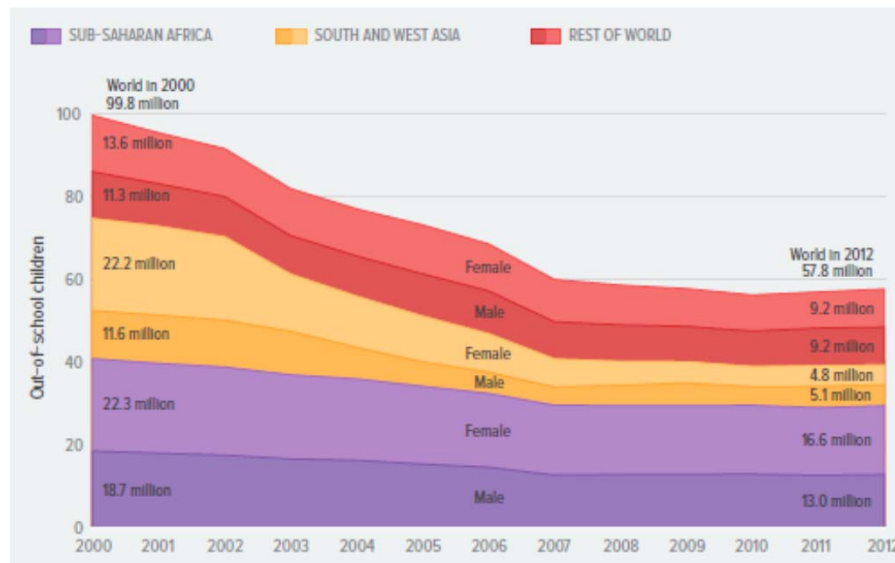


Source: UNESCO GMR2013/14

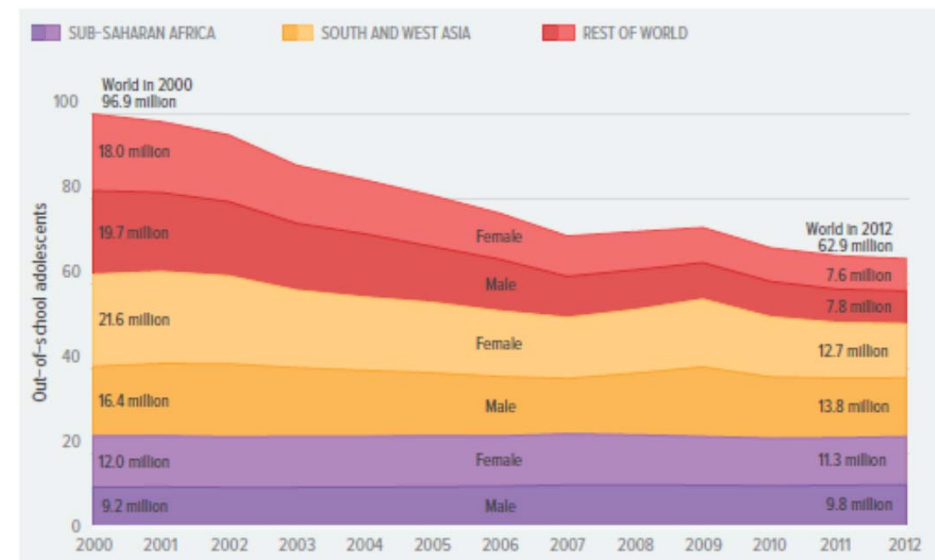
## 2. INTRODUCTION

### ■ Out of School Children

Number of out-of-school children of primary school age by region and sex, 2000-2012



Number of out-of-school adolescents of lower secondary school age by region and sex, 2000-2012

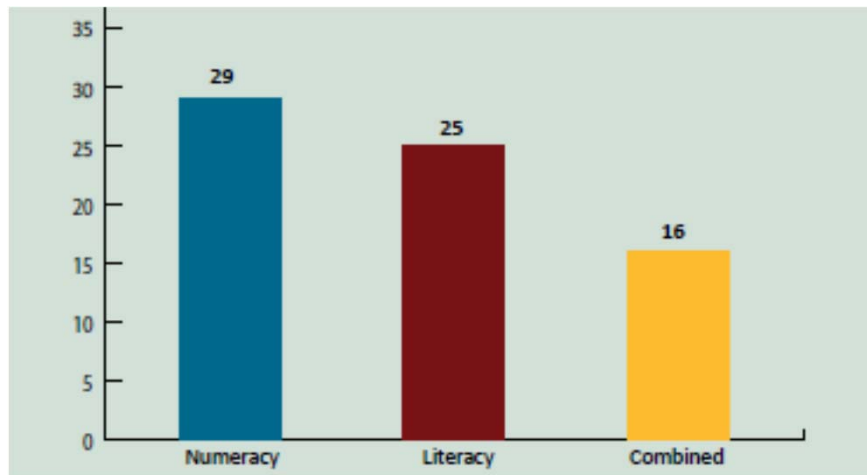


Source: UNESCO GMR Policy Paper No. 14, 2014

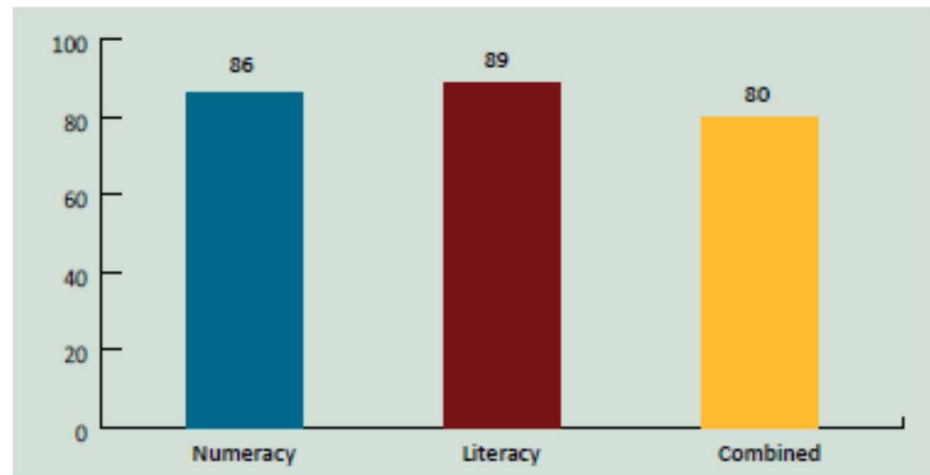
## 2. INTRODUCTION

- Learning (e.g. UWEZO in East Africa)

Test pass rates for children enrolled in Standard 3



Test pass rates for children enrolled in Standard 7



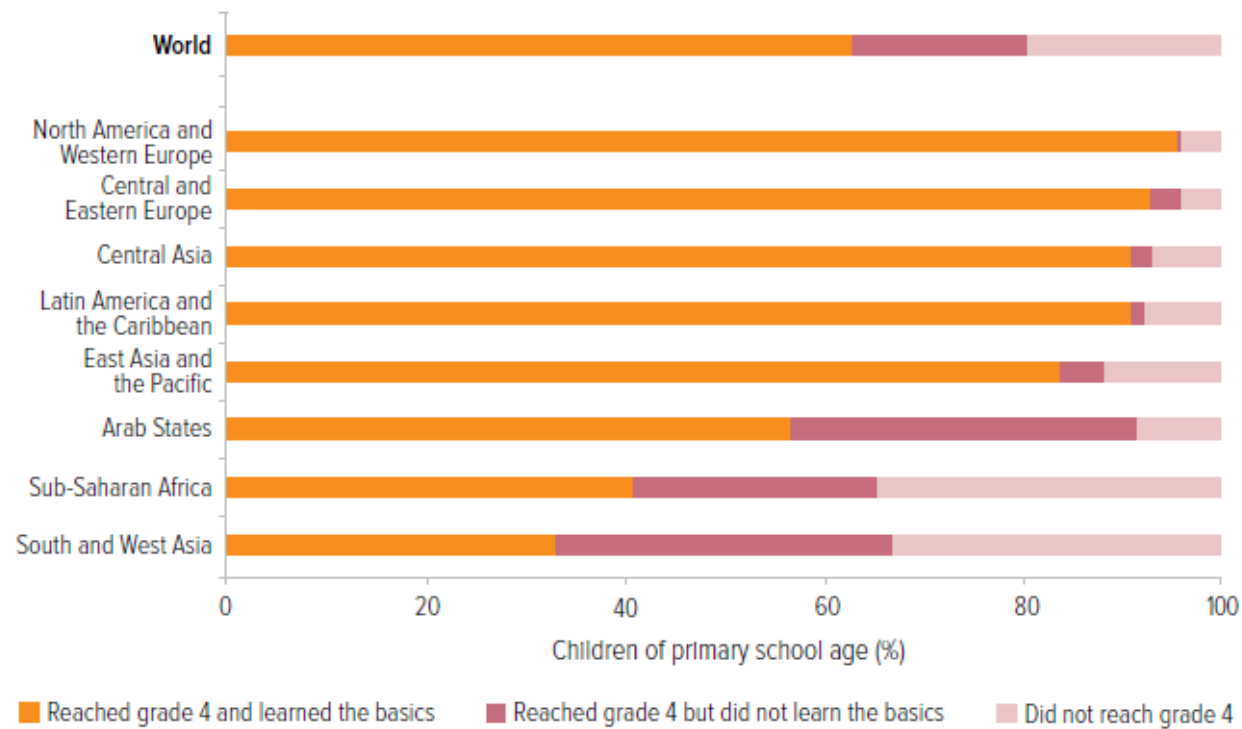
Notes: “combined” refers to passes on both numeracy test and at least one of the literacy test in the survey

## 2. INTRODUCTION

### ■ Learning Crisis

**Figure 13: 250 million children are failing to learn the basics in reading**

Percentage of children of primary school age who reached grade 4 and achieved minimum learning standard in reading, by region

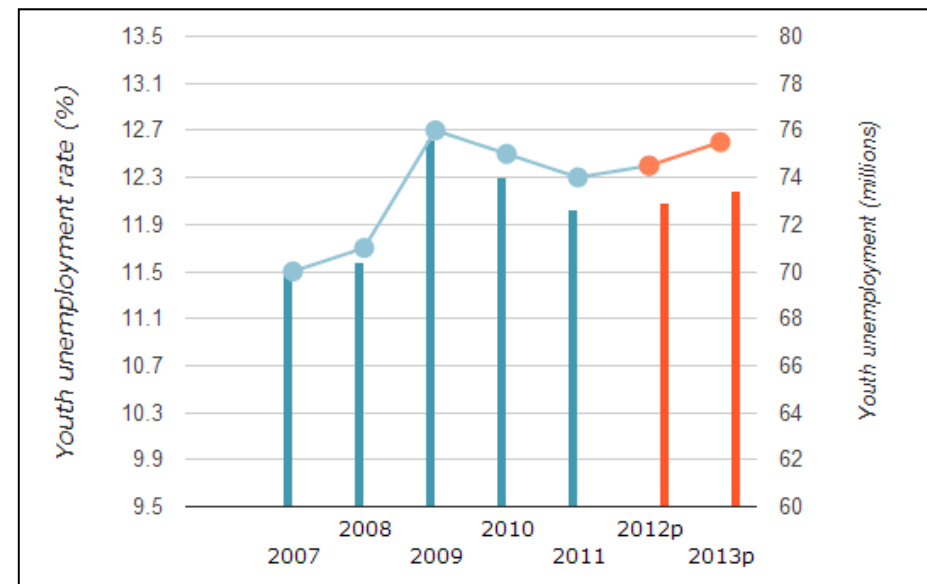


Source: GMR 2013

## 2. INTRODUCTION

### ■ Global Youth Unemployment

- 12.6% global youth unemployment rate, compared to 4.5% for adults.
- The ILO projects that the youth rate of unemployment will increase if current trends persist.



Source: ILO 2013

## 2. INTRODUCTION

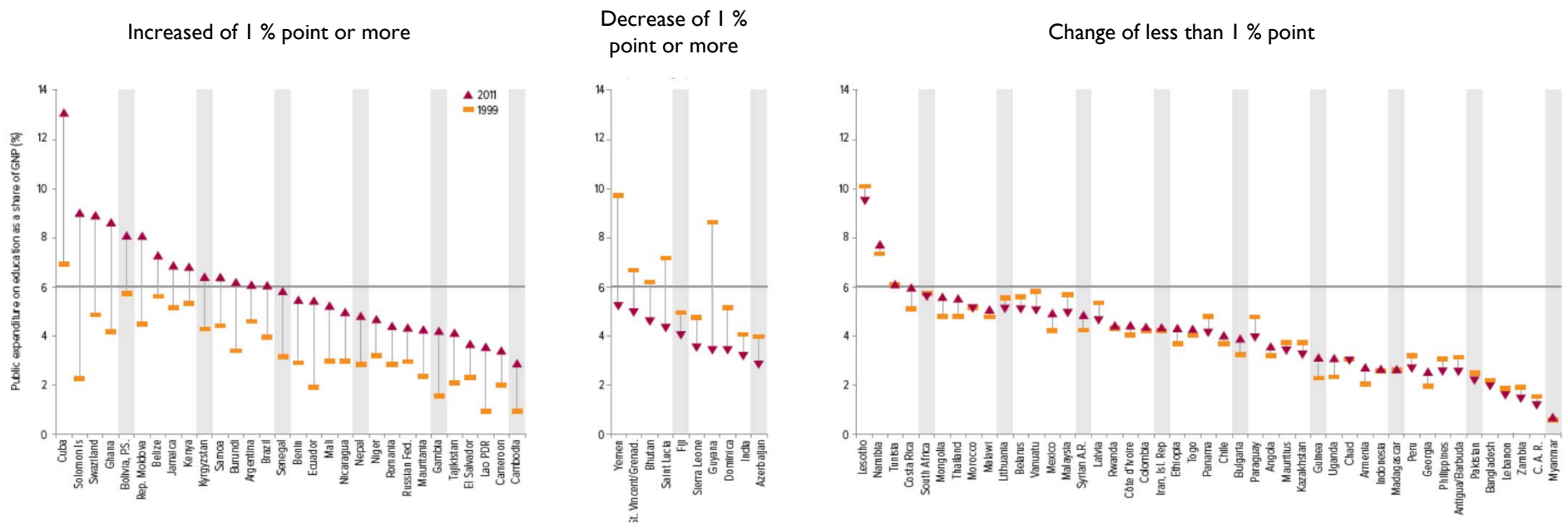
### ■ MDG/EFA Financing Gap

- Current GMR estimate: \$54 billion per year
- Governments have largely done the necessary (on average increased by fully 1% of GDP this century)
- Aid for education and for basic education increased initially, then stagnated, now declining
- Global spending on education about \$2.5 trillion, of which about 25% is private (mainly tutoring)
- On average 4% GDP public; 1% private; total 5%
- Aid is only 0.5% of all education spending

### 3. FINANCING OVERVIEW

#### ■ Domestic Financing

Public expenditure on education as percentage of GNP  
(Low and middle income countries, 1999 and 2011)



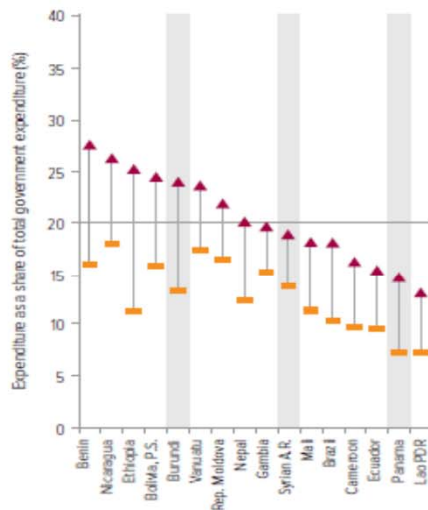
Source: UNESCO GMR2013/14

### 3. FINANCING OVERVIEW

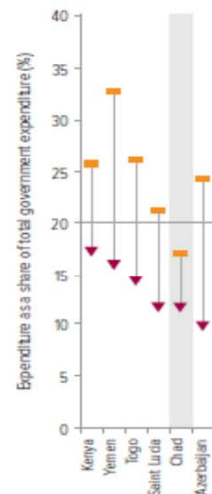
#### ■ Domestic Financing

Public expenditure on education as percentage of government expenditure  
(Low and middle income countries, 1999 and 2011)

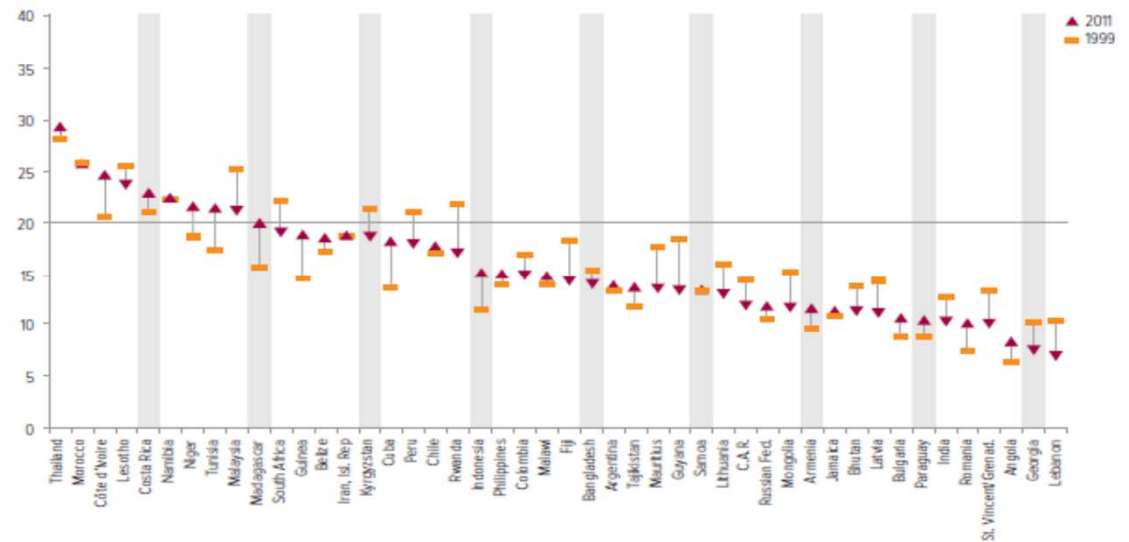
Increased of 5 % points or more



Decrease of 5 % points or more



Change of less than 5 % points



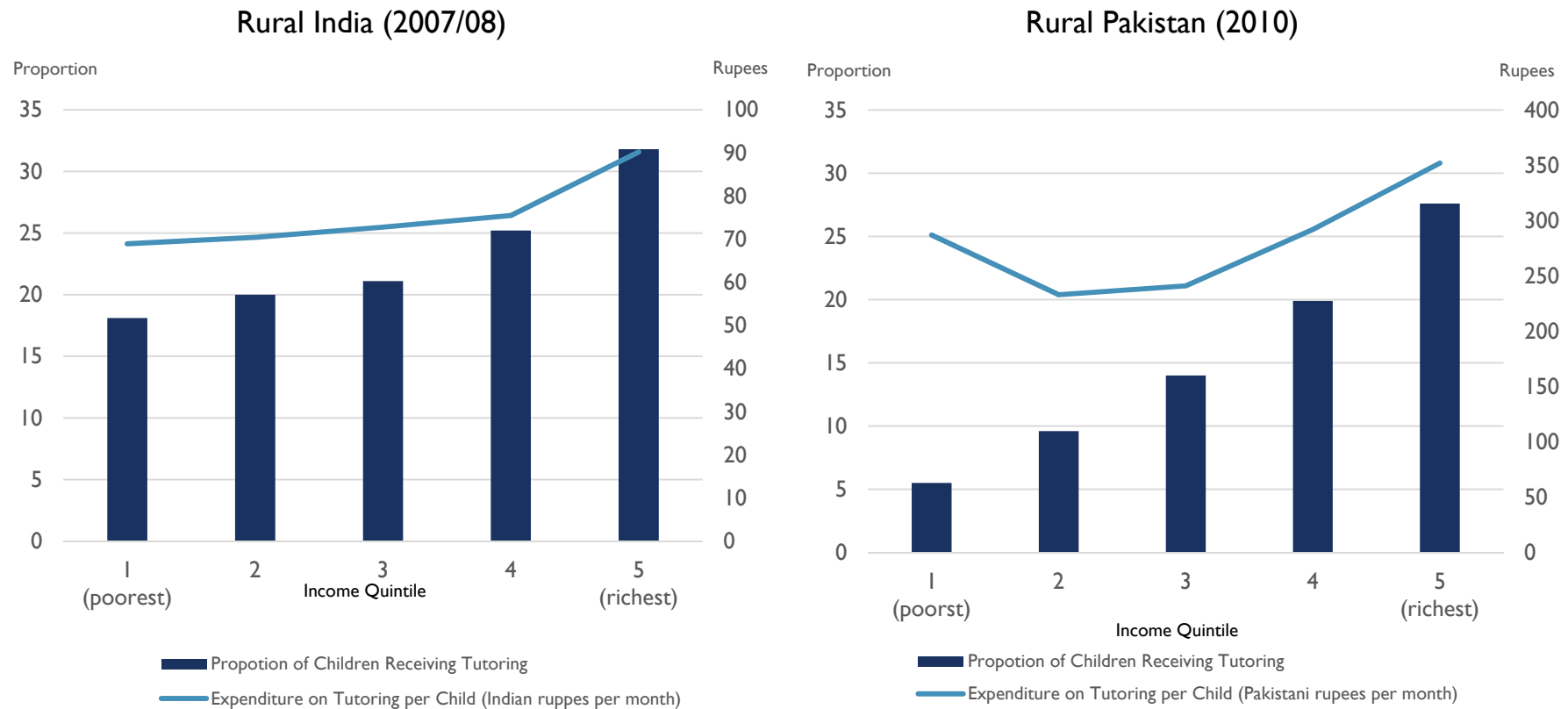
Source: Annex, Statistical Table 9.

Source: UNESCO GMR2013/14

### 3. FINANCING OVERVIEW

#### ■ Private Tutoring

Proportions of Children Aged 3-16 Receiving Private Tutoring by Income Quintile

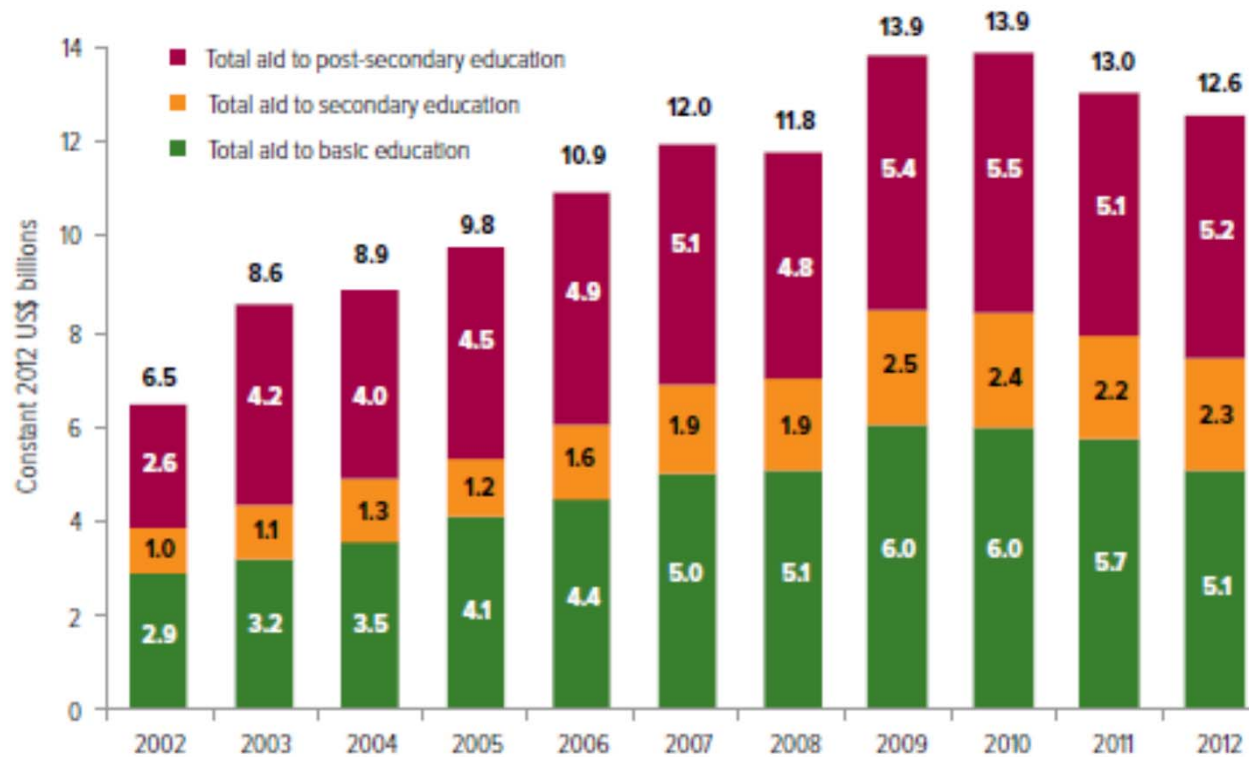


Source: Bray & Lykins., 2012.

### 3. FINANCING OVERVIEW

#### ■ Aid

Total aid to education disbursement, 2002-2012

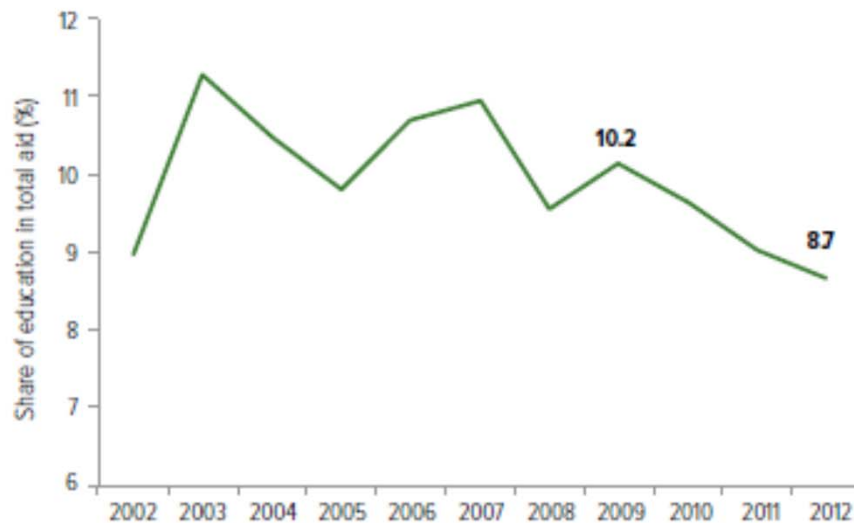


Source: UNESCO GMR Policy Paper13, 2014

### 3. FINANCING OVERVIEW

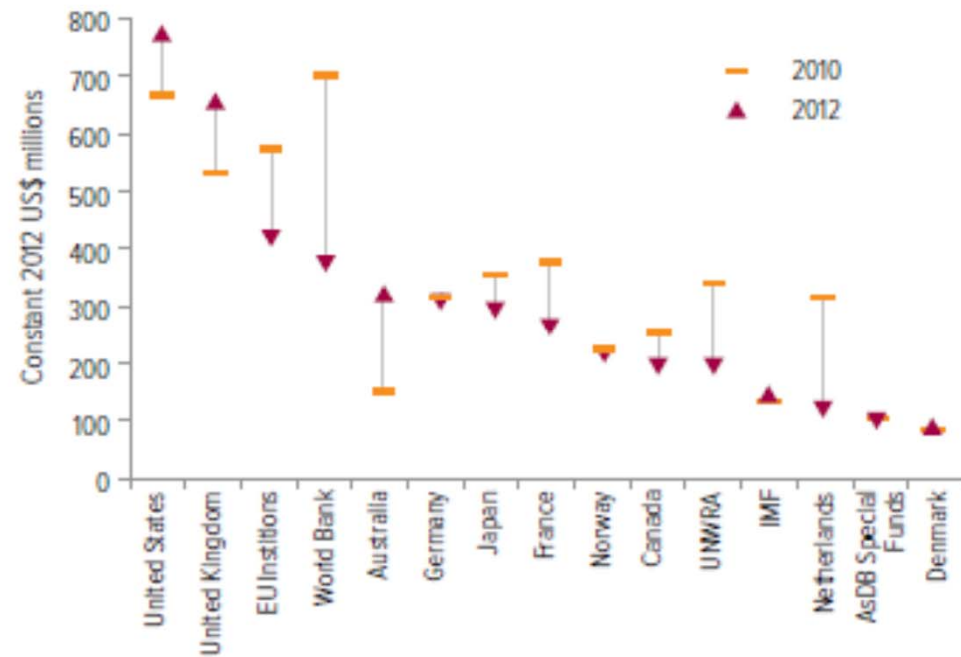
#### ■ Aid

Share of education in total, 2002-2012



Notes: Total aid exclude debt relief

Aid to basic education, top 15 donors in 2012, relative to 2010



Source: UNESCO GMR Policy Paper13, 2014

### 3. FINANCING OVERVIEW

- Absence of Global Aid Architecture for Education
  - EFA 2000 promise of financing all countries never realized
  - No special arrangements for education coordination
  - Increased country focus by bilaterals has led to reduced number of recipient countries
    - Australia, Canada, Netherlands, Sweden, United Kingdom. Has Japan also cut back?
    - Burkina Faso and Cambodia have each suffered withdrawal of 5 donors from basic education
  - Only one attempt to establish new mechanism: FTI/GPE
  - Particular problem of aid for education: low country programmable amount (68%) compared to water/sanitation (96%), health (86%). Dubious use of higher education in ODA (France, Germany, Japan)

### 3. FINANCING OVERVIEW

- Global Partnership for Education

formerly EFA Fast Track Initiative

- Several promising shifts:
  - Focus on low income countries (since beginning)
  - Focus on fragile states (since 2011)
- New allocation criteria are needs-based
- New funding formula
  - 70% inputs
  - 30% results
- But remains relatively small
  - 13% education disbursements to LICs and 7% to fragile states
  - Disappointing pledges at June 2014 replenishment conference

### 3. FINANCING OVERVIEW

#### ■ All Sources

Share of total education expenditure borne by government, donors and households  
(selected countries, 2007-2011)



Source: UNESCO GMR2013/14

## 4. NEW PLAYERS

### ■ Growth of Non-State Service Delivery

- Huge expansion of NGOs, domestic and international: BRAC, Save the Children, Camfed etc.
- Expansion of low-cost private schools in India, Pakistan, Kenya, Ghana, Nigeria.
- Parental dissatisfaction with public schools.
- Expansion of private corporate sector and educational markets
- Growth of PPPs in education
- Donor involvement
  - DFID Girls Education Challenge - all non-state
  - IFC investments - mainly higher education - private for-profit
  - World Bank/CfBT policy guidelines and policy mapping (SABER)
- Fragmented; potential for economies of scale
- Center for Education Innovations (CEI) documenting and analyzing: [www.educationinnovations.org](http://www.educationinnovations.org)

## 4. NEW PLAYERS

### ■ Sources of Education Finance

- Traditional: governments, households, DAC donors
- New
  - Philanthropy (including NGOs \$2.6-5.2 bn)
  - Non-DAC donors
  - Impact investors
  - Corporate - direct
  - Corporate - CSR
  - Non-traditional sources \$50 bn compared to ODA \$120 bn
- Potential
  - Institutional investors, especially domestic. Pension funds, insurance funds etc \$6 trillion growing at 15% per year
  - Sovereign wealth funds: Norway, Gulf
  - Remittances \$300 bn pa +
- New actors bring new emphases
  - Results
  - Metrics
- Keep in perspective: on the rise but most still small.
  - Philanthropy plus CSR only \$700 million (GMR 2012)
  - Exceptions are domestic institutional investor potential (huge) and remittances

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### ■ Defining Innovative Financing

The Leading Group<sup>1</sup> identifies three key features of innovative financing for development:

1. Linked to global public goods

2. Complementary and additional to traditional ODA

3. More stable and predictable

Reflects view that ODA from traditional sources will not be sufficient to meet concessional finance needs of low income countries.

We follow this but **go further to include**<sup>2</sup>:

4. **Domestic finance**, complementary to public spending

5. The **way the finance is both raised & spent** is important – money & results.

1. [www.leadinggroup.org](http://www.leadinggroup.org)

2. 2012 Report of Leading Group Task Force on Innovative Financing in Education

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

- Key Actors in Innovative Financing
  - France, especially under Foreign Minister Kuchner (ex-MSF) and AFD under Severino: Leading Group, AFD/Gates prizes
  - Gordon Brown UK Chancellor/Prime Minister and health: Brown/Zoellick task force
  - Gates Foundation health
  - FTI/GPE reform
  - UNESCO debt for education swaps (Argentina pressure)

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Health Sector

- Several examples of health “problems” and their respective finance mechanism “solutions” emerge

Area	Problem	Solution	Example
<i>Public sector demand</i>	Many small purchasers → higher prices	Create purchasing power to drive competition, create demand, & lower prices	<b>Global Fund VPP, UNICEF Supply Division</b>
<i>Program coherence</i>	Many uncoordinated donors → inefficient use of donor assistance	An alliance to coordinate donors’ roles	<b>GAVI, Global Fund</b>
<i>Private demand</i>	Private sector market failures → low access	Improve access by subsidizing through private sector channels	<b>AMFm</b> (Affordable Medicines Facility for malaria)
<i>Supply and innovation</i>	Lack of incentives to develop new, lifesaving products	Encourage late stage R&D and bringing products through to the market	<b>Pneumococcal AMC</b>
<i>Financing</i>	Shortage of resources → valuable goods & services not reaching people	Mobilize additional resources, partly through innovative financing mechanisms	<b>IFFIm, Global Fund</b>

Many of these examples also provide some sort of *regulatory* solution (pre-approval mechanisms, list of approved products, etc.)

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Health Sector

- Mobilizing additional resources, including through innovative finance

**The Problem:** There is an overall lack of resources to purchase and distribute existing health commodities to the populations that need them

**The Solution:** Innovative financing is one way to raise additional funding for a particular commodity. Large alliances or funds can also have greater leverage in raising funds from donors.

**The Example of IFFIm:** the International Finance Facility for Immunization

IFFIm uses long-term pledges from donor governments to sell “vaccine bonds”, making funds available for GAVI programs

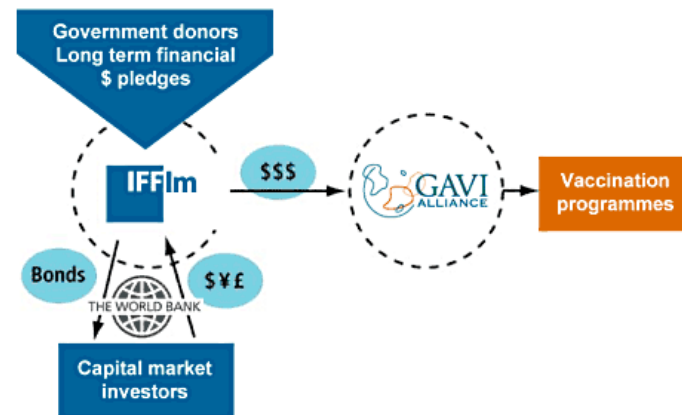


Diagram Source: IFFIm website (<http://www.iffim.org/About/Overview/>)

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Health Sector

- Summary of lessons learned from Health sector
  1. Mechanisms need to be tailored to the problem to be solved
  2. There are multiple proven tools and institutions to address these problems
  3. Most health mechanisms are oriented around results

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

Education Sector

### ■ Brief History

#### Three Main Strands

Strand	Aims	Description/Examples
<b>Broad Taxes</b>	Raising Resources	<ul style="list-style-type: none"><li>• Indian Cess</li><li>• Philippines ECD</li><li>• Training Levies</li></ul>
<b>Corporate Social Responsibility</b>	Raising Resources	Education very prominent, especially where CSR compulsory (e.g. India, South Africa)
<b>Innovative Financing Task Force Ideas</b>	Raising Resources Achieving Results	<i>Discussed in next slides</i>

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Ideas and Possibilities: Broad Taxes

- Financial transactions tax\*
  - Now enacted in many countries
  - Development purpose seems largely lost in current fiscal climate
  - Even within development purpose, never any debate on sectoral shares. One key objective of 2+3=8 was to make the case for education
- Extractive Industry Taxes: same issue of education's share
  - Pakistan
  - Ghana oil
  - Not universally applicable
- Specific Education Taxes (not really innovative financing but rather earmarked financing)
  - Indian cess
  - Training levies (50 countries)
  - Philippines ECD
  - Thailand (Sin Tax)

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Mandatory Corporate Social Responsibility



##### South Africa:

- Req. 1% Net Profit After Tax
- 2001-13 :Doubled to reach \$7.8 billion Rand(>\$700 million)\*
- >40% of \$ to Education & incl. in 90% of CSR portfolios
- Largest source of income for South African NGOs.



##### India

- Beginning in April, req. 2% Avg. Net Profits from major companies.
- Est. could be up to 150 billion Rupees, (\$2 billion)
- Education a high priority area
- BUT: skepticism on implementation and impact

\*CSR to NPOs constitutes just under 50% of total

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Corporate Social Responsibility: US Fortune 500 Companies

- Total value of US corporate contributions to education (million dollars)

Source	Contribution
Fortune 500 companies represented in the sample	224.2
Estimate for Fortune 500 nonrespondents	264.4
Non-Fortune 500 companies represented in the sample	9.3
<b>Estimated total</b>	<b>497.9</b>

- Countries with the highest percentage of companies contribution to education

Country	Percentage of Respondents Making Contributions
India	60
China	54
Brazil	50
Mexico	48
South Africa	36
Kenya	30
Argentina	28
Egypt	28
Indonesia	26
Philippines	26
Haiti	26
Nigeria	26
Thailand	24
Peru	24
Vietnam	22
Chile	22
Colombia	22
Malaysia	20
Pakistan	20
Uganda	20

Source: Center for Universal Education, 2011

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Innovative Financing Task Force Report

Type	Details
Bonds	<ul style="list-style-type: none"><li>• Local currency/education bonds</li><li>• Debt conversion development bonds (idea developed by UNESCO)</li><li>• Diaspora bonds</li></ul>
Debt/Lending	<ul style="list-style-type: none"><li>• Debt for education swaps (e.g. Argentina/Spain, Indonesia/Germany)</li><li>• Buying down official loans for education (e.g. current GPE/IsDB pilot)</li></ul>
Impact Investing	<ul style="list-style-type: none"><li>• Acumen</li><li>• Education Venture Fund</li></ul>
PPPs in Education	<ul style="list-style-type: none"><li>• Social/Development Impact Bonds (e.g. CIFF/UBS Rajasthan)</li><li>• MSPEs (multi stakeholder partnership in ed)</li><li>• Pakistan/Trusts</li></ul>
Voluntary Contributions	<ul style="list-style-type: none"><li>• From migrants</li><li>• From bank transactions</li></ul>

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Education Examples

#### Development Impact Bond - Rajasthan

Private Investor: provides working capital to NGO provider to achieve specified results

Independent Evaluator: verifies results

Outcome Payer (Gov't or Foundation): pays Investor once results achieved

#### GPE Loan Buydowns

Financing Agency (e.g. Islamic Development Bank) has non-concessional funding available to lend

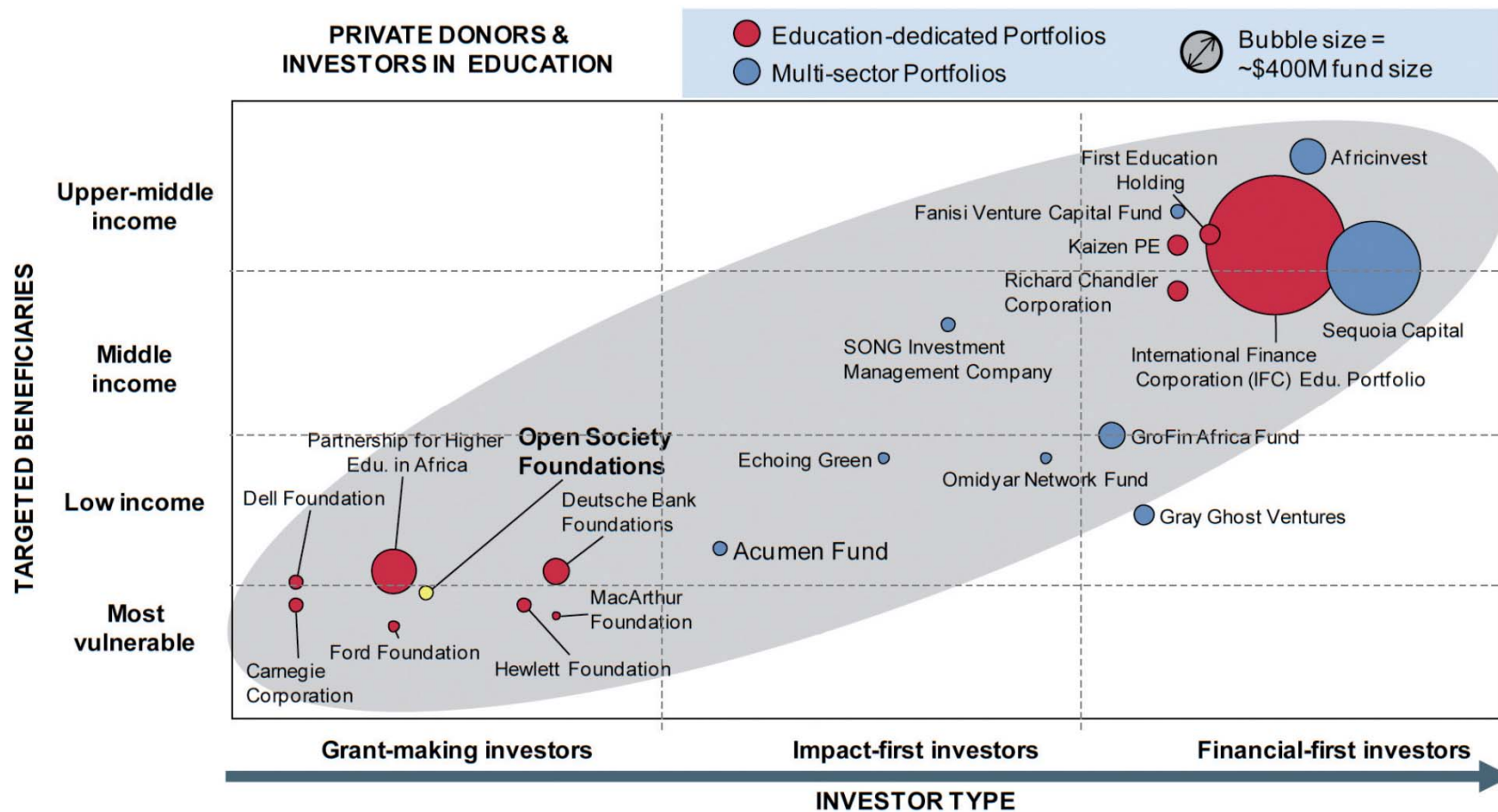
Low-Income Countries unable (creditworthiness) or unwilling (risk appetite) to borrow for education on non-concessional terms

GPE funds used to soften terms of non-concessional loans so attractive to low-income countries but lending & buy-down both conditioned heavily on results

## 5. INNOVATIVE AND ALTERNATIVE FINANCING

### Education Sector

#### ■ Impact Investing Potential



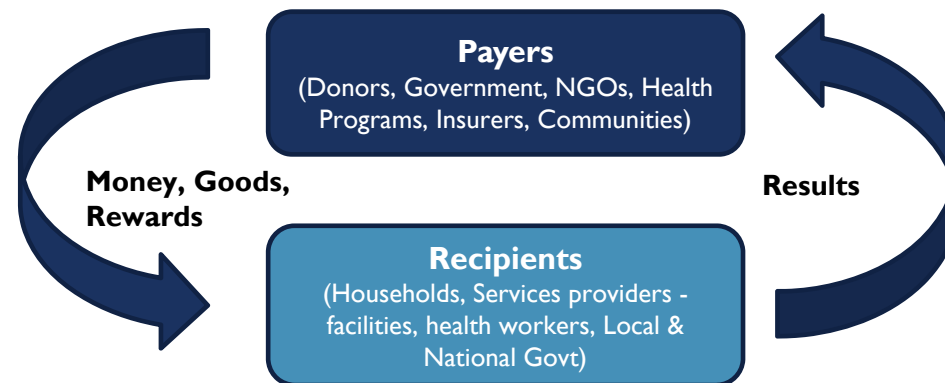
Source: D. Capital Partners. Impact Investing in Education: An Overview of the Current Landscape (2014)

## 6. RESULTS-BASED FINANCING

- What is RBF?

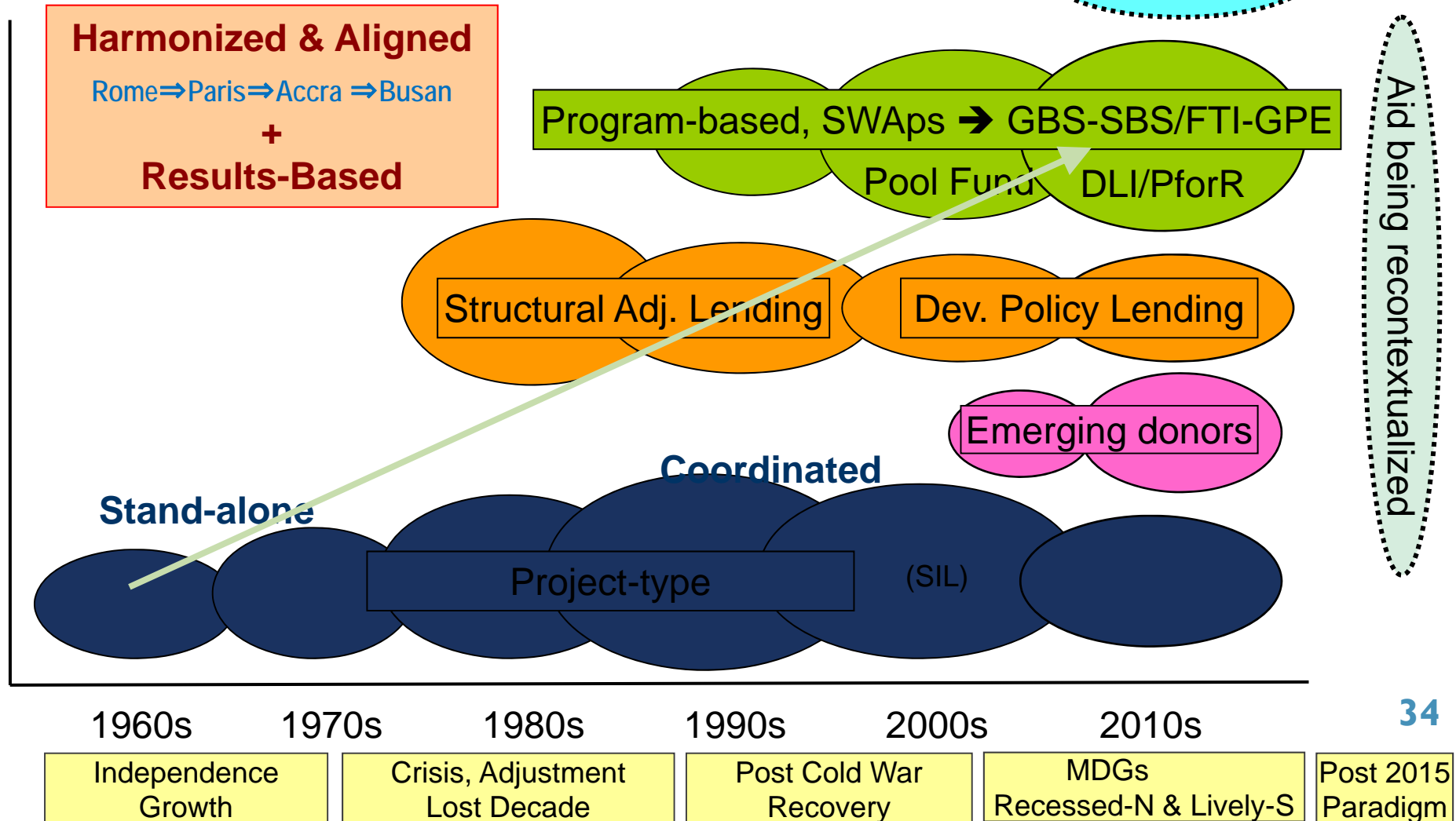
RBF refers to group of approaches which involve the “**transfer of money or material goods conditional on taking a measurable action or achieving a predetermined performance target**”

- **Emphasis on incentives** (generally financial) to reward attainment of positive results – mostly in health sector, but also others
- **Pays for outputs** - recipients (patients, service providers, governments) receive payments only if specified results are achieved.
- Idea is to **promote hard work, innovation, and results**
- **Differs from traditional aid** which pays for inputs (equipment, training, fixed salaried staff, drugs).
- Designed to ensure existing funds are spent more effectively and efficiently



## 6. RESULTS-BASED FINANCING

- Changing Aid Modalities in Education (Source: Prof Yoshida)



## 6. RESULTS-BASED FINANCING

### ■ Main RBF Models and Sub-Categories

Multiple acronyms and abbreviations describe RBF programs – terms are often synonymous, while some describe a subset of programs. The main models are defined below:

Type	Application
<b>Pay for Performance (P4P), Performance-Based Incentives (PBI)</b>	Synonyms for RBF
<b>Performance-Based Financing (PBF)</b>	Form of RBF distinguished by three conditions: (i) incentives directed purely at providers, (not beneficiaries); (ii) awards generally purely financial; (iii) and payment depends explicitly degree to which services meet pre-determined quality criteria
<b>Performance-Based Contracting (PBC)</b>	Form of RBF which is different as sets a fixed price for a desired output but can also reduce payment for poor performance or increase for good performance. Usually applied to NGOs. PBC can be termed "contracting out" as opposed to PBF, which is "contracting in"
<b>Output-Based Aid (OBA)</b>	Subset of RBF. Distinguishing feature is the principal is an aid donor; and agent usually a recipient government or public agency, but not always
<b>Cash on Delivery (COD)</b>	Subset of RBF similar to OBA except that delivery may refer to outcomes rather than just outputs – so the agent has maximum autonomy to decide how to produce/deliver results, the principal does not supervised delivery methods
<b>Conditional Cash Transfer (CCT)</b>	Demand-side programs where incentives apply exclusively or primarily to beneficiaries (not delivery agents). Results defined by the enrollment of beneficiaries in the program and their compliance with required behaviors such as consuming specific services. For CCT to be RBF there must be a financial payment to the beneficiaries for compliance

## 6. RESULTS-BASED FINANCING

- The universe of results-based financing

**RBF schemes  
incentivizing  
national  
governments**



- ❖ Cash on Delivery (COD)
- ❖ World Bank PforR
- ❖ Debt-swaps
- ❖ Loan/debt buy-downs

**RBF schemes  
targeting service  
providers**



- ❖ Output-Based Aid (OBA)
- ❖ Advanced Market Commitments (AMCs)
- ❖ Social impact bonds (SIBs) and development impact bonds (DIBs)

**RBF schemes  
targeting students/  
households**

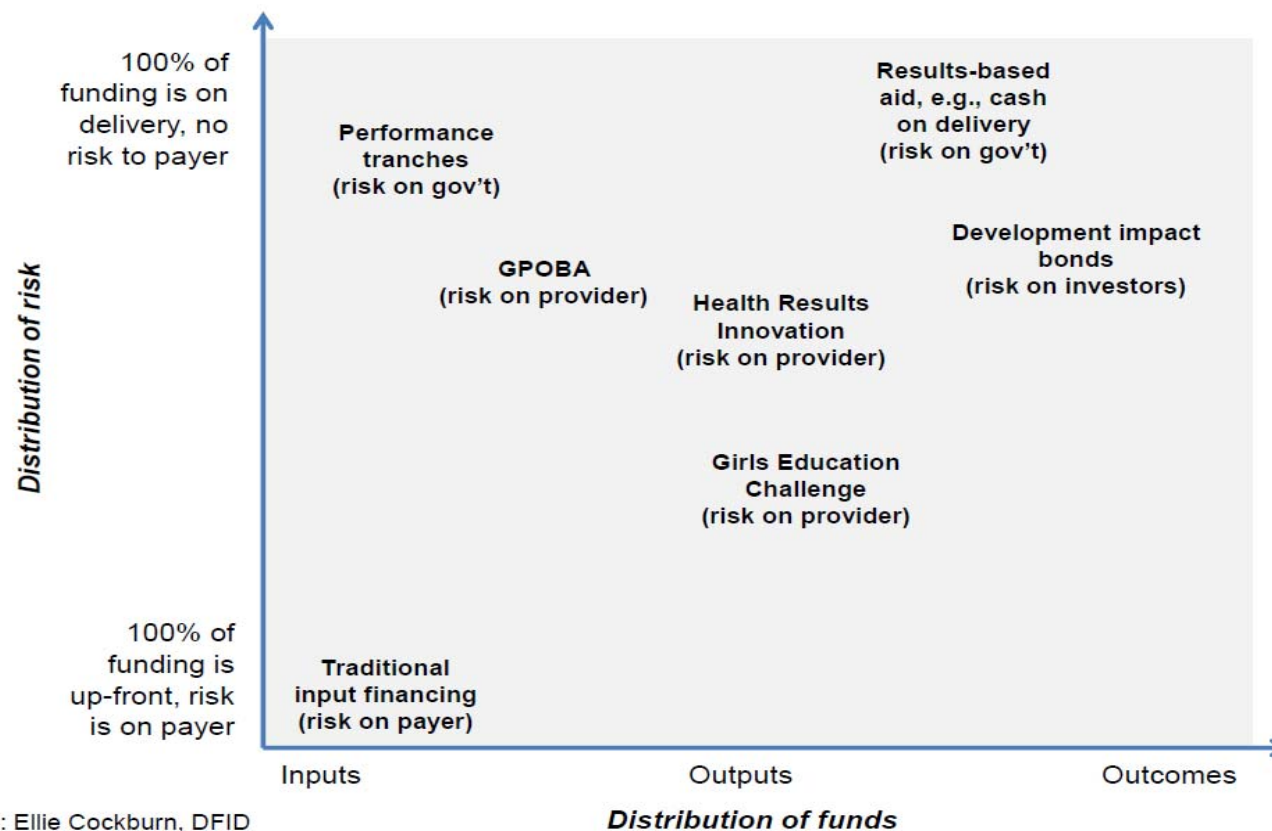


- ❖ Conditional Cash Transfers (CCTs)
- ❖ Performance-based scholarships or loans (education)
- ❖ Vouchers

## 6. RESULTS-BASED FINANCING

### ■ Who Bears the Risk?

- Risk allocation is a key differentiating factor between RBF and traditional financing
- RBF instruments vary depending on who bears the risk – the donor; Government, service provider, or investors (in the case of Social Impact Bonds / Development Impact Bonds)



## 6. RESULTS-BASED FINANCING

- RBF Trends – Application & Donor Spending
  - **Performance-based financing (PBF) is emerging as the most common RBF approach** being tested in low and middle income countries. Common features are:
    - Supply-side approach - performance-based incentives earned by service providers;
    - Payments targeted at individual health facilities and administrations, often with trickle-down to health workers;
    - Payments linked to outputs, modified by quality indicators.
  - **Major convening was held in Oslo in Dec. 2013 - ‘Scaling up RBF for Faster Progress towards the Health MDGs’:**
    - RBF recognized as key mechanism to accelerate progress towards the MDGs, but need for greater evaluation and shared learning
    - RBF needs to be anchored in broader/longer term agendas – e.g. health systems strengthening and universal health coverage
    - Requires large-scale collaboration, but while donors/agencies showed some commitment they also like to support their own schemes
  - **Consensus that need domestic financing – or at least co-financing –to expand and sustain RBF, especially in non-fragile countries.**

Source: O'Brien, T, Kanbur, R. and the World Bank, (2013) 'The Operational Dimensions of Results-Based Financing', *Cornell University*. Found at: <http://www.aem.cornell.edu/research/researchpdf/wp/2013/Cornell-Dyson-wp1315.pdf>

World Bank, HRITF, (2013), 'Using Results-based Financing to Achieve Maternal & Child Health, Progress report'

Witter, S., et al. (2013), 'Performance-based financing as a health system reform: mapping the key dimensions for monitoring and evaluation', *MC Health Services Research* 2013, 13:367

## 6. RESULTS-BASED FINANCING

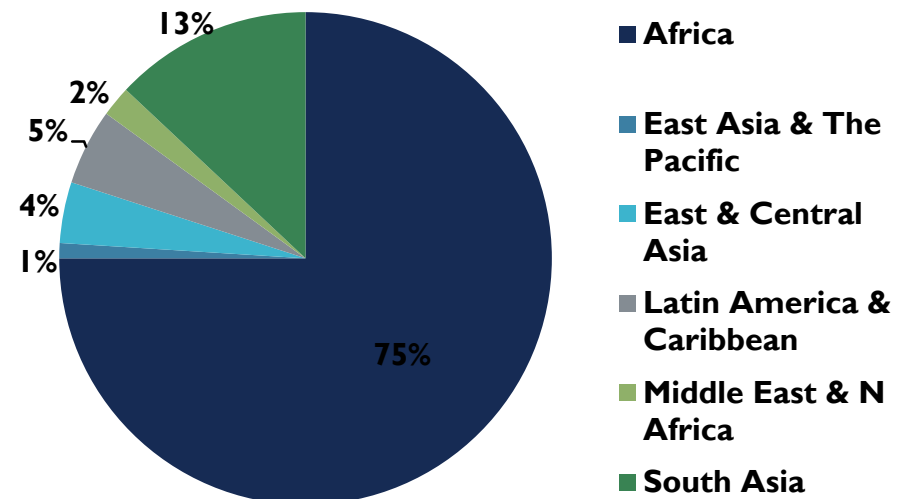
### Health Sector

- RBF at the World Bank – HRITF History
  - **Health Results Innovations Trust Fund (HRITF)** is a World Bank-managed multi-donor platform formed in 2007 to test ‘pure’ RBF projects – supported Norway and the UK
  - Total commitment of **US\$535 million** equivalent
  - Currently supports **36 RBF programs in 31 countries**
  - Focus on **MDGs 1c (nutrition), 4 (child mortality), and 5 (maternal health)**

#### Specific objectives:

1. Attract additional financing to the health sector
2. Develop and disseminate the evidence base for RBF mechanisms
3. Build countries’ institutional capacity to scale up/sustain RBF
4. Support the design, implementation, and evaluation of RBF

#### HRITF allocations by region



## 6. RESULTS-BASED FINANCING

### Health Sector

- Evaluations of RBF/HRITF – Mixed Results

**RBF evaluation space is in an early stage – existing studies show mixed results and say it's too early to draw conclusions.**

- Evaluations emphasize **importance of context** and the use of RBF in conjunction with other policy interventions/factors.
- **Norad independent evaluation of HRITF's first four years was lukewarm**
  - *Said HRITF increased awareness and activity about/in RBF globally, but results/success were mixed, and heavily dependent on specific country and health sector context.*
- Others call HRITF slow (it took 6 years to launch 20 pilots)
- Also **question focus on supply-side performance-based payments** – e.g. paying providers based on the number of visits not necessarily ensure impact or quality.

### **But, strong donor support:**

- 2013, World Bank President said early findings show **“RBF can get 20 percent more health care for the same amount of money with a higher quality of care.”**
- RBF hailed as **promising approach** to improving provision/quality of health care by African leaders during the 2013 WB Spring Meetings.

## 6. RESULTS-BASED FINANCING

### Education Sector

- Norway entering partnership with World Bank around RBF in education, trying to replicate HRITF.
- Five World Bank projects (Brazil, Indonesia, Jamaica, Pakistan(2))
- DFID Ethiopia and Rwanda COD
- New GPE funding model
- A very few examples of OBA e.g. Vietnam secondary school enrollment and learning
- Quite a few CCTs e.g. Mexico, Brazil, Bangladesh secondary education – often multisector e.g. Bolsa familial in Brazil
- CIFF/UBSOF Rajasthan girls education DIB

## 6. RESULTS-BASED FINANCING

### Education Sector

- Experience of Education
  1. Very little experience compared to health
  2. Emphasis mainly on
    - Raising funds
    - Achieving results
  3. All concerned with education programs, none with education products like books

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## 7. CONCLUSION

1. Both Innovative and Results-based Financing are Important
2. Innovative Financing ideally should not substitute for government spending or aid
3. Can be combined
4. Innovative financing most applicable to privately delivered subsectors: ECD, vocational, training, etc??
5. RBF major issue is the definition of the result, who does the monitoring, and the financing of the supply.
6. May it have more applicability to some subsectors of education?

## 8. PREVIEW NEXT SEMINAR: 18 DECEMBER

- Will review some of the more promising instruments in detail
- Tentative list – what do you think?
- Innovative Financing:
  - Development Impact Bonds
  - Debt-Conversion Development Bonds
  - Loan Buydowns
  - PPPs in Education
- RBF
  - PfR at World Bank
  - New GPE funding model
  - OBA
- Issues with each
- Sustainability issues: what will be future role of the government?



Thank you very much