



Important or Just Trendy? The New World of Education Financing

SEMINAR III: POSSIBILITIES FOR JAPAN

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22/01/2015

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 - c) Development Impact Bonds?
 - d) Loan Buydowns?
 - e) P for R in Education ODA?
 - f) Output-Based Aid
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I.REVIEW: SEMINAR I

- Persistent challenges require financing yet ODA declining
- New Players:
 - Growth of Non-State Delivery in Developing Countries
 - New Sources of Education Finance: foundations, private etc
- Shift Towards Outcomes and Results
- Still little experience in Education compared to Health
- Education emphasis so far mainly on:
 - Raising funds
 - Achieving results
- Experience so far only concerned with education programs, none with education products like books



I.REVIEW: SEMINAR II

Four Promising New Instruments

1. Development Impact Bonds (DIB)
2. Loan Buydowns
3. Program for Results (PforR) - World Bank
4. Output-Based Aid (OBA)

I.REVIEW: SEMINAR II

1. Development Impact Bonds (DIB)

■ Example: Rajasthan Girls Education

● Differentiating Characteristics

- Primary differentiating factor is that investors provide funds to allow the service provider to pre-finance the program

- DIB is the only mechanism that addresses this issue directly

● Major advantages

- Investor involvement is a clear advantage for service providers
- DIB funding is available from donors, CSOs, and private philanthropies
- Great focus on rigorous measurement and efficiency

● Risks

- Very complex, time-consuming, and costly to set up and run, due to the involvement of large number of actors
- Difficult to find Outcome Payers



I .REVIEW : SEMINAR II

2. Loan Buydowns

- Example: GPE and Islamic Development Bank
- **Differentiating Characteristics**
 - Combines loans and grants to soften terms of lending
- **Advantages**
 - Loans, non-concessional or not, are more likely to be scrutinized by finance ministries than grants
 - Loans encourage more attention to sectoral performance.
- **Risks**
 - Will quality of IsDB loans being bought down be kept to GPE standards?
 - Risk that the triggers will not be met and the buy-down will not take place
 - Reduces incentive for countries to borrow for education.
 - Risk increasing a country's indebtedness.
 - Who interprets if and when the triggers have been met?



I. REVIEW : SEMINAR II

3. Program for Results (PforR)

■ Example: World Bank

● Differentiating Characteristics

- Relevant governing ministry or branch is primary actor, responsible for accepting funds and demonstrating results
- Donor involvement in system improvement, while still focused on results/outputs
- Intended for large-scale use, though capped at 5% of WB total lending

● Major advantages

- Incentivize specific project-level outputs or outcomes
- Has flexibility of being able to create effective system-level improvement
- Not required macro analysis or conditionality, and limited to a particular expenditure program
- Longer term operations
- Allow great consistency of donor funding by targeting government sub-sectors rather than central governments or macro level

● Risks

- Lack of independent social, environmental, and fiduciary safeguards - utilize existing country safeguards
- Limit use to projects that do not pose significant financial or social environmental risks

I. REVIEW : SEMINAR II

4. Output-Based Aid (OBA)

■ Example: Vietnam Girls Secondary Education

- **Differentiating Characteristics**

- Focus on service provision (access and quality)
- Usually private sector
- Service provider bears performance risk
- Funding is provided in the form of targeted subsidies for service provision
- Explicit focus on increasing the engagement of private sector capital and expertise

- **Major advantages**

- Encourage innovation and experimentation at the level of the service provider relative to other forms of RBF
- Private service provision is faster to adapt than public sector providers
- More willing to accept results-based contracts

- **Risks**

- Weakening government systems by circumventing public systems
- Not obtaining government buy-in from the start, which can limit projects' potential for scale-up



I. REVIEW : SEMINAR II

■ CONCLUSIONS OF SEMINAR II

- Important to move towards outcomes and results
- Easiest for non-state service providers
- How to do it for public sector providers and the public sector in general?
- Can it be done without aid?
- Possibilities for combining some of these instruments?
- Issues of Defining Results, Who Will Monitor Them, and Sustainability



II. ONE MORE INSTRUMENT: DEBT CONVERSION DEVELOPMENT BONDS (DCDBS)

- Recipient (indebted) government issues domestic bonds
- Future bond debt service payments matched by fiscal space created by creditors forgoing future international debt service payments (all or some).
- Concept developed by Daniel Bond for UNESCO Advisory Panel of Experts on Debt Swaps & Innovative Approaches to Education Funding and funded by the Open Society Foundations



II. ONE MORE INSTRUMENT:

DEBT CONVERSION DEVELOPMENT BONDS (DCDBS)

DCDBs Major Advantages

- **Recipient Government**
 - Allows it to issue domestic bonds
 - Avoids foreign exchange debt service payments
- **Donor/Creditor**
 - Can mobilize substantial development funding today
 - But spread the budgetary impact over a number of future years (as bond debt service comes due)



II. ONE MORE INSTRUMENT:

DEBT CONVERSION DEVELOPMENT BONDS (DCDBS)

DCDBs Potential Uses

- Donor funding large social and economic infrastructure projects (schools, universities) that may be difficult to fit into aid budgets otherwise.
- A means of responding to large-scale emergency funding needs?
- Has not yet been tried (but some discussions about Zambia, Bangladesh and Jordan)
- Issue: not too much debt among low income countries – more relevant for LMICs?



III. JAPAN CONTEXT

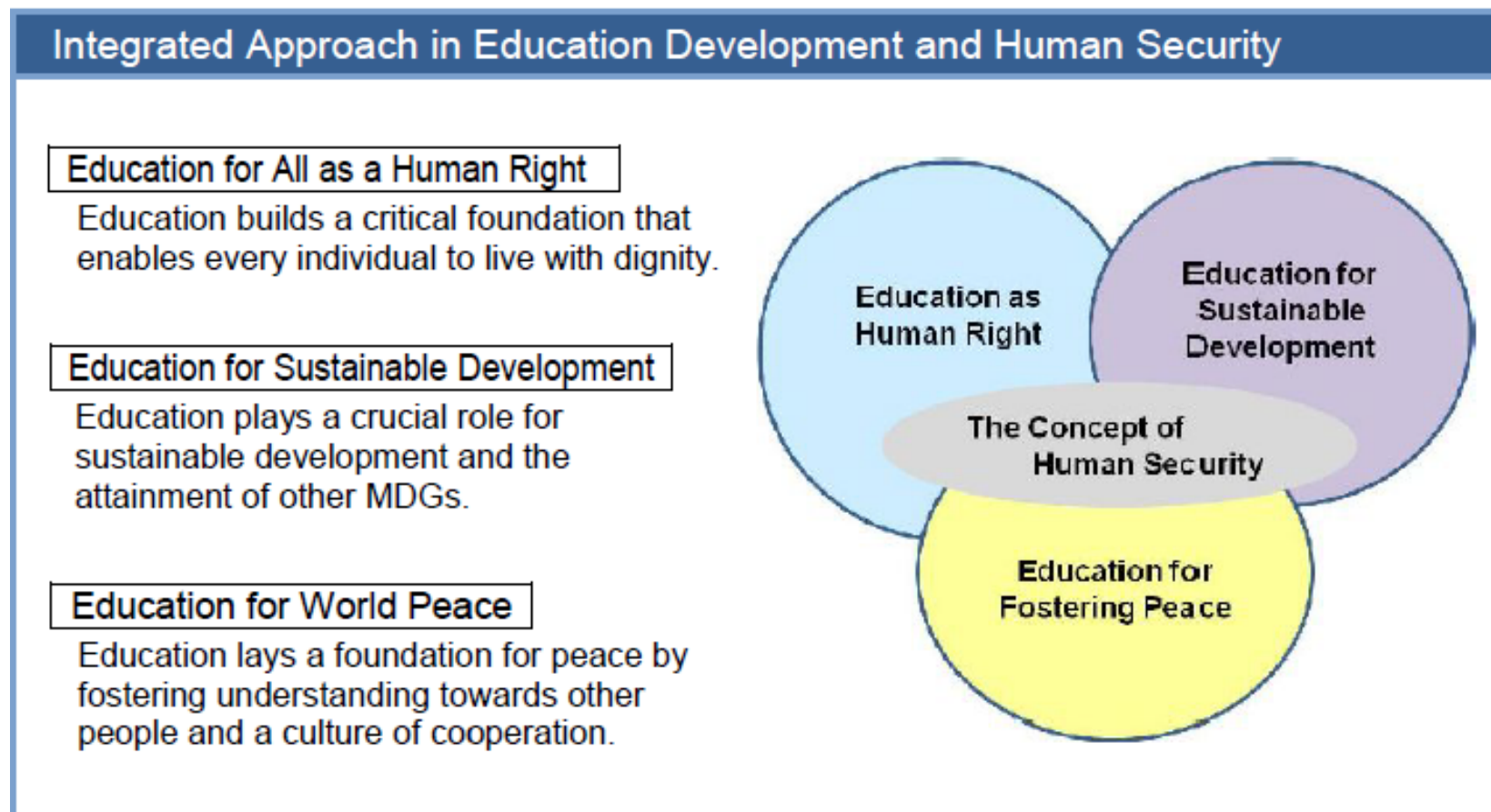
a) Education Cooperation Policy 2011 - 2015

- Education an essential component for promoting human security
- Share Japan's experience in education
- Contribute to the MDGs and the EFA goals
- Respond to various needs of partner countries
- Provide US\$3.5 billion 2011-15
- Help create a quality educational environment for at least 7 million children (a cumulative total of approximately 25 million children)
- Focus in developing countries on:
 - Basic education
 - Upper secondary education
 - Vocational training
 - Higher education
- Focus in Japan on:
 - Receiving overseas student to promote human resource development

III. JAPAN CONTEXT

a) Education Cooperation Policy 2011 - 2015

Education for Human Security – An Integrated Approach for Ensuring Human Rights, Achieving Sustainable Development and Fostering World Peace



Source: Japan’s Education Cooperation Policy 2011-2015



III. JAPAN CONTEXT

a) Education Cooperation Policy 2011 - 2015

■ Guiding Principles of Japan's Education Cooperation Policy

(1) Supporting self-help efforts and sustainable development

Strong political commitment from governments of partner countries is essential and Japan's support must respect and foster their ownership

(2) Meeting the needs of marginalized populations

Those deprived of opportunities to receive quality education due to various factors associated with poverty, gender inequality, disability, HIV/AIDS, place of residence, conflict, ethnicities and languages.

(3) Respecting cultural diversity and promoting mutual understanding



III. JAPAN CONTEXT

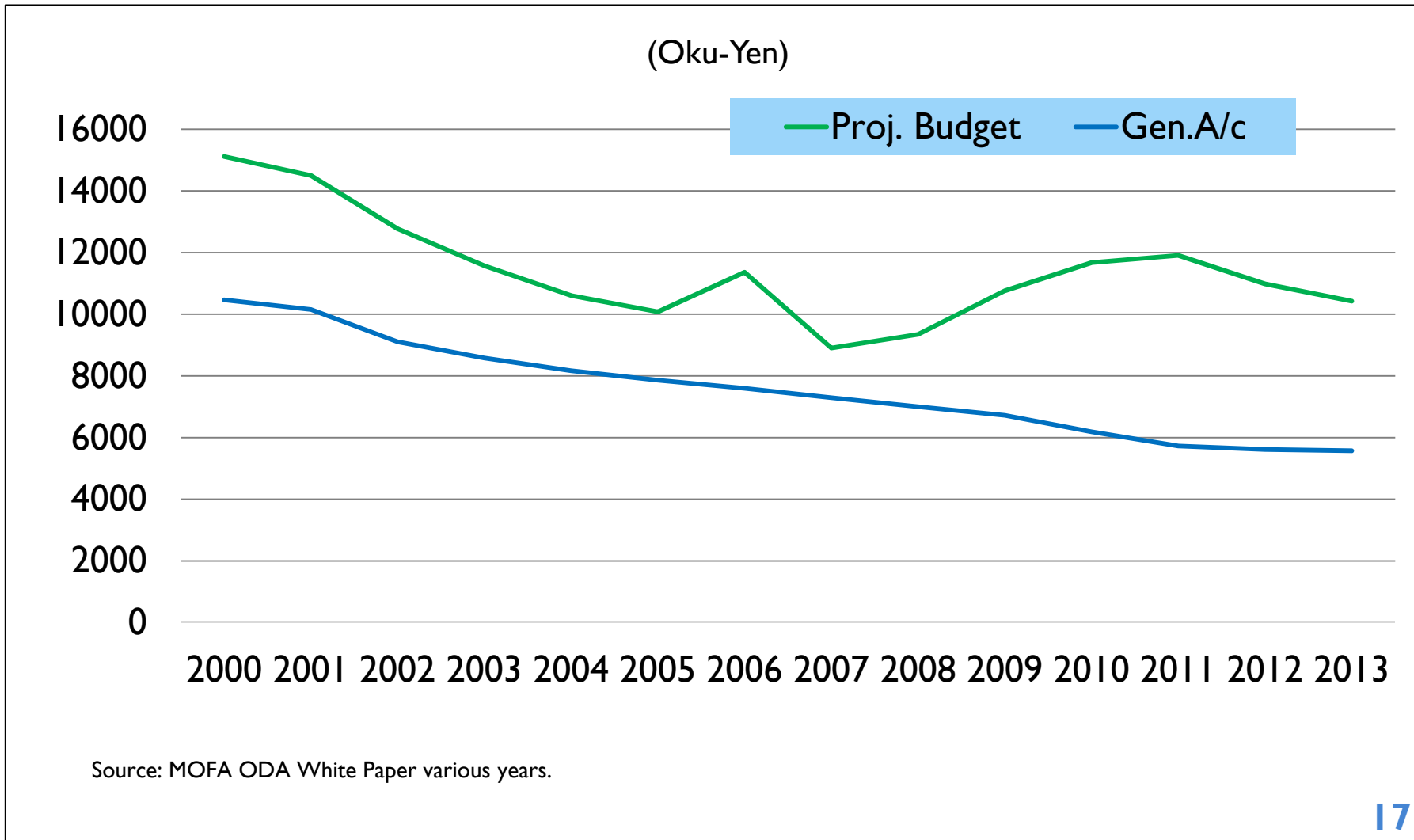
a) Education Cooperation Policy 2011 - 2015

Approaches to Maximizing Effectiveness of Japan's Assistance

- (1) Maximizing Japan's Comparative Advantages on the Ground
- (2) Participating in the Policy-making Process and Providing Medium Long-term Support
- (3) Ensuring Strategic Application of Aid Resources in Response to Countries' Needs
- (4) Strengthening Partnerships with the International Community
- (5) Linking Education with Other Development Sectors
- (6) Promoting a South-South Cooperation and Triangular Cooperation Approach
 - Example
 - 'Promote Kenya's model to Africa' Strengthening of Mathematics and Science Education – Western, Eastern, Central and Southern Africa (SMASE-WECSA)
- (7) Strengthening a Result-oriented Approach
- (8) Forging Partnership with Actors in Japan

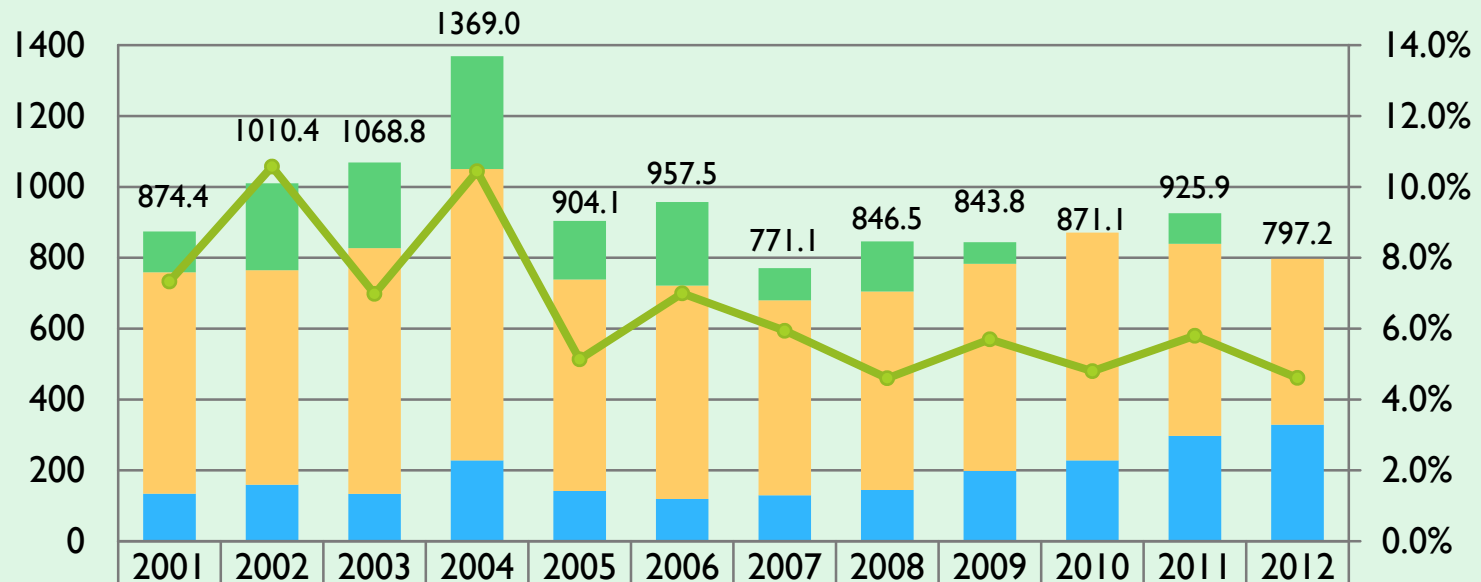
III. JAPAN CONTEXT

Japan's Total ODA



III. JAPAN CONTEXT

Figure 3. Japan's Education Aid by Type CY2001-2012
(Commitment, Calendar Year, Current US\$ million)



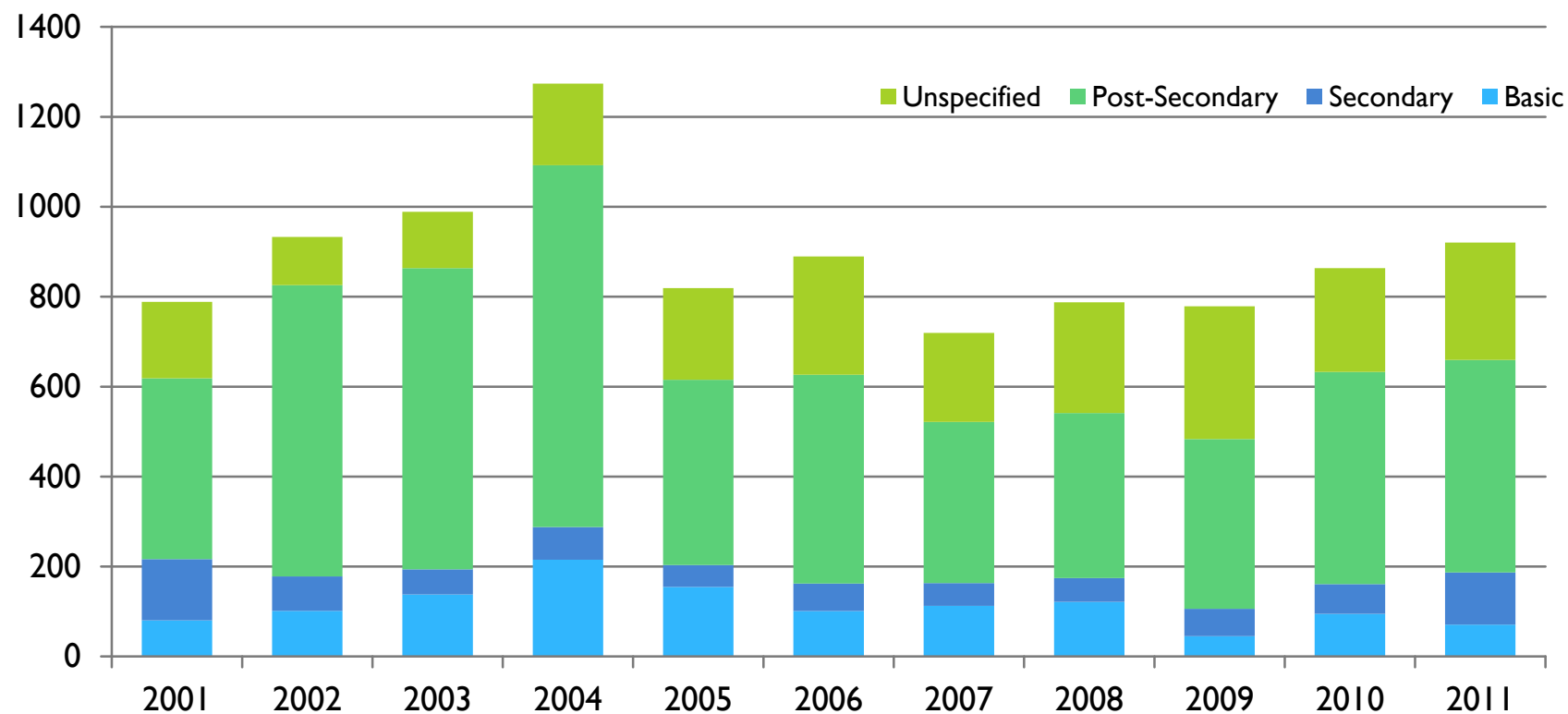
Loan Aid	115	245	242	318	165	236	91	141	61	0	86	0
Tech Coop	625	605	694	823	597	603	551	560	585	643	542	468
Grant Aid	134	160	134	228	142	119	129	145	198	228	297	329
Ed/Total Bi (right scale)	7.3%	10.6%	7.0%	10.4%	5.1%	7.0%	5.9%	4.6%	5.7%	4.8%	5.8%	4.6%

Source: MOFA various years.

Note: Figures include aid for Eastern Europe and graduated countries.

III. JAPAN CONTEXT

Japan's Education ODA by sub-sector (Current US\$ million, commitments)



(Source) By author based on OECD.StatExtracts

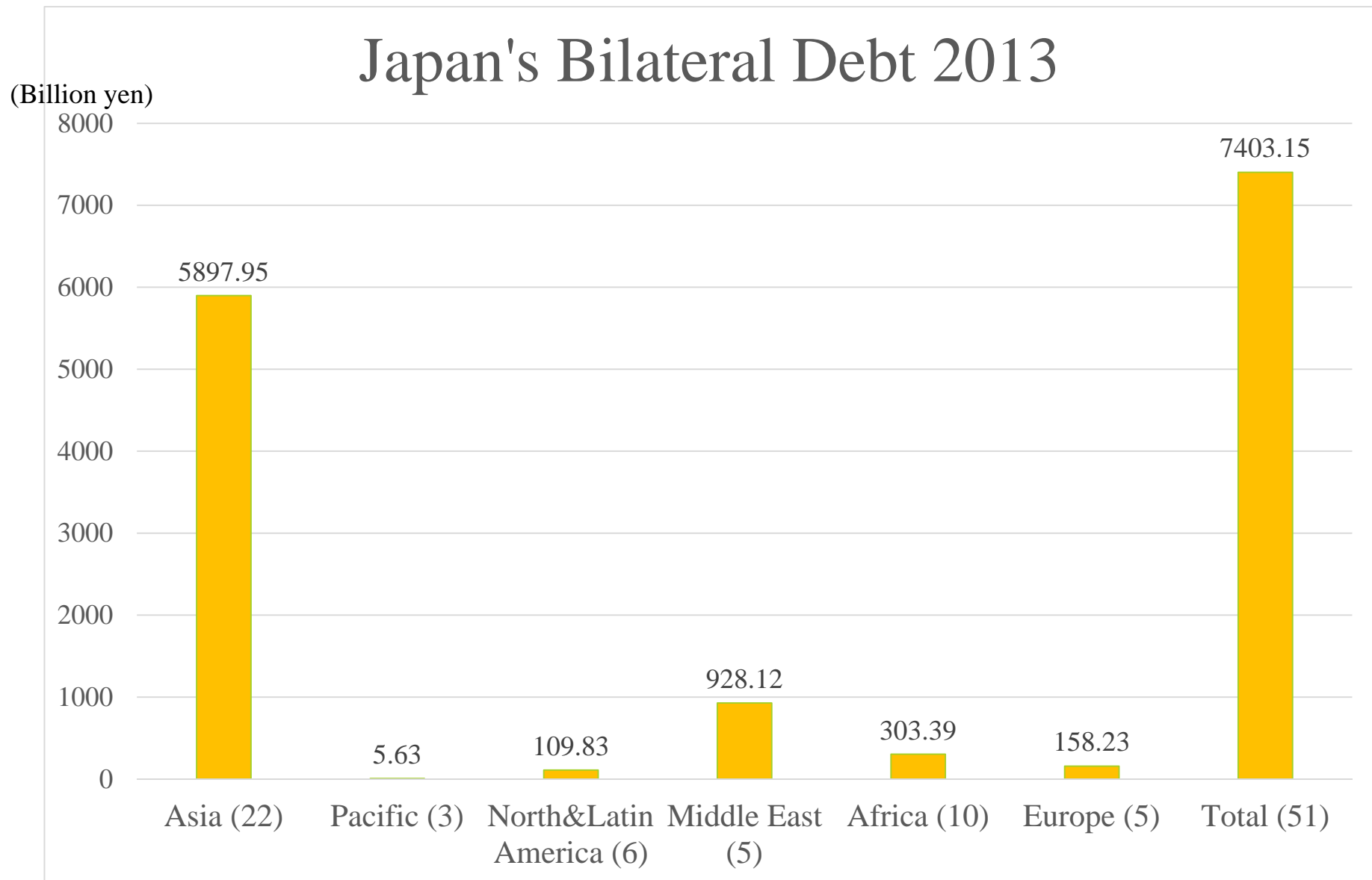


III. JAPAN CONTEXT

b) Attitudes and expectations

1. Education cooperation support should be for public sector
2. Increasing collaboration between JICA and Japanese private sector, but not much for private schools
3. In-person cooperation: e.g. science and mathematics teaching, hands-on school-based management assistance
4. Some limited support for private schools e.g. science kits
5. Reluctance to lend for education, especially basic education
 - Even lending for vocational and higher education is concessional and counts as ODA
6. Not a lot of Japanese philanthropy (Japanese attitude to charity?)
7. Japanese education philanthropy mainly domestic
8. Japanese small investors interested in education e.g. African Development Higher Education bonds
9. Japanese education businesses mainly domestically focused

III. JAPAN CONTEXT



Source: JICA

III. JAPAN CONTEXT

■ Limited Japanese Foundation Aid to Developing Countries

	Name	Detail
1	Bellmark Education Aid Foundation	Send picture books to Myanmar refugee camps
2	Konicaminolta Foundation	Support educational material for children in China
3	The Nippon Foundation	Build schools in Myanmar
4	Akimoto Tatsunoko International Scholarship Foundation	Scholarships for foreign students
5	KDDI Foundation	Assist education in Cambodia
6	Ito Foundation	Scholarships for foreign students
7	Panasonic Education Foundation	ICT education

III. JAPAN CONTEXT

■ Japan CSR for Education

	Name	Detail
1	Ricoh	India: Assistance to education
2	Daikin	Thailand: Learning and employment opportunities for students
3	Kokuyo	China: Educational materials for children
4	Daiwa house	Provide career education
5	Lotte	Myanmar: Support the education activities of the Bellmark Education Aid Foundation



III. JAPAN CONTEXT

- Japanese Small Investors Interested in Education and in Development?
 - African Development Bank
 - Education Support Bonds 2010, 2012,2013 – issued by Daiwa; Japan Asia Securities; Okinawa Securities
 - Small denominations so individuals could purchase
 - Daiwa Microfinance Fund
 - Other examples?

III. JAPAN CONTEXT

■ JAPANESE CORPORATIONS INVOLVED IN INTERNATIONAL EDUCATION

- Kumon
 - Vision: Wish all people in the world will have the opportunity to learn with the Kumon Method, and that each individual will be enthusiastically self-learning and making efforts towards realizing his or her goals and dreams
 - Scope: 4.26 million enrolled in 48 countries outside Japan. Heavy focus on Japanese expatriates and local elites.
- Benesse
 - Vision: Involved in “Education (Human Resource Development)” and “Solution for Society’s Challenges” to become world No.1 company in the education field, supporting childcare, education and human resource development globally
 - Scope:
 - Products still mainly for Japanese.
 - Correspondence course business mainly focused on preschool children in South Korea, China and Taiwan
- Chuo
 - Vision: Generate interest in learning through publishing educational material for children from preschool to university
 - Scope: Textbooks still mainly for Japanese

III. JAPAN CONTEXT

c) Other Sector Experience

- DIBs: None
- Loan Buydowns: Health
 - Gates Foundation bought down JICA polio lending in Nigeria and Pakistan
- PforR or similar:
 - None as such
 - Involved in PPPs for health (Benin, Lesotho) and Tourism (Lesotho)
- OBA:
 - Microfinance (Philippines)
 - Energy
 - Water
 - Some BOP programs
- DCDBs: None



IV. Possibilities for Japan: non-state delivery in developing countries?

- Could expand collaboration to include non-state sector
 - low cost private schools?
 - NGO schools?
- Already works with BRAC on things like social enterprises but apparently not in education?
- Break away from pure focus on public sector schools?



IV. POSSIBILITIES FOR JAPAN: LENDING FOR EDUCATION

1. Consider concessional lending for basic education and expanding lending for other levels of education
2. Pay more attention to country creditworthiness than to education sector's use of funds
3. Most other bilateral donors moving towards some forms of “returnable capital”.



IV. POSSIBILITIES FOR JAPAN: DIBS?

1. DIBs Outcome Payer?

- a) Would Japanese government be willing to finance outcomes or would it expect to also be involved on the supply side?
- b) Would Japanese private philanthropy be willing to finance outcomes? In this case, it could be an advantage that there is no need to be involved in the supply, as it would not require many staff.

2. DIBs Investor

- a) Given that Japanese private investors are interested in bonds for African education, is there a way that their small investment funds could be bundled to provide investment capital for DIBs?
- b) Possibly could be combined with Japanese government role as Outcome Payer?



IV. POSSIBILITIES FOR JAPAN: LOAN BUYDOWNS?

1. Other international donors are not likely to agree to buy down Japanese lending (Gates polio probably an exception). However, same effect could be achieved by somehow matching Japanese concessional lending with multilateral grant funds (e.g. from GPE) and linking to results. For example, Japan could dedicate some sum like \$500million to GPE programs as concessional cofinance lending....
2. This would require Japan to overcome its reluctance to lend for education. Reluctance anyway makes no sense as lending should be based on country creditworthiness not on a particular sector's use of the funds in all cases where the investment will not itself generate foreign exchange.
3. Are there Japanese philanthropists who might be interested in buying down Japanese government lending? That could be an interesting way for them to get into the education development area.



IV. POSSIBILITIES FOR JAPAN: P FOR R IN ODA?

1. Again raises the issue of whether Japanese government would be willing to focus only on results or would want to be involved also in supply of inputs.
2. Others are experimenting with combinations e.g. new GPE funding model is 70% inputs and 30% results. Could some such combination be possible for Japan? Maybe also use concessional loans for inputs and grants for results, combined in such a way that the grants would essentially cover the interest payments on the loans and so effectively convert even the loans into grants?



IV. POSSIBILITIES FOR JAPAN: OBA

1. OBA may be particularly suitable for education areas of high priority for Japan: upper secondary and vocational.
2. Combine with a focus on Out of School Children at secondary level (most global attention still on OOSC at primary level).
3. Could be some scope for experimenting with using OBA to target involvement of poor and disadvantaged in addition to input support to the systems as a whole

IV. Possibilities for Japan: DCDBs

1. Significant overlap between countries identified for UNESCO as potential for DCDBs and Japanese bilateral debt
2. Need to make the case for Education

Country with Potential	Japanese Bilateral Debt (end-2013)		Japan share of all Bilateral Debt (comparing 2013 and 2010 hence discrepancies)
	Yen billion	US\$million	
Zambia	9.83	93	0.26
Angola		0	
Cote d'Ivoire		0	
Ghana		0	
Nigeria		0	
Uganda	23.48	223	0.87
Kenya	170.2	1617	0.63
Bangladesh	383.74	3646	1.28
Sri Lanka	271.58	2580	0.34
Vietnam	1622.45	15413	1.19
Jordan	121.06	1150	0.40



V. Conclusions

1. Declining ODA + Need for Results to Justify ODA = Japan may wish to move progressively into RBF and Innovative Financing for Education
2. Will require attitude changes:
 - a) Towards private sector delivery
 - b) Towards lending for education
 - c) Towards emphasis on inputs and supply side
3. Some unique possibilities:
 - a) Japanese individual investor interest in education
 - b) Distribution of Japanese bilateral debt
 - c) Japan's focus on Secondary and Vocational education, where there is most potential for OBA



Thank you very much

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