Important or Just Trendy? The New World of Education Financing

SEMINAR II: PROMISING NEW TYPES OF FINANCING FOR EDUCATION

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1. REVIEW

- 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

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1. REVIEW

- 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

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I. REVIEW

Innovative and Alternative Financing in Education Sector

Three Main Strands

Strand	Aims	Description/Examples
Broad Taxes	Raising Resources	• Indian Cess • Philippines ECD • Training Levies
Corporate Social Responsibility	Raising Resources	Education very prominent, especially where CSR compulsory (e.g. India, South Africa)
Innovative Financing Task Force Ideas	Raising Resources Achieving Results	*Discussed in next slides*

I. REVIEW

Education Task Force Innovative Finance Ideas

Type	Details
Bonds	• Local currency/education bonds • Debt conversion development bonds (idea developed by UNESCO) • Diaspora bonds
Debt/Lending	• Debt for education swaps (e.g. Argentina/Spain, Indonesia/Germany) • Buying down official loans for education (e.g. current GPE/IsDB pilot)
Impact Investing	• Acumen • Education Venture Fund
PPPs in Education	• Social/Development Impact Bonds (e.g. CIFF/UBS Rajasthan) • MSPEs (multi stakeholder partnership in ed) • Pakistan/Trusts
Voluntary Contributions	• From migrants • From bank transactions

I. REVIEW

Result-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
Pay for Performance (P4P), Performance-Based Incentives (PBI)	Synonyms for RBF
Performance-Based Financing (PBF), including World Bank Program for Results (PforR)	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
Performance-Based Contracting (PBC)	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"
Output-Based Aid (OBA)	Subset of RBF, Distinguishing feature is the principal is an aid donor; and agent usually a recipient government or public agency, but not always
Cash on Delivery (COD)	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
Conditional Cash Transfer (CCT)	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

Source: Musgrove, P. 2011. "Financial and Other Rewards for Good Performance or Results: A Guided Tour of Concepts and Terms and a Short Glossary." World Bank, Washington, DC. http://www.rbfh ealth.org/system/fi les/RBF%20glossary%20 long%20revised.pdf.

I. REVIEW

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)
- **Development Impact Bonds (DIBs) – subset of Social Impact Bonds (SIBs)**

RBF schemes targeting students/ households
- Conditional Cash Transfers (CCTs)
- Performance-based scholarships or loans (education)
- Vouchers

1. REVIEW

- **Results-based Financing: Experience of Education**
  1. Very little experience compared to health
  2. Emphasis mainly on
     - Raising funds
     - Achieving results
  3. Experience so far only concerned with education programs, none with education products like books

2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

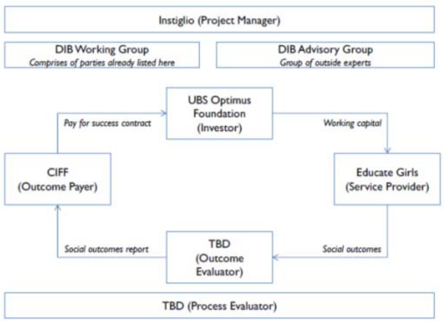
- **Definition**
  - DIBs involve cooperation between public, private and nonprofit sectors
  - Private Investors provide funding to implement and scale up programs through non-profit Service Providers, managed by an Intermediary, which also collects data and monitors progress.
  - If progress is shown, Outcome Payers pay investors back with return dependent on the level of success

2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

- **Example**
- DIB launched focusing on education in Rajasthan, India in June 2014
  - 'Educate Girls' (service provider) runs programs with the goal of increasing student academic performance as well as increasing attendance of female students
  - Upfront investment is provided by the 'UBS Optimus Foundation (investor)'. If 'Educate Girls' demonstrates success, the 'Children's Investment Fund Foundation (outcome payer)' will repay investors, with repayment rates higher the greater the success.
  - The setup is being managed by an intermediary, Instiglio.

2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

- **Structure of the Rajasthan DIB**



2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

- **Differentiating Characteristics**
  - Primary differentiating factor is that investors provide funds to allow the service provider to pre-finance the program
  - DIBs is the only mechanism that addresses this issue directly

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2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

- **Major advantages**
  - Investor involvement is a clear advantage for service providers
  - DIBs 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

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2. 1 DEVELOPMENT IMPACT BONDS (DIBs)

- **Application to date**
  - 13 education-related DIBs have been implemented in the US and UK
    - 12 focus on vocational education
      - UK:10 implemented by the Department of Work and Pensions to reduce unemployment among young people
      - USA: 2, one each in Massachusetts and New York, to improve employment outcomes among those who were formerly in prison.
    - USA: one also focuses on preschool education in Utah
      - Several other US states looking into it for preschool education

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2. 2 LOAN BUYDOWNS

- **Definition**

A buy-down is an arrangement whereby a third party buys down all or part of either the interest or the principal of a loan, or both

- Countries could be induced to borrow for social sectors against monitorable reforms.
- Crowd in extra resources
  - Grant aid is declining, in general and for education.
  - Huge unmet need for basic education in creditworthy countries.
- Keep education "competitive" with other sectors to adapt to harder aid environment.
- Recent initiative: GPE approached by the Islamic Development Bank

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2. 2 LOAN BUYDOWNS

▪ Illustration

What if a $100 million loan with 2% interest were bought down to a $50 million loan with 0% interest? Below is the total stream of payments over 5 years, paying back both interest and principal, with and without a buy-down.

Loan Repayment without Buy-down	Loan Repayment with Buy-down
Year	Year
1: $ 21.6 million	1: $ 10 million
2: $ 21.2 million	2: $ 10 million
3: $ 20.8 million	3: $ 10 million
4: $ 20.4 million	4: $ 10 million
5: $ 20.0 million	5: $ 10 million

Cost of buying down interest	$4 million
Cost of buying down principal	$40 million
Total Cost of buy-down	**$44 million**

2. 2 LOAN BUYDOWNS

▪ Previous loan buy-downs (only one in Education)

Buy-down	Financing Agency	External donor	Loan/Credit (US$ million)	Status	Buy-down	Term shift	Triggers
China Education	IBRD	DFID	100.0	Closed	$34.5 million	IBRD fixed to approx. 2%	No
Pakistan Polio	IDA	Gates	138.3	Ongoing	NPV of Credit.	Credit to grant	Independent results audit
Pakistan Polio	IsDB	Gates	227.0	Ongoing	Fees and mark-up of $3.6m p.a.	Repayment of principal only	Past performance
Nigeria Polio	IDA	Gates	138.7	Ongoing	NPV of Credit.	Credit to grant	Independent results audit
Botswana HIV	IBRD	EC	50.0	Ongoing	Euro14.0 million	Loan to credit	Achieved
China TB	IBRD	DFID	104.0	Closed	$37.0 million	IBRD fixed to approx. 2%	No
China Rural Development	IBRD	DFID	100.0	Closed	$32.4 million	IBRD fixed to approx. 2%	No
Samoa Power	ADF	AusAid	26.6	Ongoing	$4.0 million	Softening of loan terms	No

2. 2 LOAN BUYDOWNS

▪ Lessons from previous buy-downs

- Limited experience to date.
- Only one buy-down in education between DFID and China.
- Buy-downs provided by bilateral agencies with multilateral banks as lenders, all on new lending.
- Buy-downs can encourage borrowing for education and health from otherwise reluctant countries.
- Can stimulate specific results if triggers are appropriately specified

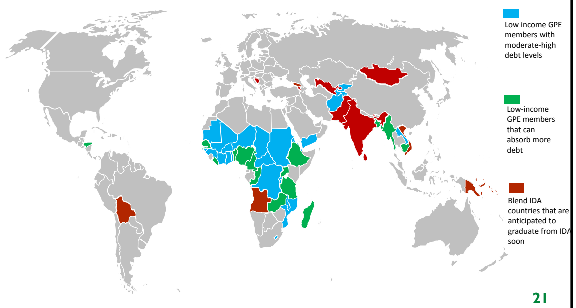
2. 2 LOAN BUYDOWNS

▪ Which countries could education buy-downs be piloted in?

1. Low-income countries that are unable to borrow for education on hard terms.
2. Low- and middle-income countries that could absorb more debt on softer terms.
3. Middle-income IBRD borrowers who are reluctant to borrow for basic education on market terms.
   IDA Category 2 or 3 blend countries.
   IDA members that will or have recently graduated to IBRD.

2. 2 LOAN BUYDOWNS

- **Which countries could buy-downs be piloted in?**



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2. 2 LOAN BUYDOWNS

- **Advantages and Risks**
  - **Advantages**
    - Loans, non-concessional or not, are more likely to be scrutinized by finance ministries than grants
    - Loans encourage more attention to sectoral performance.
      - Context of GPE's new M&E strategy
  - **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?

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3. 1 PROGRAM FOR RESULTS (PforR)

WORLD BANK

- **Definition**
  - World Bank's previous two main investment instruments
    - Investment loans(ILs) - projects
    - Development policy loans (DPLs) – policy reform
  - PforR bridges gap between these by focusing on service delivery and on systems improvement, using Disbursement-Linked Outcome Indicators (DLIs).
  - PforR is a new instrument, approved in 2012, to address projects not covered by above two, but limited so far to 5% of total lending

Source: R4D 2014

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3. 1 PROGRAM FOR RESULTS (PforR)

- **Examples in Education**
  - Morocco National Initiative for Human Development Phase II
    - Improve access to and quality of local governance, infrastructure, social service, and economic opportunities
    - Education component: percentage of girls residing in school dormitories who graduated to the next grade was a disbursed-linked indicator (DLI) (linked to $40m in payments)
  - Pakistan Sindh Education Sector Project
    - Improve medium-term education sector budgeting, strengthen school management committee (SMC) participation and capacity for supporting school management, etc.
    - Has total of 10 DLI indicators, such as education budget executed in alignment with MTBF, at least 70% of SMCs activated, expenditure validated by third party, etc.

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3. 1 PROGRAM FOR RESULTS (PforR)

- **Application to date**
  - 11 programs approved
    - 4 are currently being implemented
  - 17 under preparation
  - Of all 28, about 7% of funding is for education

Source: R4D 2014

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3. 1 PROGRAM FOR RESULTS (PforR)

- **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

Source: R4D 2014

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3. 1 PROGRAM FOR RESULTS (PforR)

- **Advantages and Risks**
  - **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

Source: R4D 2014

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3. 2 OUTPUT-BASED AID (OBA)

- **Definition**

A type of RBA pioneered by the World Bank in 2002

(1) Funding to buy down the capital costs of investment required to deliver a particular service (e.g. telecommunications)

(2) Funding in the form of a subsidy to close the gap between what beneficiaries can pay for a social service and the costs incurred by the service provider.

Source: R4D 2014

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3. 2 OUTPUT-BASED AID (OBA)

- **Example 1**
  - Vietnam Upper Secondary Education Enhancement Project
    - Funded by GPOBA and launched in 2010 in partnership with East Meet West Foundation
    - Increase access to secondary education for poor and disadvantaged students
    - Targeted students in selected districts received tuition reimbursements to attend a private or semi-private secondary school conditional upon maintaining a set GPA, attendance record, and behavior standards.
    - Schools took on performance risk by making the upfront tuition payment and receiving reimbursement from GPOBA after student performance indicators were verified.

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3. 2 OUTPUT-BASED AID (OBA)

- **Example 2**
  - Bangladesh Female Secondary School Assistance Project (FSSAP)
    - Not purely OBA project, but rather includes specific and discrete components that are OBA-based.
    - Increase the number and performance of female students attending secondary school, by providing stipends and tuition for female students, who attended school 75% of the year and who received a score of at least 45% on annual exam
    - Performance-bonuses to schools are linked to female enrollment, among other indicators

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3. 2 OUTPUT-BASED AID (OBA)

- **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

Source: R4D 2014

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3. 2 OUTPUT-BASED AID (OBA)

- **Advantages and Risks**
  - **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

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3. 2 OUTPUT-BASED AID (OBA)

- **Application to date**
  - 200 projects have implemented worldwide

    (e.g.: transport, water and sanitation, energy, health, and ICT)
  - Most are in infrastructure
  - 7 in education

Source: R4D 2014

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4. ISSUES

4.1 Defining Results

- How to define outcomes precisely?
- Especially in education, how to define outputs or outcomes that can be achieved in a reasonable period?
- What to do if only some results are achieved?

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4. ISSUES

4.2 Monitoring Results

- Who is going to monitor results?
- Against what baseline?
- Who will pay for this?

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4. ISSUES

4.3 Safeguards

- Major issue when aid is involved is how to meet environmental, social and financial requirements or “safeguards” of donors
- Almost impossible, which means relying on country systems – some sort of precertification needed?
- Does this limit use in low income countries?

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4. ISSUES

4.4 Financing Supply

- If financing is only for results, how will service providers (NGOs or governments) finance services initially?
- Huge issue of working capital for NGOs and other innovators
- Only DIB explicitly addresses this
- Could one consider combining instruments?

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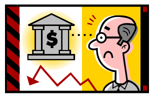
4. ISSUES



4.5 Sustainability

- So far donors and philanthropies have funded
- Even so, huge issue of finding outcome payers with DIBs
- Can governments adopt such financing?
- Is it compatible with being politically responsive? With the need to finance supply?

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5. CONCLUSIONS

- 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?

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6. PREVIEW NEXT SEMINAR: 22 JANUARY 2015

- Further examination of these issues
- A look at one other instrument: debt conversion bonds
- Specific possibilities for Japanese aid
- Other bilateral donors?
- Multilateral donors?

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Thank you very much
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