

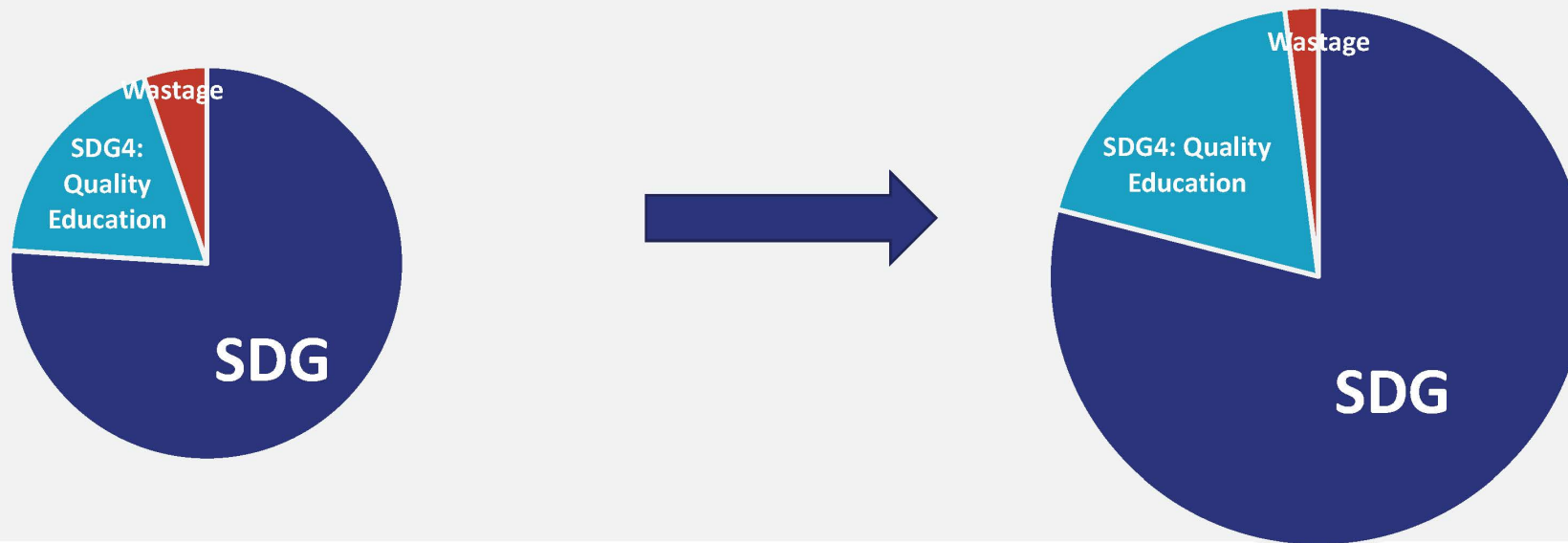


# Potentials of Innovative Financing Solutions for Inclusive and Quality Education

Arushi Terway, NORRAG

# What is Innovative Financing?

- Innovative financing refers to creative financing structures or arrangements designed to facilitate the movement of funds from sources that are interested in giving funds for a particular purpose to domains or sectors that need funds to carry on their activities.
  1. Raise additional funds from existing and new sources of funding
  2. Maximise efficiency and effectiveness of the available funds to reach the intended results



# Why do we need innovative financing in education?

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- Traditional financing from governments and donors is not sufficient to meet the SDG 4 agenda
- There is a proliferation of new actors in the development sector and education, especially from the private sector
- Let's understand the current condition of the education financing challenge a bit more....



# Why do we need innovative financing in education?

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Go to: <https://www.norrag.org/introduction-to-ife/>

# More and better financing

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- **Increase** the total amount of government funds = better taxation!
- **Increase** government funds allocated to education
- **Increase** international aid to education
- **Better utilise** international and local philanthropic contribution to education
- **Reduce** financing burden on households basic education
- **Harness** private capital market
- **Improve** effectiveness and efficiency of existing funds
- **Ensure** inclusive and equitable quality education

# Typical characteristics of innovative financing

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- Financing structures that attract either new actors to education or existing actors to new contexts/markets
- Modify some part of the transactional structure of the grants and concessional loans in traditional financing to improve the efficiency or effectiveness of projects
- Employs results-based financing approaches as an important tool for achieving education outcomes
- Enabling participation of new actors with relocating risks from investors to institution or vis a versa, depending on who is better positioned to bear the risk
- Supporting collaboration between the public and private sector
- Enabling participation of new actors with relocating risks from investors to institution or vis a versa, depending on who is better positioned to bear the risk
- Funds raised from private capital market
- Engage private actors in programmatic innovation and service delivery

# Why engage with the private sector?

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The business of  
business is business.

Milton Friedman

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# Shifting paradigm

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- **Socially conscious business practices**
  - Four in ten of the world's largest companies reference the SDGs in their corporate reporting (Abshagen et al, 2018).
- **Investment for social impact**
  - By 2018, one fourth of the total professionally managed assets (about USD 13 trillion) considered sustainability principles (Bouri et al, 2018)
- **Business of education is profitable**
  - Estimated industry size = USD 16-18 billion in Africa alone (Caerus Capital, 2017) or globally amounting to USD 4.3 trillion (Robertson & Komljenovic, 2016).



# Potential for mobilising private investment

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- **Size of global capital market:** approximately USD 185 trillion in FY17
- **Private investments** mobilised by blended finance grew by 20% between 2012-2014; ODA grew by 3.4% per year.
- **Blended finance** – higher in middle-income countries than low-income countries, but higher blended finance in lower-middle income countries than other foreign direct investments (FDI)
- Governments with higher revenue per capita receive higher private investment through blended finance
- Both blended finance and FDI are typically directed to infrastructure and other productive sectors (energy, industry, mining, construction and banking)

# Varying rationales for engagement

Government vs. Private business

1

## Basic human right

Universal Declaration of Human Rights (1948), Education for all (1990, 2000), MDG (2000), SDG (2015)

2

## Equitable provision

Social contract between the government and citizens; education as a merit good; positive externalities

3

## Maximising profit

Purpose of a business; Fiduciary responsibility.

4

## Maximise efficiency and effectiveness

Basic operating principle for maximising profit

# Questions on need for innovative financing

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# Innovative financing mechanisms

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- **Can be used by**
  - National or sub-national governments
  - Bilateral and multilateral donor agencies
  - *Philanthropies*
  - *Private investors*
- **Engage new actors**
  - Modify existing financing modalities
  - Create new structures
  - Create laws and regulations to incentivise new actors

**Are you aware of any innovative financing mechanisms being implemented in your country? Tell us about it in the chat box**

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# Existing cases: Donor level mechanisms

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- **Conditional Cash Transfers**
- **Matching Funds:** Global Partnership for Education Multiplier Fund
- **Education Bonds :** IADB Education, Youth and Employment Bond
- **Debt Swaps:** Example Spain → Peru, El Salvador, Argentina, Ecuador, Nicaragua, Paraguay, Bolivia

# Debt Swap

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- **See video on Debt Swap at:** <https://www.norrag.org/ife-mechanisms/>
- **Also see case description of Debt Swap at:**  
<https://resources.norrag.org/resource/view/603/359>



# Existing/New Donor level mechanisms

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- **Results Based Finance:** Example World Bank PforR project in Tanzania, or GPE  
ESPIG Variable Tranche funding
- **Development Impact Bonds:** Education Outcomes Fund
- **Guarantees:** International Financing Facility for Education

# Proposed concepts: Donor level mechanisms

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- Disaster risk insurance
- Pooled Impact Bond funds
- Advanced Market Commitment for textbooks

# Parametric Disaster Insurance

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- See video on Parametric Disaster Insurance at: <https://www.norrag.org/ife-mechanisms/>

# Country Level Mechanisms

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- **Maximising tax revenue**
  - **Earmarked tax** – The Indian government charges a 4% health and education cess on the direct income tax liability of individuals
  - **Tax Justice** – USD 500 billion annual tax losses to government governments due to profit shifting by multinational companies
- **Corporate Social Responsibility**
  - Companies Act 2013 in India requires all companies larger than USD 70 million net worth to spend 2%
  - South Africa's business laws and regulation incentivize companies to invest in Corporate Social Responsibility or in addressing social inequalities

# Country Level Mechanisms

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- **Maximise private citizen investments**
  - Education bonds or Diaspora bonds
    - Potential to bring in upfront capital to invest in education project, but the debt will need to be serviced later
  - Incentivise remittances to go towards education
    - Allow citizens to get funds from relatives
  - Income contingent loans
    - Reduce student loan default

# Country Level Mechanisms

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- **Incentivise private actors to invest**
  - Social Impact Bond
    - Only pay for success, defer budget costs
  - Income Share Agreements
    - Allow private sector lending and risk taking, free-up funds for pre-primary, primary and basic education
  - Subsidies linked to microfinance or impact investment
    - Can fund part of the private sector delivery or innovation while encouraging private investors to enter the market

# Income Share Agreement

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- See video on Income Share Agreement at: <https://www.norrag.org/ife-mechanisms/>
- Also see case description of Income Share Agreement at: <https://resources.norrag.org/resource/view/602/358>

# Microfinance

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- See video on Microfinance at: <https://www.norrag.org/ife-mechanisms/>
- Also see case description of Microfinance at:  
<https://resources.norrag.org/resource/view/604/360>



# Advantages of innovative financing

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- **Potential to bring in additional funds from new sources**
- Like private investors, corporate social responsibility funds, local philanthropies
- **Allow for upfront capital from private investors to allow the economy to grow**
- **Defer paying for development costs of innovation**
- **Use a hybrid system of mixing public and private provision**
  - Some services and populations can be served with market-based solution  
--> Allow private sector to engage
  - But ensure that government is engaged in ensuring equity and inclusion, especially of basic education

# Proceed with optimistic CAUTION

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- Be very clear on what **PROBLEM** would the financing mechanism **SOLVE**
- All stakeholders need to be open and transparent about their goals
- Balance between maximising profits and managing equity
- Need for expertise on all sides on the negotiating table
  - Education sector need finance expertise
  - Private finance experts need sound understanding of education sector challenges and goals
  - Both sides need legal expertise to understand national financial regulations
- Need for more data and research

**For more resources visit**  
**<https://www.norrag.org/ife>**