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INNOVATING IN FINANCING EDUCATION

**REPORT OF THE WRITING COMMITTEE TO THE TASK FORCE
ON INNOVATIVE FINANCING FOR EDUCATION**

Members of the group participated in their personal capacity. The views expressed do not reflect those of the institutions, organizations or companies to which they belong. While none of the group members disagrees with the general thrust and approach of the report, none would, either, fully support or endorse each and every specific reflection or recommendation.

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EXECUTIVE SUMMARY

1. This report is the result of a collective work carried out by the Writing Committee commissioned by the Task Force on Innovative Financing for Education created by the Leading Group on Innovative Financing for Development in March 2010.

2. The report explores possible innovative financing schemes dedicated to the education sector on the basis of literature review, meetings with relevant professional actors and the expertise of international consultants.

3. In the last two decades, a wide consensus has emerged on the necessity to scale up the volume of aid directed to developing education systems. At the international level, this consensus has materialized in joint commitments of the donor community and the governments of partner countries to achieve the Education For All (EFA) goals contained in the Dakar Framework of Action, and the Millennium Development Goal (MDG) for universal primary education, contained in the Millennium Declaration of the MDG Summit.

4. While recent assessments indicate that the MDGs will be hard to attain if development aid continues to flow at the current pace, the Task Force believes that increased investment in education is fundamental to change this trend by boosting progress towards the achievement of all 8 MDGs. A number of recent studies have confirmed the central role of education in a country's development process, demonstrating that access to quality education has a positive and significant impact on economic and social indicators.

5. The achievement of the educational objectives set by the MDGs and the EFA goals will require a major financial effort from the donor community. According to official figures, 72 million children in the world still lack access to primary education. If we are to achieve universal primary education by 2015, \$16 billion would have to be annually added to the current aid flows towards the education sector.

6. Innovative financing mechanisms constitute a unique opportunity to fill in the EFA funding gap and ensure that the realization of universal basic education is not thwarted by a lack of resources. To be fully effective, such mechanisms should have a global scope, be additional and complementary to traditional Official Development Assistance (ODA), and generate long-term and predictable financing. In addition to this, the Task Force on Innovative Financing for Education has proposed that innovative financial mechanisms for education be linked to four specific objectives: mobilize significant and stable resources; increase the visibility of education within the international development agenda; improve the effectiveness and efficiency of aid; and stimulate innovation within the education sector.

7. A major argument in favor of introducing innovative financing mechanisms lies indeed in the belief that these new sources of funding will not only generate additional funds, but will also contribute to generate a virtuous circle of change in the education sector by increasing the mobilization of domestic resources, improving aid effectiveness, fostering innovation and improving performance.

8. The report presents nine innovative financing mechanisms with potential to raise funds and/or raise the profile of the education cause. The idea is not to push for a single mechanism but to encourage the development of multiple options on the basis of global, regional, bilateral or national initiatives. While the proposed mechanisms are not necessarily global in scope, the search for international mobilization has driven the Writing Committee to suggest mechanisms likely to federate largely.

9. These nine mechanisms enter into two large categories, namely 1) the broad fundraising bases and 2) the high-profile and awareness-raising levies:

1) Broad fundraising bases

- Tax on international financial transactions;
- Local currency education bonds;

- Education venture fund;
- Diaspora bonds;
- Voluntary contributions from migrants;
- Debt-for-education swaps.

2) High-profile and awareness-raising levies

- Sports levy;
- Public-private partnerships;
- Micro-donations from individual bank transactions.

10. The mechanism related to a tax on international financial transactions, has been addressed by a dedicated Task Force¹ The report written by the Committee of Experts commissioned by the Task Force concluded that a centrally collected multi-currency transaction tax was the most appropriate option, since it would apply to all foreign exchange transactions on all major currency markets, thus ensuring stable and predictable flows of aid. The funding of education would be an excellent potential use for these funds.

11. Local currency education bonds are financial instruments issued by a developing country to mobilize domestic resources. These bonds can be purchased by the government itself, diverting a part of the funds it currently uses for higher education or by local private investors and pension funds.

12. An Education Venture Fund would seek to mobilize additional resources for education through a range of mechanisms to invest in initiatives that promote innovation and social entrepreneurship in the education sector. It would also have the mandate to take risk and experiment new programs.

13. Diaspora bonds constitute another potential financial mechanism to raise funds for education. A diaspora bond is a debt instrument issued by a country to raise financing from its overseas diaspora. These bonds can secure stable and cheap external finance.

14. A voluntary contribution emanating from the migrants would allow devoting a share of the large resources stemming from migrants' remittances to fund developing education systems in low-income countries and could benefit from the G8-led process aimed at reducing the cost of money transfers, since the latter will free up a considerable amount of new resources.

15. A debt conversion scheme is a mechanism whereby a creditor country cancels another country's debt against its commitment to use the funds in pre-agreed development programs. This

mechanism would serve the double purpose of relieving low-income countries from their public debt and of directing new funds to developing education systems.

16. A tax on sports revenue could help to raise the profile of education in the international development agenda. Media-friendly sports such as football have indeed a strong potential for mass communication, and many actors from the football sphere have already shown their interest for philanthropic initiatives related to education.

17. Global public-private partnerships already exist in some development sectors such as health where they contributed to significant increases in funding and visibility. The Writing Committee proposes the creation of a similar partnership for education to foster cooperation between governments, private corporations, international organizations and media-friendly public figures.

18. Micro donations from individual bank transactions operate as a voluntary contribution from credit card users, whereby the latter allow their bank to round up the amounts on all their credit card transactions and donate the difference to fund education in developing countries.

19. So as to avoid adding to the proliferation of new organizations and the consequent fragmentation in the international development sector, the Writing Committee recommends making use of existing and established structures, such as the Education For All-Fast Track Initiative (FTI), to channel the resources generated by innovative financing mechanisms and deliver aid. The FTI has the advantage of being an inclusive partnership whose governance structure involves numerous development actors, such as representatives of partner countries, donor agencies, civil society organizations and the private sector and private foundations. It should therefore be an important constituent part of future discussions on innovative financing mechanisms.

20. The Writing Committee also suggests the next steps to be taken in order to materialize the proposals contained in the report: 1) to mandate a Committee of Experts which will meet before the end of 2010 to develop these options of innovative financing for education; 2) to commission detailed studies on the selected options; 3) to organize an international roundtable, under the authority of a plebiscited public figure promoting the education cause; 4) to organize a follow-up meeting in the year following the publication of this report.

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INTRODUCTION

"The roots of education are bitter, but the fruit is sweet."

Aristotle

"Education is the most powerful weapon which you can use to change the world."

Nelson Mandela

"Back in 2000, the MDGs were designed to be mutually reinforcing: progress in one, spurs progress in another. But, I believe, success in MDG 2, access to universal primary education, and MDG 3, gender equality & women's empowerment, is vital for success in all the other goals. MDG 2 plus MDG 3 are so much more than the sum of their parts. It's the only case I know where $2 + 3 = 8$."

Her Majesty Queen Rania Al Abdullah

→ The commitment taken by the international community on education is based on a triple conviction: education is essential because it is a fundamental right, an outstanding economic and social investment on the long term and the key to achieve the 8 Millennium Development Goals.

It is indeed acknowledged, among specialists, that the completion of quality primary schooling has a demonstrated impact on economic growth, individual earnings, health, human security and the preservation of the environment.

This is the reason why, at the World Forum on Education For All held in Dakar in April 2000, the international community took the common pledge to reach the goal of universal basic education by 2015 and proclaimed that "no countries seriously committed to education for all [would] be thwarted in their achievement of these goals by a lack of resources".

The past decades have witnessed remarkable progress in the achievement of these goals, in particular in what refers to expanding the access to education, with the number of out-of-school children decreasing from 105 million in 1999 to 72 millions in 2007. However, this progress should not obscure the long term and silent crisis undergone by the education sector, which has benefited from far less funding in the past compared to other

development sectors, and which remains in critical need of additional funding.

With the impact of the financial crisis, it is estimated that 56 million children will not have access to schooling if a strong effort is not made by the donor community in the next years. An additional \$16 billion are needed annually to ensure that every girl and boy has equal access to quality education and leaves school with the capacity to read and write, with a special attention to those suffering from marginalization, in particular children from poor households, ethnic or linguistic minorities, children leaving in remote areas and girls.

The challenge proves difficult to take up in the current situation.

After a fast increase at the beginning of the decade, leading the ODA flows to a peak in 2004-2005, the pace of progress towards universal basic education has tended to slow down and is now confronted with the financial shortfall resulting from the global crisis.

In this context, it appears crucial to explore and design new ways of financing education.

It is in this view that the Leading Group on Innovative Financing for Development created, in January 2010, a Task Force dedicated to education. The Task Force mandated a Writing Committee to study the needs of the education sector and formulate working hypotheses coherent with the three key features proposed by the Leading Group for a definition of innovative financing:

- linked to global public goods such as eliminating diseases or reducing climate change which require a global intervention;
- complementary and additional to traditional ODA. It may help to improve the quality of existing aid but innovative financing can never replace the quantity;
- more stable and predictable than traditional ODA.

In addition, the Task Force proposed that this definition be completed with four objectives specific to the education sector:

- mobilizing resources to meet the needs of education at all levels;
- raising the profile of the education cause and increasing its visibility in the international development agenda;
- improving aid effectiveness and efficiency in the education sector;
- stimulating innovation.

This report presents the results of this preliminary work. Two clarifications need to be provided regarding the nature of this document. It should be considered as an intermediary report, which formulates the first options studied by the Writing

Committee and brings to the attention of political leaders several promising hypotheses. In consequence, it calls for a complementary work before materializing any of these options.

The Task Force has met several times. Some 40 participants took part in its meetings, most notably the representatives of Brazil, Chile, Ethiopia, France, Germany, Japan, Morocco, Senegal, South Africa, South Korea, Spain, the United Kingdom, the European Commission, the team of the EFA Global Monitoring Report, the International Institute for Education Planning, the Fast Track Initiative, UNESCO, UNICEF, the Open Society Institute, the Global Campaign for Education, CfBT, as well as international consultants from Results for Development.

REPORT

1 “Education is development”

1.1 The international consensus on education

➔ A wide consensus has emerged among the global development actors on the centrality of education for development. Promoted by a large number of governments from developing and developed countries, international donor agencies and civil society organizations, this consensus is reflected in numerous commitments, agreements and declarations at international level.

The year 2000 constituted a turning point, with two major events setting the milestone of international development goals for education and allowing ambitious targets for human development to be adopted. At the World Education Forum in Dakar², 164 countries committed on expanding the access to and improving the quality of education by agreeing on six fundamental goals (see box *EFA Goals*).

EFA Goals

Goal 1: Expanding and improving comprehensive early childhood care and education, especially for the most vulnerable and disadvantaged children.

Goal 2: Ensuring that by 2015 all children, particularly girls, children in difficult circumstances and those belonging to ethnic minorities, have access to, and complete, free and compulsory primary education of good quality.

Goal 3: Ensuring that the learning needs of all young people and adults are met through equitable access to appropriate learning and life-skills programmes.

Goal 4: Achieving a 50 per cent improvement in levels of adult literacy by 2015, especially for women, and equitable access to basic and continuing education for all adults.

Goal 5: Eliminating gender disparities in primary

and secondary education by 2005, and achieving gender equality in education by 2015, with a focus on ensuring girls' full and equal access to and achievement in basic education of good quality.

Goal 6: Improving all aspects of the quality of education and ensuring excellence of all so that recognized and measurable learning outcomes are achieved by all, especially in literacy, numeracy and essential life skills.

These commitments were reinforced in September of the same year by the statement made by all 191 member countries of the United Nations during the Millennium Summit³. The final declaration of the summit reasserted the centrality of education in the national development strategies of low-income and middle-income countries: **“Education is development. It creates choices and opportunities for people, reduces the twin burdens of poverty and diseases, and gives a stronger voice in society.”**

An important place was reserved to education among the development priorities contained in the Millennium Development Goals (MDGs), with the second development goal calling for universal primary education by 2015 and the third development goal calling for gender equality, notably in school enrollment.

1.2 The benefits of education for development

➔ Education is a human right in itself as well as an important means of developing individuals' capacity. It also plays a crucial role in reducing poverty and inequality, improving health and sanitation, consolidating democracy and conserving the environment. Fostering respect for cultural diversity and mutual understanding through education contributes to promoting solidarity and reconciliation in post conflict situations, preventing a recurrence of violence and conflict, and building peace.

1.2.1 Education as the key to achieve the MDGs

➔ With the current pace of advancement towards the Millennium Development Goals, the attainment of most of the MDG targets by 2015 is unlikely. However, some argue that education could change this trend: significant progress towards the achievement of the Education for All goals should translate into improvements in a broad scope of other sectors addressed by the MDGs.

Failure in education may increase the probability of failure in the other sectors. So far, progress towards the MDG **education** target (**MDG 2**) has been quite important in comparison with the advancement observed in other sectors, confirming that most governments are aware of the centrality of education in order to accelerate progress towards development.

Education is a powerful catalyst for **gender equity and women's empowerment (MDG 3)**. Educated women are better able to support their families and make informed spending decisions. They are more likely to send their children to school, better able to protect their children from malnutrition, and more likely to contribute fully to political, social and economic development. Moreover, girls who receive quality education are more empowered and better prepared to protect themselves against violence, abuse, exploitation and trafficking, and are less vulnerable to disease, including HIV/AIDS. In addition, the education of both women and men within households tends to enhance significantly intra-households gender equality and is associated with a less unequal distribution of household income and labor between family members.

Figures also show that education improves overall health conditions. This connection between education and health is due to a wide variety of factors, most notably the fact that educated individuals seem more capable of accessing and using sanitary and health information. Recent figures from the Education For All Global Monitoring Report confirm this view and the fact that education can save lives. Female access to education, in particular, revealed itself to be a cost-effective tool to improve public health, since women have been proven to constitute an effective transmission mechanism of positive educational externalities. Having a mother with primary or secondary education can for instance reduce dramatically **child mortality** figures (MDG 4). According to a study published in 2005⁴, each additional year of schooling reduces by 8% the probability of a child to die prematurely,

a result suggesting that educated mothers may be better at detecting symptoms of illnesses, providing treatment, or managing child nutrition, birth spacing and preventive health interventions⁵.

Similarly, the level of education has been shown to be associated with lower **maternal mortality (MDG 5)**. Studies point out to a strong causal association between girls' education and overall women's health outcomes (low fertility and mortality, good maternal care and reduced vulnerability to HIV/AIDS), more educated women resorting more frequently to antenatal care services. Finally, compelling evidence also shows that education has a positive impact on **HIV/AIDS** prevention⁶ (**MDG 6**). For instance, projections show that seven million cases of HIV/AIDS could be prevented in the next decade if every child received an education. Another study on the subject also found that women with post-primary education were five times more likely than illiterate women to have knowledge on HIV/AIDS prevention⁷.

The preservation of the **environment (MDG 7)** provides an additional illustration, and highlights the intimate relationship between environmental degradation and poverty. Global environmental challenges, such as climate change, the preservation of endangered species and pollution prevention involve complex mechanisms and processes relating to sciences as well as economy. Individuals worldwide need to understand the causes of these global ecological threats in order to take action to deflect them. The PISA 2006⁸ assessment of scientific literacy, conducted through a survey among 15 year-old students, provided some interesting results suggesting that a positive correlation exists between science knowledge and environmental awareness. Moreover, international donors now recognize that education can also have an important role to play in helping build resilient communities, by including climate change adaptation strategies in educational programs⁹.

Finally, education can also contribute to the achievement of the targets set on a **global partnership for development (MDG 8)**, which include a focus on especially vulnerable countries such as the Least Developed Countries, Landlocked Countries and Small Island Developing States. The positive impact of education on the development of low-income vulnerable countries appears evident in regards to the elements described above. There is also a clear correlation between education and good governance. According to the EFA Global Monitoring Report, individuals who have the skills to participate in decision making and to develop

informed judgments, are better able to hold their governments accountable, to assess public policies, to participate in public debates, to promote transparency in decision-making processes and act thus as an effective antidote against autocracy, government opacity and bad governance. In especially vulnerable countries, such as the ones covered by the Global Partnership for Development of MDG 8, good governance could in turn provide the stability and prosperity needed to eradicate the roots of underdevelopment.

Finally, it is acknowledged that progress in education translates into significant progress in the achievement of the first MDG aimed at **halving extreme poverty (MDG 1)**. Education has a demonstrated impact on economic growth and equity: it generates productivity gains, boosts households' economic returns and promotes a fair and balanced development, resulting in improved social equity.

1.2.2 Education as a catalyst for economic growth

➔ At the G20 Summit in Toronto, the global leaders restated that “education is not a cost but an investment”. This statement is based on robust scientific evidence which points out to three main arguments linking quality education to economic gains.

First of all, from a macroeconomic perspective, education plays an important role in the prosperity of developing countries and brings along important gains in terms of labor productivity and economic growth. The achievement of universal basic education could thus ensure that developing countries reap the benefits from their youth bulge. By raising the human capital of individuals, education fosters innovation and facilitates the adaptation to new technologies, resulting in better productive outputs. The globalization phenomenon, with the rapidly changing economic structures, increases the weight of knowledge-based skills for achieving economic growth and poverty reduction. Recent empirical studies have confirmed this intuition and demonstrated that education – both in terms of numbers of years of schooling and the quality of learning – has a quantifiable impact on economic growth: the results of two of these studies¹⁰, taking into account 50 countries between the years 1960 and 2000, suggest that each additional year of schooling raises the average annual Gross Domestic Product between 0.37% and 0.58%.

Second, at a microeconomic level, education also yields higher economic returns for households¹¹ by

allowing skilled individuals to get greater employment opportunities and obtain higher wages. Universal primary education and the generalization of secondary education thus appear likely to give poor countries the human capital boost necessary to bring large segments of the population out of poverty¹² (see box *Microeconomic benefits from education*).

Microeconomic benefits from education

According to recent studies, a single year of primary school increases the wages people earn later in life by 5% to 15%, and each additional year of secondary school by 15% to 25%. Recent studies have also shown that the returns to investing in girls' and women's education are generally higher: an extra year of primary school boosts girls' eventual wages by 10 to 20% and an extra year of secondary school by 15 to 25%¹³. Finally, figures also demonstrate that, when women and girls earn an income, they give 90% of it to their families, as compared to only 30% to 40% for men and boys¹⁴. Gender inequality in education also has a direct impact on economic growth by lowering the average quality of human capital. Estimates suggest that between 0.4 and 0.9% of the differences in growth rates between East Asia and Sub Saharan Africa, South Asia, and the Middle East can be accounted for by the larger gender gaps in education prevailing in the latter regions¹⁵.

Third, access to quality education is closely associated with equity in income distribution, both at microeconomic and macroeconomic levels. Education is indeed essential:

- at microeconomic level to foster inclusive growth and to ensure that economic growth translates into poverty reduction, thus reaching all population segments;
- at macroeconomic level, to reduce socioeconomic cross-country disparities.

This trend is confirmed by recent research showing that the highest economic returns of education appear for low-income countries, low-income households, low levels of schooling and, frequently, for women. On the contrary, lack of access to quality education might result in a one-sided development process, contributing to fuel inequalities and making economic growth less profitable for the most vulnerable fringes of populations.

It is also important to note that any quality impairment, at any level of education, could automatically

reduce the amount of human capital accumulated by graduates and, hence, the level of benefits accruing from education¹⁶. Quality learning, especially at primary and secondary levels, offers the best guarantee that individuals will have the ability to learn new skills throughout a career. Therefore, while access in itself is important, it is acknowledged that the return on investments will be undermined if quality learning outcomes are not ensured as well.

There is furthermore a positive feedback loop between education and innovation as a prime mover of growth, which charts at the same time an evolution towards a knowledge-based economy, where innovation, specialized skills and the capacity to cope with change have become significant drivers of each economic sector.

1.2.3 Education as a human right

➔ It has to be clearly and continuously recalled that education is a human right and that it should therefore be provided freely to all individuals. This assertion, enshrined in UNESCO's constitution and in various other documents, has been present since the 1948 Universal Declaration of Human Rights (article 26)¹⁷, which states that all human beings have the right to free basic education and that the latter should be directed to the "full development of the human personality" (See box *Universal Declaration of Human Rights*).

Universal Declaration of Human Rights (article 26)

1. Everyone has the right to education. Education shall be free, at least in the elementary and fundamental stages. Elementary education shall be compulsory. Technical and professional education shall be made generally available and higher education shall be equally accessible to all on the basis of merit.
2. Education shall be directed to the full development of the human personality and to the strengthening of respect for human rights and fundamental freedoms. It shall promote understanding, tolerance and friendship among all nations, racial or religious groups, and shall further the activities of the United Nations for the maintenance of peace.
3. Parents have a prior right to choose the kind of education that shall be given to their children.

Besides the simple right to be given an access to education, the provision of basic learning can also contribute to strengthen other fundamental

freedoms. An educated person can more easily access to and claim other rights like civic and political participation.

The link between education and human security deserves a special mention since it carries essential consequences in regards to the preservation of certain fundamental freedoms, in particular the right to freedom of movement, the right to freedom of opinion and expression and the right to own property.

Furthermore, education has a positive impact on other critical development parameters such as a country's conflict risk. Recent research has shown that expanding education opportunities in low-income countries reduces the risk of conflict for a given country. Further econometric data have revealed that male secondary school enrollment is one of the few significant factors associated with conflict risk reduction. These results suggest that education can play an important role in the emergency response to conflict, and in long term processes of reconstruction and building stability and peace. A long-term investment in education in conflict-affected countries could thus help to bring peace and restore political stability in fragile and war-torn countries¹⁸.

The benefits of education described above will only accrue if all children are given the opportunity for nine years of basic education plus one year of early learning (the notion of 9+1). Research shows that this many years is needed for an individual to acquire the skills to move to higher levels of education or for participation in the labour market. The benefits of early childhood education for a child's participation in education are well researched. Many countries are now looking to expand the basic education cycle to eight or nine years, and to expand early learning opportunities or pre-school to all children. However, in many countries, the current transition rate to lower secondary from primary is very low, as is the current coverage of early learning opportunities.

This means that the needed expansion, in this particular matter as in others, will be costly.

2 Innovating in financing education

➔ The important challenges that the world is now facing in terms of education could bear essential consequences for the development of low and middle-income countries. However, taking up these challenges will require a major financial effort. In 2000, the international community took a common pledge to ensure that “no countries seriously committed to education for all [would] be thwarted in their achievement of these goals by a lack of resources”. This assertion was backed by a strong political support from donor and aid-recipient governments.

2.1 Taking up challenges

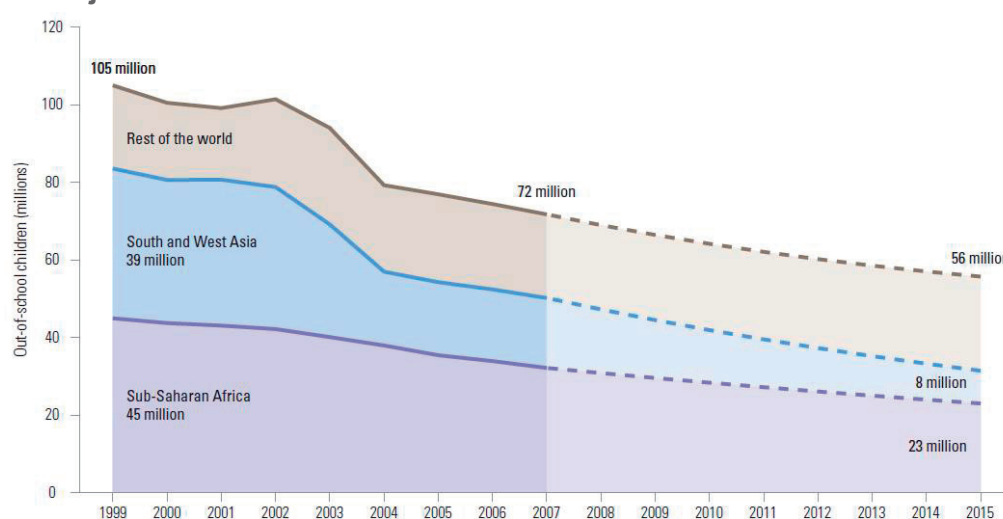
➔ The education sector faces two major challenges: access and quality.

Between 2000 and 2010, the number of out-of-school children fell from 105 million in 1999 to 72 million in 2007. In parallel, singular enhancements were also observed in specific areas of education. Adult literacy, for instance, has been the field of considerable progress, with a 10% increase between the years 2000 and 2007. Similar progress has been observed in girls’ and women’s education, with the number of out-of-school girls declining from 58% to 54% between 1999 and 2007.

However, despite these improvements, the most recent assessments of progress towards the EFA goals and the Millennium Development Goal of universal primary education indicate that the educational targets set for 2015 are not likely to be attained at the current pace, a trend made worse by the recent financial crisis. In fact, according to EFA Global Monitoring Report figures, the number of out-of-school children, which before the crisis was projected to fall from 72 to 29 million between 2010 and 2015 is now more likely to maintain at around 56 million (See Figure 1). Moreover, recent projections show that, as a consequence of the crisis, Sub Saharan Africa will be confronted with a potential loss estimated at around 4.6 billion US dollars per year as regards the total of available funding for education in 2010.

However, reaching these 56 million remaining children will be a difficult but necessary task if the international community wants to hold its commitment to “target and respond flexibly to the needs and circumstances of the poorest and the most marginalized¹⁹. The 2010 EFA Global Monitoring Report, which makes a focus on the marginalized, argues that inequalities linked to wealth, gender, ethnic origins, language and handicap hinder progress towards the achievement of universal basic education. It is the case in Guatemala, where the average length of schooling goes from 6.7 years for Spanish speakers to only 1.8 year for Q’eqchi’ speakers. The Philippines provides another interesting illustration: it has been shown

Figure 1: Projected numbers of out-of-school children to 2015



Note: Projections based on regional compound growth rates for 1999–2007.

Source: UIS database (data for 1999–2007)

that, in this country, the duration of schooling is four times inferior in poor households as compared to the national average. Hence, if governments want to attain their objective of universal basic education, they will have to overcome marginalization in education by creating and implementing new inclusive education policies.

Regional disparities constitute an additional feature of marginalization in education, with the comparison between different continents standing as the most striking example of this contrast. South and West Asian countries, for instance, have managed to greatly extend the provision of education among their population. Of the 33 million out-of-school children who were provided an access to education between 1999 and 2007, 21 million were located in the South and West Asian region. In comparison, Sub-Saharan African countries have attained modest achievements, with the number of out-of-school children lessening by only 13 million, from 45 million in 1999 to 32 million in 2007.

The second major challenge faced by the education sector is quality. The quality of education, which varies considerably across regions and across population groups, encompasses such features as the content of the education provided, the professional skills of teachers and the learning outcomes. It is now widely recognized at international level that quality constitutes a major weakness of the current dynamics maturing in developing education systems. Several international evaluations revealed in fact that low-income countries suffered from very low learning outcomes. As a matter of fact, according to the 2010 EFA Global Monitoring Report, "millions of children are leaving school without having acquired basic skills. In some countries in Sub-Saharan Africa, young adults with five years of education had a 40% probability of being illiterate".

The challenge of quality in education will be all the more important as the rates of school enrollment continue to grow worldwide and an always larger number of children are given an access to education. In fact, the current focus on quantity should not obscure the importance of quality. If a stronger emphasis is not put on quality in the next few years, it is likely that there will not be any improvements in education outcomes and that millions of children could be placed in the situation to attend school without acquiring fundamental skills.

2.2 Filling the financing gap

➔ The 2010 EFA Global Monitoring Report estimates the financing gap to meet the EFA goals

in low-income countries at around 16 billion dollars annually, with Sub-Saharan Africa alone accounting for 11 billion dollars of this gap. In comparison with these figures, current ODA spent on basic education by CAD countries amounts to only 3 billion dollars a year. Moreover, even if donors were to meet their commitments to increase considerably aid flows directed to education, projections show that the financing gap would still remain important, at around \$11 billion per year (See Figure 2). These figures confirm that the education sector is undergoing a serious albeit silent crisis. In this context, the achievement of development-related educational targets will require a major effort from the donor community to mobilize additional resources for the education sector.

It is acknowledged that the education financing gap will not be filled through ODA, as the traditional donors are not likely to increase their funding to education. Hence, it is critical to find complementary funding. In fact, for the MDG and EFA targets to be attained by 2015, donors would not only have to scale up aid volumes, but should also consider finding innovative ways of providing long-term and coordinated support to developing education systems.

Three kinds of expenditures are in high need of financing and could therefore be given priority to benefit from new sources of funding: 1) teachers, 2) school infrastructures and 3) textbooks or other learning material.

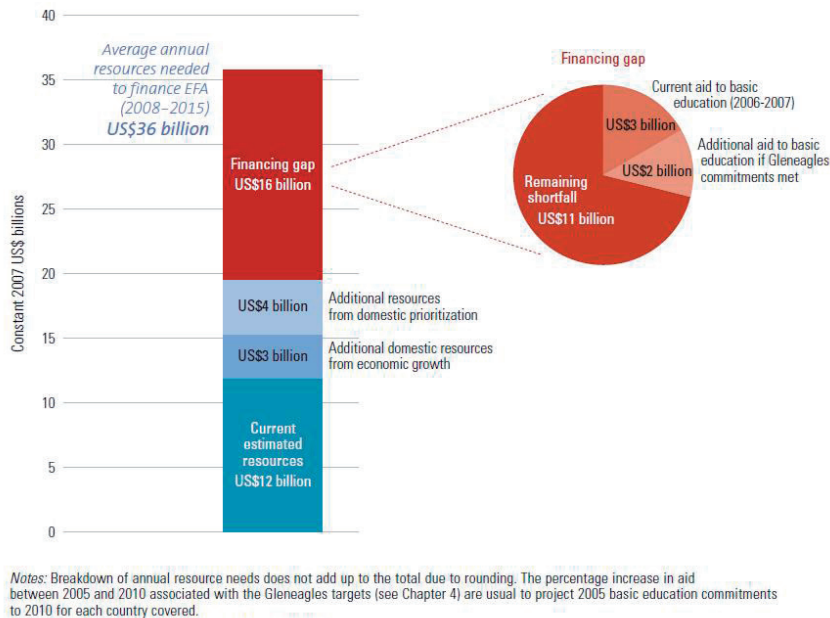
Teachers

Due to limited resources, most developing countries suffer from a lack of trained teachers, a fact which is particularly true for African and Latin American countries, and which bears huge consequences for the provision of quality education. Without new funding, it is highly improbable that developing countries will manage to hire the additional 3.2 million teachers that the 2010 EFA Global Monitoring Report considers necessary to achieve the goal of universal basic education (See Figure 3). It is indeed estimated that the recruitment of these additional teachers will generate further expenses estimated at around \$9.1 billion per year.

Infrastructures

New sources of funding should also be devoted to finance the construction and renovation of school infrastructures, necessary to receive the growing number of children who are given access to education (See Figure 4). The 2010 EFA Global Monitoring Report estimates that approximately 6.2 million additional classrooms are needed in

Figure 2: Breakdown of annual resources needs to achieve basic education goals



Source: EPDC and UNESCO (2009), OECD-DAC (2009d).

primary and pre-primary education alone to guarantee that all enrolled children can be provided education in adequate conditions. New sources of funding are also required urgently to renovate existing school infrastructures: in fact, figures show that 25% of existing classrooms in low-income countries need renovation work, an important figure which rises to 50% in the case of fragile and conflict-affected countries. Bearing in mind that the approximate cost of building a new classroom is 13,500 US dollars, it is unlikely that these countries will be able to augment the number of classrooms without further funding.

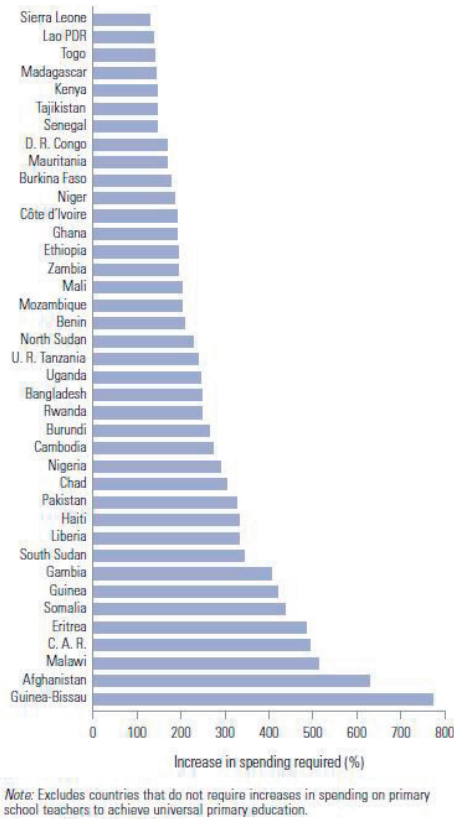
Textbooks and learning materials

Numerous countries also suffer from a shortfall of class books and other learning materials, a fact that brings huge consequences in terms of teaching quality and educational achievement.

An increased investment in these three kinds of expenditures will allow, along with necessary reforms in the structure of education systems themselves, funding key areas of education and result in crucial outcomes such as universal basic literacy and numeracy, or the development of essential life skills. In fact, an increased investment in teachers, school infrastructure and learning materials, could ensure that long term progress is made towards the eradication of children and adult illiteracy, and that all individuals are provided with an opportunity to develop critical thinking and civic values.

Figure 3: Spending on teachers has to rise

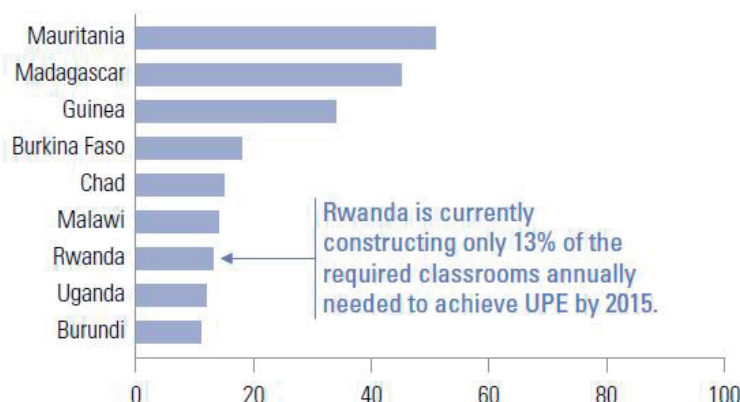
Percentage increase required from 2007 in spending on primary school teachers to achieve universal primary education by 2015



Source: EPDC and UNESCO (2009).

Figure 4: Many countries need more classrooms

Current classroom construction as percentage of required rate of construction necessary to achieve universal primary education by 2015



Notes: Estimated classroom needs for universal primary education include replacing old classrooms (the assumption is that classrooms have a forty-year life span) and rebuilding existing stock. The period covered by figures for actual annual growth in classroom stock varies by country. See Table 1.1 in Theunynck (2009) for details.

Source: EPDC and UNESCO (2009); Theunynck.

2.3 The virtuous circle of change

➔ Along with the needs of the sector, another essential argument in favor of introducing innovative financing benefiting education lies in the belief that these new sources of funding could generate a virtuous circle of change, improving the impact and the cost-effectiveness of further investments. This theory of change is based on two axes that are inherent to the introduction of innovative financing, namely: 1) the articulation between domestic and international resources on one part, and between 2) resource mobilization and the delivery of aid on the other.

2.3.1 Mobilizing domestic resources

➔ There is now compelling evidence that the mobilization of domestic resources, which represents the largest share of education funding, could boost the volume of funding directed to development purposes, and this assertion is equally valid for the education sector.

Developing country governments typically spend 4% of their GDP in education. In the near future,

securing improvements in domestic financing and identifying additional sources of funds to supplement tax income will be just as important as increasing external aid. Over the period 2000-2008, non-traditional aid sources yielded an estimated 57 billion dollars or about 4.5% of total gross official flows. There are also significant sources of untapped funds at the global and local level which could be released to serve the needs of the poor in developing countries across the globe.

There is also undoubtedly scope for innovations to improve the delivery of finances for the education sector, to reduce bureaucracy and to increasingly involve other actors working in education, including the private sector and non-governmental organizations. However, improving the efficiency of the system will not be sufficient to fill in the current financing gap which stands in the way of the Education For All goals. Therefore the mobilization of existing resources must at all costs be complemented by new sources of funding, domestic or international.

2.3.2 Improving aid delivery

➔ Stepping up the culture of innovation and risk taking in the education sector will help to

achieve much better results even with the finances currently available. This joining of innovative financing with financing for innovation has the potential to create a virtuous circle of change that could break through the deadlock currently restricting reform in the global education sector.

Innovative financing should thus take into account the necessity to further promote innovation within the sector, in both fundraising and aid delivery. This innovation should above all be designed to make spending (domestic and aid) more results-oriented, hence improving effectiveness, efficiency and performance. In this respect, some ideas have already been proposed to improve the efficiency of aid delivery schemes (see box *Cash on Delivery*).

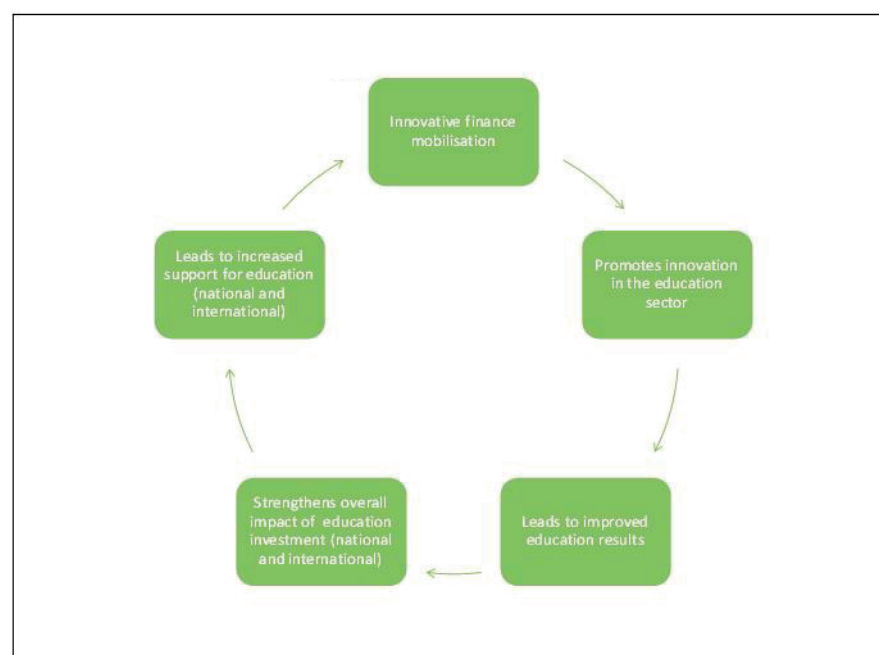
Innovative financing should help bring innovation at all levels: at international level in the financing and delivery architecture, but also at national level through educational reforms, and at local level through teacher training and pedagogical improvements.

Figure 5 below illustrates the “theory of change” underlying the proposals in this paper. The most effective driver of change in the education sector would be a combined resource mobilization and innovative delivery mechanism.

Cash on Delivery

Cash on Delivery (COD) is an innovative proposal developed by the Center for Global Development in Washington to provide additional funding to developing countries in return for achieving progress against pre-agreed targets²⁰. The proposal has used education as an initial focal sector. The key features of COD Aid are a focus on outcomes rather than inputs and a change in incentives to encourage donors to take a “hands off” approach to the design of programmes in return for greater transparency and independent verification of progress achieved. For example, one or more donors would sign a legally binding agreement with one or more countries to achieve an increase in the number of children completing an assessment test at the end of primary school. At the end of the contract period (typically 5 years) the country would receive the agreed payment once the progress had been confirmed against the benchmarks. In order to work effectively, COD Aid would need to be additional and complementary to existing aid flows and a mechanism such as an escrow account would be needed to ensure that the aid is delivered as promised. This proposal has received several expressions of interest from developing countries and some donors.

Figure 5: The virtuous circle of innovative financing mechanisms for education



2.4 The issue of governance

➔ In order to avoid adding to the proliferation of existing organizations, the Leading Group on Innovative Financing for Development strongly advises task forces to make use of existing organizations wherever possible in order to create “new mechanisms, not new structures”. This is largely to avoid adding to aid fragmentation in the international development sector as a whole. This fragmentation is particularly pronounced in the health sector which has a large number of disease-specific organizations providing funding that can distort local planning procedures and lead to increased transaction costs at the national level.

Fragmentation is much less of an issue in the education sector which, in many countries, suffers from the opposite problem of an excessive reliance on a small number of core donors and multilateral organizations. Nonetheless, it is important to avoid creating new entities which are likely to have substantial fixed costs and may add to the costs of raising and delivering finance without necessarily improving efficiency or effectiveness.

The Education For All-Fast Track Initiative (FTI) is the most important global initiative to have emerged in the education sector in the last decade. The FTI is currently undergoing a major reform process following an external evaluation. These reforms will include merging the existing trust funds into a single “FTI fund” that will deliver financial and technical support through more streamlined delivery mechanisms potentially using alternative supervising entities to the World Bank and making greater use of national financial and procurement systems. The FTI is a good candidate for a delivery mechanism to collect and disburse the additional funds raised through innovative financing.

The FTI has the advantage of being an inclusive partnership whose governance structure involves numerous development actors, such as representatives of partner countries, donor agencies, civil society organizations and, as a recent addition, the private sector and private foundations. It should therefore be an important constituent part of future discussions on innovative financing, albeit not the only one since other channels could be considered depending on the specific circumstances.

3 Proposals of innovative financing for education

➔ In coherence with the definition and typology of innovative financing given by the Leading Group on Innovative Financing for Development, the options of innovative financing for education were structured around two axes: 1) innovative mechanisms with broad financing bases, aimed at raising important amounts of funds for education, and 2) innovative mechanisms with a high profile and a huge potential for awareness-raising.

These proposals should be considered as a preliminary work, and as the result of a review of the literature, several meetings with relevant professional actors, and the expertise of the Writing Committee.

3.1 Broad fundraising bases

➔ The innovative financing mechanisms presented in this category are linked to broad fundraising bases and are thus expected to allow for important amounts of resources to be raised for the education sector.

3.1.1 Tax on international financial transactions

Concept and opportunity

➔ The idea of a tax on international transactions has come and gone as a concept for several decades, but has recently been the center of renewed interest, with a special Task Force²¹ created by the Leading Group on Innovative Financing for Development working on the concept and several major countries supporting the idea.

The Task Force on International Financial Transactions and Development has commissioned a Committee of Experts to work on a levy with the potential to address the Global Solidarity Dilemma, namely the imbalance between the growth of the global economy and the financial flows directed to fund development. The financial sector, with its strong interconnections with the globalized economy, immediately appeared as the adequate tax base.

Scope and potential impact of the mechanism

➔ Following an assessment of different options for a tax on financial transactions, including

1) a tax on financial sector activities, 2) a value added tax on financial services (VAT), 3) a broad financial transaction tax (FTT), 4) a nationally collected single-currency transaction tax, and 5) a centrally collected multi-currency transaction tax (CTT), the report concluded that a global CTT was the most appropriate financial mechanism for global public goods. The CTT can indeed apply to foreign exchange transactions on all major currency markets. The global nature of such a mechanism will also allow it to be raised across all countries, and to avoid the domestic revenue problem, thus contributing to a higher level of stability. However, if the global CTT is legally and technically feasible, the report of the Committee of Experts also indicates that new policy tools will be required in order to avoid geographical tax avoidance and evasion.

When set up, this mechanism could constitute a new source of funding for global public goods and share the wealth generated by global economies by taxing the economic market participants who take part and benefit from the globalization.

The strong financial potential of this mechanism would particularly suit the education sector, since the latter is in high need of additional funding to progress towards the achievement of the education MDG target and the EFA goals and requires a stable and predictable source of funding to pay for the long-term recurrent costs inherent in the sector such as teacher salaries.

3.1.2 Local currency education bonds

Context and opportunity

→ Local currency education bonds are financial instruments that can be issued by a developing country in order to raise funds for its education sector. This kind of bonds would allow mobilizing a share of the domestic resources which currently exist in developing countries and to put them to use for development purposes. It is for instance estimated that there is over 1.1 trillion US dollars of assets in public and private pension funds in developing countries, and 180 billion US dollars in Africa alone.

Concretely, a Special Purpose Corporation (SPC) could be established in a developing country to issue bonds for education purposes. The bonds would be purchased by 1) the government, using part of the funds it currently uses for higher education, and 2) pension funds and other investors. In parallel, development finance institutions and donors could also invest in such bonds.

The proceeds of the bonds could then be used for this purpose and the bonds could be financed by the future stream of revenue from tuition payments or loan repayments. This feature implies that such a mechanism would particularly suit higher education, and could function through a student loan scheme.

To make the bonds attractive to pension funds and other investors, the bonds could carry an interest rate above the rates that these funds currently receive on their investments and would be guaranteed, using an authority from outside the country. This guarantee could come from a donor with relevant authority. Donor provision of financial guarantee insurance will be a key way to link external and domestic financing, and to establish bond financing as an effective mechanism. Because of leverage, the donor providing the guarantee would only have to put up between 10% and 20% of the funds. The bonds purchased by the government would not need to be guaranteed as the government would not be likely to let such a scheme fail.

Scope and potential impact of the mechanism

→ Bond financing could also be used by local governments to finance schools, either as local issues supported by taxes or transfers from the central government or as revenue bonds, with repayment coming out of local government revenues.

Further features for this mechanism could include: 1) donors providing such guarantees only on condition that the government transfers resources from its higher education budget to basic education, now that higher education would be well financed, and 2) donors and the government providing incentives for low income students to graduate, such as forgiving all or part of any student loans they borrow upon satisfactory completion of their degrees.

These ideas, applied to development in general, won joint first prize in the Agence Française de Développement/Gates Foundation/World Bank Marketplace on Innovative Finance for Development in 2010. Now, this mechanism could be applied to the education sector and could help mobilize the considerable resources currently sleeping in developing countries.

3.1.3 The Education Venture Fund

Context and opportunity

→ The Education Venture Fund (EdVF) is a proposal to establish a social “venture

capital” fund to mobilise resources from a range of innovative financing sources and use that financing to promote innovation in the education sector in developing countries. The proposal was presented to a meeting of private foundations and donors convened by OSI in April 2010 and at the World Economic Forum Global Advisory Council policy discussion on education in Doha in May 2010²². The EdVF is modelled on social venture funds which have successfully promoted innovation by stimulating social entrepreneurship and supporting public-private partnerships to bring new approaches to overcoming challenges in the social sectors in the United State of America and the United Kingdom.

The EdVF will target new donors that have a higher appetite for risk and demand for innovation as well as existing public and private donors and foundations. It will use the full range of innovative financing mechanisms as well as linking to broader innovative financing for development initiatives to ensure that the education sector receives its fair share of any new funding raised. The fund will act as a pooling mechanism for new funding streams thereby reducing the need to create new entities for each proposal and maximising the benefit of specialist financial and organisational expertise.

Scope and potential impact

→ The EdVF will use existing delivery mechanisms such as the FTI and other channels as well as stimulating new thinking about more effective delivery mechanisms in areas which are not adequately covered by existing programmes such as youth and adult literacy and early childhood education. It will use its investment to promote innovation and increased effectiveness in all of its partner organisations. It will also require all implementing agencies to put in place a rigorous evaluation mechanism so that lessons can be learnt from successful programmes as well as those that fail.

This concept has been received with interest by a number of new donor countries. Further work will be needed on the design of the concept – particularly the financial aspects – and on how it will relate to existing delivery channels.

3.1.4 Diaspora bonds

Context and opportunity

→ It is currently estimated that close to 200 million individuals in the world live outside their country of birth, a trend reinforced by the

growing socioeconomic gap between developing and industrialized countries. Now, this mobility of workers, which appears to be highly beneficial for immigration-recipient developed countries, conveys severe consequences for the economic growth of developing countries. A central question within the issue of international migrations thus lies in finding a way to limit the economic perturbations caused by international mass migrations, and to have them contribute to the development of low-income countries. In this sense, migrants’ investments and migrants’ remittances could constitute important financial levies for the development sector and for education in particular, since a large share of migrants’ remittances is already devoted to individual education spending.

A diaspora bond is a debt instrument issued by a country to raise financing from its overseas diaspora. So far, this kind of financial device has not been used extensively by developing countries, although some countries like India provide successful examples of their implementation. India has raised over \$35 billion through issuance of diaspora bonds, particularly during times of financial crisis when access to international capital markets was restricted. Diaspora bonds can constitute an attractive vehicle to secure a stable, cheap and flexible source of external finance that can also be applied to the education sector²³.

From the investors’ perspective, diaspora bonds constitute an attractive investment because the inferior return on their investment is counterbalanced by the satisfaction they gain from contributing to the development of their home country. Beyond patriotism, however, several other factors may also contribute to the migrants’ interest in the bonds issued by their country of origin. The principal among these is the opportunity such bonds provide for risk management. A significant risk associated with diaspora bonds is that the issuing country may be unable to make debt service payments in hard currency. But its ability to pay interest and principal in local currency terms is perceived to be much stronger and constitutes an attractive feature of such bonds for diaspora investors. In fact, diaspora investors generally have current or contingent liabilities in their home country and hence may not be averse to accumulating assets in local currency. Consequently, they view the risk of receiving debt service in local currency terms with much less trepidation than purely dollar-based investors.

Furthermore, there is well documented evidence that investors’ portfolios tend to be heavily

concentrated in their home country assets and this characteristic is very likely to apply to the case of diaspora investors²⁴. One of the hypotheses upholding this assumption contends that home investors have superior access to information about domestic firms or economic conditions in their countries of origin²⁵. Finally, a last factor supporting purchases of diaspora bonds lies in the opportunity they constitute for investors to diversify their assets.

Given this potential, it is surprising that very few countries have resorted to this mechanism. Two main factors contributed to the weak replication of diaspora bond schemes. First, there is limited awareness about this financing vehicle. Governments and other entities are often deterred by the complexity of bond instruments. Lacking the capacity to undertake bond issuance, they generally depend upon national banks to generate local and foreign currency deposits from diaspora investors. Foreign currency deposits are quite volatile, since they can be withdrawn at any time, requiring banks to hold much larger reserves against their liabilities, and thereby reducing their ability to fund investments. In contrast, all bonds are long-term in nature. Second, many developing countries still have little concrete appreciation of their diasporas' resources.

Scope and potential impact of the mechanism

→ For diaspora bonds to be implemented successfully, developing countries will need to benefit from technical assistance aimed at improving their understanding of structuring bond offerings. Under this condition only, will issuing countries have the necessary knowledge to decide what characteristics are the most appropriate for diaspora bonds aimed at funding their education systems: the issuing countries will be able to choose between fixed-rate or floating-rate bonds, and will also have to determine the bond maturity – in other words, the number of years separating the purchase of the bond from the principal repayment.

The success of education funding via the issue of diaspora bonds is also reliant on the capacity to build trust among national migrants and thus requires the creation of specific tools to guarantee that investments are protected and that beneficiary countries will spend the newly available funds wisely. These tools enter into two broad categories: credit enhancements and investor protections, and can be either fiduciary or non-fiduciary in nature.

Credit enhancements can come in the form of securitization of existing or future assets, or incorporate guarantees from a reputable donor agency that the bond holders will receive coupon payments and principal repayments in time. Investor protections, on the other hand, could include commitments on how educational investments will be managed as well as incentives for countries to produce the desired results.

Finally, new resources stemming from diaspora bonds can help governments shift allocation of domestic resources to education, thus increasing funding for basic education. Recent research has drawn attention to the potential of domestic resource mobilization, especially when shifting resources from higher to basic education. Where possible, governments may raise funds through diaspora bonds to set up student loan capacities. This way, governments can introduce user-fees for higher education and be able to provide loans and grants to students by using funds raised through diaspora bonds. In return, graduate students loan repayments could generate a cash flow that the government can use to honor commitments to diaspora investors.

3.1.5 Voluntary contributions from migrants' remittances

Context and opportunity

→ Migrants' remittances, which amounted to \$397 billion in 2008 according to official World Bank figures, constitute a significant and stable source of external development funding. In fact, data show that remittances rank only behind Foreign Direct Investment in terms of economic contribution to the GDP of low-income countries, and have the advantage of being less affected by economic cycles in the recipient countries. Most of the time, remittances appear in fact to be countercyclical, meaning that migrants tend to send more money to their relatives in times of hardship, making it the least volatile source of foreign exchange earnings for developing countries.

Nowadays, increasing evidence points to the fact that international migrants' remittances can play an important role in poverty reduction, economic development, as well as in social areas such as education, health and gender.

Indeed, a large share of migrants' remittances is known to be already used by recipient households to cover education-related expenses. The lingering issue thus consists in finding a way to maximize the development impact of remittances in order

to ensure that a significant share of these gains is directed to the neediest geographical and sectorial areas.

Benefitting from the G8-led process aimed at reducing transaction costs of migrants' remittances, the creation of a voluntary contribution on migrants' remittances could mobilize a share of the newly freed resources on a voluntary basis to fund education-oriented projects. The G8-led process will in fact reduce the share deducted by money transfer companies on migrants' remittances from 10% to 5%, thus freeing an estimated 19.85 billion dollars. Of course, these resources should and will benefit directly the migrants. However, since the latter are known to devote a large share of their remittances to family education spending, the migrants could be given the possibility to direct a share of these newly available funds to finance education projects in their regions of origin.

In order to ensure that it is not perceived as a discriminatory instrument, such a mechanism should be designed as a voluntary contribution proposed to the migrant workers every time they realize an official money transfer to their country of origin. Of course, full cooperation of the money transfer companies would be needed in order to carry out this scheme successfully. Possible matched funding by these companies would add to the attractiveness of the scheme.

Scope and potential impact of the mechanism

➔ The success of a voluntary contribution emanating from the migrants will greatly depend on the link that can be established between the migrants' voluntary contribution and the benefits received by their family in their locality of origin. It appears thus likely that voluntary contributions on migrants' remittances will have to be closely associated to regional or local education projects in order to be considered as a beneficial investment by the migrants. For this purpose, the funds stemming from the voluntary contribution on migrants' remittances could for example be channeled to local cooperatives involved in the provision of school stationery (pens, notebooks, textbooks), thus resulting in lower education expenses at local level for the migrants' households. The cooperatives engaged in this scheme could possibly partner with specialized institution such as the FTI.

This mechanism entails the further advantage of empowering nationals from developing countries, who become active donors in their country of origin,

and who are given an opportunity to make a visible contribution to the development of their region.

At a later stage, this mechanism could be complemented by the creation of an incentive device, such as an annual lottery rewarding the migrants who made a donation. Within this scheme, the chance to win a prize would be proportional to the amount of funds donated by each migrant.

The emergence of new technologies for money transfers, such as the Mobile Money Transfer (MMT) services for migrants' remittances, should also be taken into account since it can contribute to enhance the range and the visibility of the education cause (*See box Mobile Money Transfers*).

Mobile Money Transfers

Mobile Money Transfer (MMT) technology is expected to become one of the fastest growing markets within the telecommunications sector in the near future. So far, the most popular service within MMTs remains the Peer To Peer money transfers, which are regularly used by migrants in order to send money to their relatives living abroad. This implies that this new technology needs to be taken into consideration when thinking of an innovative financing mechanism related to migrants' remittances.

However, MMTs are also increasingly seen as a potential alternative to traditional banking for individuals living in poor areas where banking institutions are not present and who are thus excluded from traditional financial networks. In the near future, finally, mobile money transfers are also expected to develop in industrialized countries as a new electronic method of payment.

A voluntary contribution on Mobile Money Transfers could prove very easy to implement if it benefits from a full cooperation of all telecom operators. Once clients have registered for the MMT service and have deposited cash through the mobile phone company, the corresponding e-money is automatically loaded onto their phones. From this moment on, the individuals are able to transfer money or pay for items and services by sending a simple text message. For every financial transaction realized with their phone (PTP money transfer or payment), a voluntary contribution representing a small and insignificant percentage of the operation can be deducted from their credits and channeled to a pre-agreed aid delivery system.

This innovative financing mechanism associated to the Mobile Money Transfer technology would of course have to be set up in a way that makes

it painless for the users and not prejudicial for telecom operators. A particular attention should be paid to guarantee that this contribution does not impact negatively on the competitiveness of MMT services and on the budget of migrants transferring money to their country of origin. However, the transaction costs currently imposed on migrants' remittances by conventional money transfer companies are so high compared to those induced by a Mobile Money Transfer scheme that the use of MMTs should still be highly advantageous for migrants willing to send money to their home countries after this contribution has been created.

3.1.6 Debt4Education swaps

Context and opportunity

➔ Recent research has revealed that public debt conversion schemes could constitute an interesting option in the prospect of innovative financing for education²⁶. This kind of mechanism has already shown its potential in similar initiatives realized at bilateral level or in other development-related sectors such as health. Under certain conditions, the creation of a "Debt4Education" initiative could generate additional resources and become a complementary instrument to finance EFA goals.

Debt-for-education swaps can be defined as the cancellation of external debt in exchange for the debtor government's commitment to mobilize domestic resources for education spending. This concept of debt-for-education swaps belongs to a broader category of so-called debt-for-development swaps, a type of arrangements designed to divert resources from debt service to spending for development.

This kind of mechanisms was first used in the Latin American region and subsequently in the rest of developing countries. Since then, numerous debt swaps initiatives have been implemented around the world, most of them through bilateral agreements between a creditor and a debtor government. In the overall, these initiatives have generated positive results. More recently, similar initiatives have been set up on a triangular basis (Debt2Health, *see box Debt2Health*), whereby a not-for-profit agent negotiates a debt swap agreement with the debtor country. Eventually, the a portion of the cancelled debt is channeled by the not-for-profit organization to invest in a social sector.

Debt-for-development swaps pursue two main objectives: 1) mobilize additional and complementary resources for a development-related sector and 2) reduce the external debt of developing countries.

A certain number of misconceptions and preoccupations raised by debt-for-development swap devices need to be addressed in order to avoid upcoming pitfalls. As a source of innovative financing for development, a debt swap should not substitute domestic budgetary resources or Official Development Aid (ODA). A strong attention should be paid to the form given to debt swap mechanisms to ensure that debt-for-education swaps do not add to donor proliferation and aid fragmentation. In this sense, harmonization of swaps with other bilateral and multilateral education support arrangements can help avoid excessive administrative burden and accompanying transaction costs for the recipient country.

Scope and potential impact of the mechanism

➔ If all of the above are taken into account, a new kind of debt-for-education swaps could be engineered. In particular, multilateral agreements in which resources generated by debt relief from various creditors are pooled into a single fund for education are nowadays considered as a viable mechanism. Proponents argue that such multi-creditor funds have the potential to increase the scale and sustainability of operations, bring down transaction costs and improve the coordination of funds with both national development plans of the debtor country and creditor development policies. Inspiration could be drawn from the Debt2Health Conversion Scheme of the Global Fund to fight AIDS, Tuberculosis and Malaria (*see box Debt2Health*), although caution is needed to avoid adding to aid fragmentation. The FTI (or another agency) could serve the same kind of role as the Global Fund does in the Debt2Health scheme.

It is probable that those best qualified for debt-for-education swaps are the bilateral and multilateral debt titles that rest with a small number of non-HIPC low-income and lower middle-income countries. In the current situation, where other sectors such as health or climate change are also looking up to debt swaps to obtain additional funds, both creditors and debtors will need to agree on the earmarking of the resources coming from debt swaps to the education sector for the debt-for-education concept to materialize as a real complementary instrument to finance the EFA goals.

Debt2Health

The Debt2Health initiative is an innovative financing mechanism set up in 2007 with the aim of bringing additional resources to the fight against HIV/AIDS, tuberculosis and malaria in developing countries. This debt conversion scheme uses a debt-for-development swap device as a new source of funding for the health sector and lies on a tripartite agreement between the Global Fund and the creditor and debtor countries. Within these bilateral contracts, the creditor signs away an amount of debt under the condition that a discounted amount be in return invested by the debtor country in health-oriented programs approved by the Global Fund for the fight against AIDS, Tuberculosis and Malaria. This initiative is the first debt swap device based on a trilateral partnership including an international organization. One of the advantages of this mechanism is the fact that it fosters national ownership and encourages local participation, since the funds are directly disbursed by the beneficiary country. Germany was the first creditor country to join the Debt2Health initiative, with a 200 million euros commitment for the period 2008-2010. The first Debt2Health tripartite agreement was signed in 2008 between the Global Fund, Germany and Indonesia and aims to convert 50 million euros in public health investments in Indonesia. Two other agreements have been signed to date, including one involving Australia. The Global Fund is currently engaged in discussions with other creditor countries, which should lead to new agreements within the Debt2Health framework.

3.2 High profile & awareness-raising levies

➔ It is important to emphasize the fact that innovative financing for education has objectives that go beyond simply raising funds. The main purpose of this second category of innovative financing is precisely to raise awareness among the general public on the importance to achieve the goal of Education for All. Nowadays, indeed, education is not as high in the international development agenda as it used to be one or two decades ago, and is facing increasing competition from media-friendly sectors such as health or climate change. Given the centrality of education and its impact on development outcomes, such an approach appears necessary.

3.2.1 Sports levy

Context and opportunity

➔ In high-income countries, sports represent a large and fast-growing industry, sustained by huge flows of revenue stemming from broadcasting rights, player transfer fees, sponsorship, athletes' earnings and product manufacturers' turnover.

The football sector provides an interesting illustration: according to recent figures²⁷, the FIFA and the five major football leagues total an annual commercial revenue amounting to almost 12 billion dollars. Media broadcasting rights and sponsorship alone contribute up to 7.8 billion dollars to the revenue of these five leagues, a figure representing more than the double of all international aid for basic education in low-income countries. The 2010 World Cup, for its part, is believed to have generated 3.4 billion dollars of commercial revenue, most of which stemming from media broadcasting rights.

The 2010 World Cup organized in South Africa set a new benchmark for global sporting competitions by bringing up football to the rank of spokesperson of the education sector and of the broader development cause. The 1Goal Campaign, which was formally launched in 2009 and which benefited from unprecedented communication during this global event, brought together numerous professional elite footballers, private corporations, international organizations and individuals in order to lobby for the achievement of the Education For All goals. Using the precedent of this campaign and the momentum generated by the World Cup, this initiative could be prolonged by the creation of a tax on sports revenues aiming to raise new funds for education, thus translating commitments into new funding. This idea, initially brought out by the team of the EFA Global Monitoring Report²⁸, would also contribute greatly to the visibility of the education sector thanks to the high profile of the sports industry's main actors.

For these reasons, it is believed that such media-friendly sports as football could constitute an interesting base for a solidarity levy aiming to raise awareness on education inequalities around the world and to direct more funds towards the education sector.

Scope and potential impact of the mechanism

➔ The 2010 EFA Global Monitoring Report argues that a tax of 0.4% on the commercial revenue of the five major European football leagues

alone could generate approximately 45 million dollars per year. If a similar tax was also applied to the FIFA World Cup, this amount would raise up to 48 million dollars, a sum sufficient to finance the basic education of almost half a million out-of-school children annually, if we consider a unit cost of 100 dollars per child in primary school. Given the steady growth observed in the commercial income of the football industry over the last decades, a levy on football revenue would be likely to constitute a stable and predictable source of finance.

This tax on football revenues would have the advantage of being easy to administer, since only a small number of actors would need to be involved in this mechanism. In fact, most commercial revenues flowing to the football industry transit through the national football federations, meaning that such a levy would only have to be negotiated with the national leagues and the FIFA. A first enquiry has shown that the relevant actors, namely the national football leagues and the football clubs were not opposed to this idea, although their final decision would still be reliant on the creation of an efficient multilateral fund for education, and on the emergence of a strong political leadership on the subject.

The momentum created by the World Cup and the 1Goal campaign positions football as an excellent sport for this mechanism. But the latter should also include other sports with a similar communication and financial potential.

3.2.2 Public-private partnerships for education

Context and opportunity

→ It is widely acknowledged that the private sector plays an important role in the delivery of basic education in many developing countries. Despite governments remaining the major source of financing, World Bank figures show that a growing part of education has been assumed by private actors in the last decades.

At the same time, convergence of interests between the public and private sectors is increasingly encouraged at international level and presented as a new approach to support the Financing for Development Agenda. In 2002, at the Monterrey International Conference on Financing for Development, a great number of States and civil society organizations recognized that a greater coherence between public and private sectors was required in order to achieve the new goals stated by the international development standards.

In this context, the role of public-private partnerships consists in guaranteeing that the involvement of the private sector in education programs translates into social benefits and not exclusively into economic gains for private operators. The public-private partnerships main asset lies in their capacity to recognize the complementarities of both spheres: in this, they constitute a credible alternative to public financing and are supposed to bring positive improvements to the education sector.

Experience has shown that the private sector can bring an important contribution to education by:

- raising awareness and developing advocacy for education: using the private sector competencies in marketing to make the case for increased domestic and external financing in education;
- promoting an efficient management of education: supporting an outcome-focused management, developing financing and planning mechanisms;
- supporting innovative initiatives that traditional donors may find too risky;
- creating adequate conditions for education: improving school infrastructure, providing equipment and pedagogical services, extending access to quality education.

On the other hand, the education sector appears particularly suitable for private investment, as private firms can find an interest:

- at short term, by gains in terms of image and reputation;
- at mid term, by gains in terms of innovation and work productivity;
- on the long run, by gains in terms of human capital and development of future markets.

Scope and potential impact of the mechanism

→ The term public-private partnership (PPP) is a generic word used to designate a broad range of relationships between the public and private sectors. PPPs in education encompass two main categories: global multi-stakeholder partnerships and contracts for the outsourcing of public services. However, whereas the former has already proved that it can constitute an innovative financing mechanism, the latter does not strictly speaking generate new financing and could only be used in order to free resources by reducing education costs for the public sector.

Despite this wide scope, all public-private partnerships share a certain number of common characteristics, namely:

- a long-term commitment by the partners;
- a relationship formalized by a contract;
- a focus on outcomes and results;
- a principle of shared responsibility and shared risk between public and private partners.

Multi Stakeholder Partnerships for Education (MSPEs) can be defined as global partnerships bringing together actors from the civil society, the business sector and the public sector in order to mobilize skills, pool and manage resources, and obtain commitments from public and private partners to contribute to enhance quality and access to education.

Within this kind of partnerships, private firms usually commit themselves to invest in education-related activities, thus linking their image to that of their public partners and the broader education cause. Some international organizations and specialized agencies are already engaged in bilateral philanthropic partnerships for education with some multinational companies from diverse industry sectors, for instance the Information and Communication Technologies (Microsoft with UNESCO and UNDP, Cisco Inc. with UNICEF), the car industry (Honda with UNDP, the Ford Foundation with UNESCO), the consumer goods sector (Coca-Cola with UNDP), etc.

MSPEs involving more than two partners are also considered as an efficient way to promote private investment in education. The Partnerships for Education (PfE) initiative launched in 2007 and jointly led by UNESCO and the World Economic Forum tries to encourage the creation of development-led global partnerships. Its final objective is to achieve the Education for All (EFA) goals by promoting an enhanced cooperation between governments and private firms.

Innovative and successful global partnerships initiatives aimed at financing development can also be found looking up to the health sector, for example on the model set by the RED initiative (see box *The RED Initiative*). A similar mechanism could possibly be created for the education sector, appealing to large firms whose business deals with education or children. Potential candidates include companies specialized in the provision of school stationery (pens, notebooks, books, publishing firms) and child entertainment (sports, child wear, toys, movies).

The RED Initiative

The RED initiative was launched in 2006 by Bono and Bobby Shriver, which brings together a large number of companies committed to improve the lives of people affected by HIV/AIDS in Africa. These companies agree to co-brand certain of their products as “RED” and commit themselves to donating a portion of the profits from sale of the product to HIV/AIDS programs in Africa, channelled through the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Global Fund markets HIV/AIDS grants in certain African countries (already approved through the Global Fund’s normal processes) as “RED” and disbursements for those grants are earmarked for such programs.

This initiative pursues two main goals. The first is to raise awareness to the general public of the importance of the HIV/AIDS issue on the African continent. In this, the Global Fund partnership benefits from the marketing skills of the private sector. The second goal is to generate a significant volume of resources toward the fight against HIV/AIDS in Africa, but using the Global Fund’s robust mechanisms for approval and delivery. In addition, because it is structured as a trade marking transaction, the companies receive a tax benefit from the donation, as it is characterized as a business expense. This makes the partnership more sustainable from a business perspective.

To date the RED initiative has obtained outstanding results, collecting approximately US\$150 million from its private sector partners between 2007 and 2009. This has significantly raised the contributions from private companies since the Global Fund’s inception.

The private sector companies involved in the RED initiative include global brands such as Nike, Starbucks, Dell, Hallmark, Converse, Apple Inc., American Express, Emporio Armani, Microsoft, Converse, Gap, etc.

3.2.3 Micro donations from individual bank transactions: the “comma effect”

Context and opportunity

➡ Individual banking services are used by a large share of the population from industrialized countries, and have experienced a rapid development in the last few decades thanks to the globalization phenomenon. It could thus constitute a potentially large fundraising base, all the more so as the same round up scheme could be applied to other current transactions such as phone bills, salary pay slips, or internet transactions.

The idea of micro donations from individual bank transactions, also known as the “comma effect”, operates as a voluntary contribution from credit card users, whereby the latter allow their bank to round up the difference on all their credit card transaction and invest the difference in education. This device is particularly painless for its users, since each micro donation only consists of decimals, and the clients of the banks can be given the choice to opt for monthly, quarterly, semiannual, or annual debit. Ideally, this process can be applied to any transaction appearing on individuals’ bank statements.

***Scope and potential impact
of the mechanism***

→ It has been estimated that, in France, on the basis of twenty transactions per month, and an average 0.5 US dollars per transaction, each individual donor would contribute up to 10 US dollars per month, a contribution which would

amount to around 120 US dollar per year. This means that, if 300,000 people were to participate in this mechanism, the latter could raise 36 million US dollars.

Moreover, the weight supported by the donor could be lessened by incentive measures such as fiscal deductions, depending on the legislation of the countries where the mechanism is implemented.

Technically speaking, such a mechanism would be quite easy to set up and relatively inexpensive to implement. It is in fact already implemented by some banking institutions under the form of private philanthropic initiatives. The main obstacle for the extension of this mechanism to a global level thus lies in the current reluctance shown by the banking institutions. The creation of this mechanism would thus require strong political commitment and back up and strong communication to foster global fundraising for education.

NEXT STEPS

➔ The Writing Committee considers that the work it has realized so far to identify potential mechanisms to fund the education sector needs to be prolonged.

It recommends establishing a Committee of Experts with the appropriate high level technical skills to support the next stage of concept development for the most promising proposals on innovative financing for education. This will require in most cases further concept development, feasibility studies and pre-appraisal analyses. This Committee would be nominated by the Task Force and would include education, economics, finance and legal experts. Its main task would be to provide financial, legal and economic expertise, as well as advice on the education substance of the new proposals. The design phase could also be used as an opportunity to build support for the innovative financing proposals from a range of public and private partners, including securing financing commitments for seed funding and pilot implementation.

Among the mechanisms presented in this report, several seem sufficiently promising to be further and more deeply investigated. The remaining mechanisms, along with the issue of governance and aid delivery, need further concept development or increased support.

Thus, we suggest:

- 1) To mandate a Committee of Experts which will meet as from before the end of 2010 to develop these options of innovative financing for education;
- 2) To commission detailed studies on the selected options;
- 3) To organize an international roundtable, under the authority of a plebiscited public figure promoting the education cause;
- 4) To organize a follow-up meeting in the year following the publication of this report.

APPENDIX

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Appendix 2

Terms of reference of the Task Force on Innovative Financing for Education

1. The education for all imperative

→ The world's children who are old enough this year to go to school for the first time belong to the "Class of 2015" which, according to the Millennium Development Goals (MDGs) should become in that year the first generation in history to enjoy universal education. This objective is, once again, put off to some uncertain time in the future.

Resigning ourselves to this is neither acceptable, nor viable, as guaranteeing access to education for all children is the foundation for economic growth and social progress. Moreover, at the start of this Millennium, education is involved in the long-term solutions of all global stakes.

2010 is a special year for Education as it is celebrating both the 10th anniversary of the Dakar Plan of action and of the Millennium Goal for Development (MDG). If the MDG 2 and 3 focus on universal access to basic education, it can be alleged that Education is also a condition of the realization of all the MDG's. Indeed, access to health, decent work, equality, and sustainable development can hardly be reached without education.

Yet the achievement of MDG 2: Achieve universal primary education is within reach of the international community: this is the principal lesson from the efforts undertaken by the countries themselves with the support of donors, following the worrying drop in the enrolment ratio of the poorer populations which was observed in many countries during the 1980s.

75 million school-aged children, among them 55% are girls, are today still denied access to school in the world, half of whom in Africa. Yet there would have been many more had it not been for a new surge in efforts to organize and finance education for all. This mobilization has made it possible to go from a "flowing" situation, from a dubious race between population growth and economic growth to a situation involving a far too large "stock" of out-of-school children (which

has stopped increasing). This goes to show that the goal of universal primary education, though it may not be achieved by 2015, remains within reach of renewed mobilization by countries, as well as by the international aid community.

The MDG of universal primary education hence requires a response from innovative financing, for a number of reasons:

- i) In the majority of the least developed countries, mobilization of public resources for basic education has already reached a ceiling (estimated at 2% of GDP);
- ii) At donor level, official development assistance for basic education is fluctuating significantly. It is also sustaining competition from other sectors such as health and climate change adaptation;
- iii) Financing requirements concern mostly recurrent expenditures (notably teachers' wages) calling for predictable and stable aid flows;
- iv) With a view to gradually and fully bearing the cost of education at national level, international financing constitutes immediate investment in basic education, with a major subsequent impact on growth.

2. Innovative financing for education

→ In the current context of economic crisis and uncertainty as to official development assistance, innovative financing has become established as a set of mechanisms that generate new resources with a view to achieving the MDGs. Already referred to in the 2002 Monterrey Declaration, innovative financing represents stable and predictable flows that are complementary to traditional ODA and rely on four types of mechanisms, i.e. assessed contributions (levies), voluntary contributions, loan guarantees and market mechanisms. In the space of three years, innovative financing has made it possible to raise more than 2.5 billion dollars in additional financing for development, directed for the most part towards the health sector. The United Nations (Doha Conference) and the European Union have set themselves a "change of scale" objective for innovative financing.

The Leading Group on Innovative Financing for Development, which today groups 59 States from the North and the South as well as international organizations and NGOs (www.groupepilote.org) emphasized during its sixth plenary session

in May 2009 in Paris the necessity of diversifying sectors to which these funds are to be allocated and specifically mentions the education sector. Achieving universal primary education (MDG 2) is a huge gain; not only for the children who may benefit from it, girls especially, but also for society as a whole (economic and social advantages) and helps destroy the vicious circle of poverty.

The goal of universal primary education requires a constant and sustained budgetary effort failing which the fragile equilibrium of education systems and the learning pathways of students may be put in jeopardy. In a context of cutbacks in traditional budgetary resources, innovative mechanisms for development financing offer assets of predictability and stability; they also help pool and coordinate resources from States and private actors such as foundations and enterprises in the framework of new partnerships, strengthen the leverage effect of traditional aid on private-sector funding (example of guarantee funds/guaranteed bond system) and promote countercyclical instruments.

3. Creation of the Task Force on Innovative Financing for Education

➔ To that end, innovative financing alone appears likely to prompt developing countries to recruit teachers on a mass scale as required for achieving MDG 2. To counter excessive reliance on traditional ODA, the prospect of sustainable external financing free from political and economic vagaries in the North may help convince governments in the South to go ahead.

Following on from the Sixth Plenary Session of the Leading Group on Innovative Financing for Development, **France proposes setting up an international Task Force on this issue**, aimed at proposing innovative financing for achieving the Education for All goal in 2015. Such financing is:

- to ensure financial resources that are sufficiently large to be commensurate with the financial requirements of all countries implementing courageous and credible action plans;

- to be stable, sustainable and complementary to traditional budgetary support;
- to rely on the expertise successfully developed by a number of State actors from civil society;
- to contribute harmoniously to the construction of the framework for global governance of aid in this sector, particularly through the Fast Track Initiative Partnership.

The Task Force focusing on education problems is to be set up within the Leading Group on Innovative Financing for Development. It will bring together on a voluntary basis States, International Organizations, Civil Society Representatives, NGOs, Foundations and Economic Actors.

The Task Force will be tasked in particular with:

- i) studying all mechanisms likely to collect stable, sustainable resources complementary to ODA for financing MDG 2;
- ii) identifying countries and the nature of expenditures which could benefit from these resources.
- iii) controlling the quality and the efficiency of delivering in order to ensure maximum impact at the local level.

Two important and connected issues should also be addressed:

- should the Task Force concentrate on basic education or cover the all sector, and especially vocational training and secondary school?
- what could be the implication of the private sector in the financing and how?

In this perspective, the group will discuss the interfacing with the Fast Track Initiative which is an essential reference for thinking out mechanisms for governance of the funds generated in this way.

The Task Force will examine several types of innovative mechanisms and present the current status of its considerations during the next plenary session of the Leading Group.

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