the Education Commission

Background Paper

The Learning Generation

A Global Financing Facility for Education (GFF-E)

What, Why and How

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A Global Financing Facility for Education (GFF-E): What, Why and How

Proposal prepared for the International Commission on Financing Global Education Opportunity (the Commission)

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Abbreviations

Abbreviation	Definition
BMGF	Bill and Melinda Gates Foundation
DAC	Development Assistance Committee
DRC	Democratic Republic of the Congo
ECD	Early childhood development
EWEC	Every Woman Every Child
FY	Fiscal Year
GFF	Global Financing Facility in support of Every Woman Every Child
GFF-E	Global Financing Facility for Education
GPE	Global Partnership for Education
HRITF	Health Results Innovation Trust Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
KLI	Knowledge Learning and Innovation
MCF	Medical Credit Fund
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
R4D	Results for Development
RBF	Results-based financing
REACH	Results in Education for All Children Trust Fund
RMNCAH	Reproductive, maternal, newborn, child and adolescent health
UNICEF	United Nations International Children’s Emergency Fund
US	United States
USAID	United States Agency for International Development

Executive Summary

What is a GFF-E? A global financing facility is an instrument to crowd in sustainable funding, including for countries graduating from traditional aid, from both public and private sources.

The **potential** of a GFF-E is for a transformational effect on financing and impact. It would:

- Focus attention on specific education outcomes;
- Crowd in domestic financing and strengthen national results-based spending and financial tracking;
- Leverage World Bank Group financing, including through innovative financing instruments;
- Catalyze additional joint efforts with donors and multilateral organizations as well as private and non-governmental sources;
- Be cost-effective, lodged within the existing education finance architecture; and
- Be a laboratory for demonstrating innovative solutions.

Experience from health: The Global Financing Facility (GFF) in support of Every Woman Every Child aims to mobilize domestic and international, private and public funding for its health-related SDG goals. It links grants to IDA/IBRD loans and IFC investments. It is preparing operations funded through social impact bonds, loan buy-downs, and guarantees, involving private and foundation investors, as well as traditional loans and grants. It has disbursed over $400m in its first few months of operation.

Focus: GFF-E would target 2-3 high-return areas of education which need a much higher investment profile, and have strong synergies for health goals and the economy as a whole. One is likely to be early childhood development, now grossly underfunded relative to its lifelong benefits. Others are school enhancement and retention, especially for girls, and skills development in secondary and technical education, linked to life opportunities. GFFE should cover both low- and middle-income countries, with an emphasis on supporting their transition to market-based financing.

Hosting, governance, co-financing. Given its close integration with World Bank instruments and processes, including country-level convening, GFF-E, like its health precursor, would be managed within the World Bank by a small dedicated Secretariat supported by existing task managers. The WB already hosts a smaller trust fund for results-based education, called REACH (Results in Education for All Children), which could be built upon. GFF-E, like GFF, would be governed by a multi-stakeholder group, including its major contributors and partners. At the country level, GPE, UNICEF and other donors and investors could provide parallel financing, within country strategies they would also help shape.

Size Indicator. To underpin a 50% increase in World Bank education lending from present levels ($4b) GFF-E would need a grant commitment capacity of about $500 million a year. Its eventual ambition could easily be twice that ($1b), as the Bank's overall lending is expected to expand even faster. A multiple of this funding would meanwhile be mobilized from developing country governments, other development agencies and the private sector.

Proposed Name: Learning for Life Fund (LLF)

1. Context: GFF-E as a response to weaknesses in the current education financing architecture

Background papers recently prepared for the Commission review the current state of, and reform options for, the global education financing "architecture". They converge on the option of creating a **Global Financing Facility for Education (GFF-E)**, to help address some of today's major gaps and weaknesses:

a) **External funding needs to be used more strategically to crowd-in domestic public financing for education**. Existing financing mechanisms are not leveraging domestic spending enough, nor bearing down enough on its large inefficiencies. The proposed mechanism would build viable long-term financing strategies and focus government attention on high-return, lower-cost investments.

b) **As countries graduate to less concessional financing terms, they face disincentives to borrow for the social sectors**. The proposed mechanism aims to use grants catalytically to crowd in more IDA and IBRD, the world's largest official loan windows for education.

c) **Currently, only 36% of education ODA is delivered by multilaterals compared to about half in health** (including earmarked bilateral funding channelled through multilaterals)**.** This adds to fragmentation costs and missed strategic opportunities. The proposed mechanism boosts in-country partnerships without creating additional bureaucratic layers.

d) **Private sector and social enterprise funding for education remains far too limited**. The Facility would have a mandate to be innovative and transformative at country level and in its range of instruments, including through guarantees, social impact bonds and social enterprise seed capital.

e) **There remain substantial funding gaps for specific areas,** such as: support for early childhood development (ECD); school enhancement and retention for adolescent girls; skills development aimed at the school-work transition; and books. The proposed facility could mobilise focused funding to help close an agreed combination of such gaps.

We first summarise the health GFF's aims, business model and governance, especially their features which are also relevant for education. We identify what a GFF-E could best focus on, and with what benefits. We look at the World Bank-hosted REACH (Results in Education for All Children) Trust Fund, which emulates the results-based health innovation experience, later expanded to become the GFF. We propose that the GFF-E be similarly expanded from this REACH base, and suggest next steps in such an approach.

Disclaimer. This proposal, prepared by independent consultants, does not necessarily represent the position of the Commission, to whom it is now addressed. It has however benefited from informal consultations, based on an earlier draft, both with the Commission's secretariat and a few knowledgeable informants in official and philanthropic development circles. Their anonymous suggestions are gratefully acknowledged, but they bear no responsibility for the result.

2. The Global Financing Facility in Support of Every Woman Every Child (GFF): aims, business model, governance.

GFF was launched in July 2015, building on the existing World Bank-managed **Health Results Innovation Trust Fund** (HRITF), set up in 2007 to encourage use of results-based financing. A broad coalition of actors supported the creation of the GFF. Pledges to the GFF trust fund amounted to $815 million as of April 2016 – they were mainly made by Norway, Canada and the Bill & Melinda Gates Foundation. In addition, there is parallel in-country funding from USAID and Japan. GFF has so far committed about $420 million in grants, plus about $1.4 billion in associated World Bank financing, for up to 12 countries, out of a potential pool of 63 eligible low-income and lower-middle income countries.

GFF aims to **catalyse international and domestic funding** for a set of until recently **under-prioritised health outcomes related to reproductive, maternal and child health**.[1] It is the financial arm of a multi-stakeholder initiative spearheaded by the UN Secretary General, Every Woman Every Child (EWEC).

It aims to **mobilize $57 billion** through 2030, by crowding-in domestic resources and attracting new external support. In addition, it aims to **reduce inefficiency** in health spending over time, resulting in a reduction of the incremental resource needs for RMNCAH of 15% by 2030. As such, it aims to be transformational in its impact on donor, government and, where possible, private behaviour, and to increase and **improve the systemic effectiveness of <u>all</u> spending** linked to these results, particularly those of national governments and donors. GFF has partnered with grant-based international organizations on shared financing plans for country-driven investments.

Housed at the World Bank, the GFF is intended to help **consolidate the fragmented RMNCAH financing landscape**. It addresses a major concern of recipient countries – the drop-off in donor funding that accompanies graduation to middle-income status – by **strengthening domestic financing strategies** and ensuring sustainable financing for health. It bases its investment approach on a 10-15-year national financing strategy for these health outcomes, prepared by a national "platform" which includes all key domestic and foreign partners, including from the private and non-governmental sectors, and prompts additional commitments from each.

The GFF also aims mobilize additional RMNCAH financing by **linking its grant funding** to projects by the International Development Association (IDA) and the International Bank for Reconstruction (IBRD). **Blending with IDA and IBRD** has significant potential, when it is consistent both with corporate priorities and countries' demand for such blends. Each dollar of GFF grant spend is associated, typically, with about 4 dollars of World Bank (mainly IDA)

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[1] GFF's focus is defined as Reproductive, Maternal, Neonatal, Child, and Adolescent Health (RMNCAH). These objectives connect to a large subset of all health services, as well as to major complementary investments in education, nutrition and social protection. The synergies between girls' school retention and RMNCAH are particularly strong, are those of early childhood education.

commitments, mostly on loan terms.[2] Trust fund and related World Bank investment approval and implementation processes are fully integrated.[3]

GFF is also remarkably flexible and innovative in its choice of instruments. Thus, for example, in addition to loan buy-downs and guarantees, it is testing social-impact or development-impact bonds (SIBs/DIBs), offering financial rewards to private actors linked to improved health outcomes. All of its activities are explicitly results-based, in different ways though, and it supports an extended programme of impact evaluation activities. Examples of innovative GFF projects –of which some are still in development – include:

- **Integrating GFF Trust Fund's fiduciary arrangements with IBRD through 'buy-downs':** The GFF is in dialogue with India, considering to convert an IBRD loan to softer terms using a GFF grant, subject to meeting specific performance metrics. This could have a substantial leverage effect, assuming this enhancement makes the entire operation financially feasible for India.
- **Supporting the scale-up of private investment facilities:** By providing grant financing towards Medical Credit Fund's (MCF) 'first loss' fund, GFF aims to improve access to working capital for small and medium healthcare providers in Africa. GFF can thereby reduce investor risk and encourage private investment into the fund on better terms.
- **Promoting development impact bonds (DIBs):** GFF partnered with the Grand Challenges Canada (GCC) – a government-backed innovation fund for global health – to provide a grant to fund a train-the-trainer maternal health program in Cameroon. Cameroon is currently using GFF support to support the development of an impact bond to attract private financing to make increased resources available to scale-up this program.[4]

Governance. A *Trust Fund Committee,*[5] on which the key GFF contributors are represented, signs off on country allocations, but not on individual investments within that envelope, on which the World Bank's Board has full discretion. GFF administration is anchored within the World Bank's health Global Practice staff, with a *small dedicated Secretariat*, leveraged on existing country task managers and established institutional priorities for RMNCAH outcomes, and well networked at both country and global levels.

In summary, the GFF has attracted significant interest from donors and other stakeholders and made substantial contribution to RMNCAH financing in a short period, even if some of this work is still in its infancy. As such, it represents a new and very promising model for the education sector to draw on.

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[2] The headline ratio rises to about 6:1 when grants are used to buy down IBRD loans to softer, e.g. IDA Blend terms, or for partial guarantees which enable large packages of private loans and equity investments.

[3] Linking GFF financing closely to IDA and IBRD operations offers several benefits: It helps to lower transaction costs and increase efficiency; (b) it puts Trust Fund activities at the heart in the strategic dialogue between governments and the World Bank; (c) it assures that Trust Fund resources are on-budget and provided in addition to the IDA and IBRD financing; and (d) it directs Trust Fund technical support to enhance and speed up the design of RMNCAH investment cases.

[4] http://globalfinancingfacility.org/cameroon

[5] The GFF is governed by a larger Investors Group. The smaller Trust Fund Committee is embedded within the Investors Group and has decision-making authority for matters related to the trust fund.

3. REACH - Results in Education for All Children

The **Results in Education for All Children (REACH)** is a smaller multi-donor trust fund based at the World Bank that supports developing countries to align education systems to improve learning outcomes.[6] It was created in 2015 by Norway with the ultimate intent to become an equally ambitious mechanism for education as GFF represents for health.[7] It is also based on the premise of results-based grant funding that leverages IDA. It has attracted two additional donors (Germany and the United States) and is governed by a Steering Committee.[8] REACH has just completed a pilot year and allocated its funding ($12.1 million in total) across three pillars: (i) Country program grants; (ii) Knowledge, Learning and Innovation (KLI) grants, and (iii) Capacity-building and learning around RBF.

Necessarily small and adaptive at the outset, REACH already has key design features which appear suitable for developing it into a substantial financing facility for education – the education counterpart to the existing GFF. The World Bank also announced that it will double results-based financing for education to US$5 billion over the next five years. It is anticipated that REACH will turn into one major contributor to achieve this target. In the coming years it is also anticipated that REACH leverages more funds from IDA. Leverage of IBRD and/or IFC in relevant contexts (for example in IDA-IBRD blend countries) would be an extension of this established approach. While REACH's capacity and governance would have to be significantly strengthened to take on a more ambitious role, it constitutes a potentially expandable platform, which could be used to rapidly achieve results and dramatically transform the landscape for education financing.

4. Priority aims of a potential GFF for Education (GFF-E)

The above summaries of the existing GFF and REACH introduce some **key aims and advantages**, several of which resonate strongly for education. Four stand out as "transformative", in descending order of priority as they relate to education:

1. Leverage more *domestic public financing* and promote greater *efficiency* of public education spending, based on *country partnerships.*
2. Focus resolutely on *results-based and innovative approaches* and instruments, such as buy-downs.
3. Encourage *catalytic combinations of official finance*, with GFF grants leveraging IDA and IBRD loans in particular.
4. Help mobilise *additional private and non-government* resources.

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[6]. See World Bank Group: The Rise of Results-Based Financing in Education.
[7] Solberg, Erna 2015: Education Improves Health: Models For Long-Term Sustainable Financing For Education And Health in: Global Health and Diplomacy, Fall 2014.
[8] By the end of 2015, REACH has received $14.1 million in commitments for 2015-201712.0 million in commitments for 2015, 63% from Norway and 37% from the United States. In addition, Germany has committed $1.0 million in annual financing to REACH starting in 2016. In early 2016, additional pledges were made by Norway ($4.5 million) and the US government ($7.2 million).

In addition, there are **desirable design features** which are not first-order objectives, but also strongly characterise the GFF approach:

5. Participation by and within countries is *demand-driven*.
6. GFF operations are *fully integrated with existing institutional processes*.
7. GFF *minimizes overhead costs*.

5. Proposed focus, country eligibility/coverage, and size of a GFF-E

Education focus

Multilateral education funders (World Bank; UNICEF; GPE) all aim, in different ways, to strengthen education systems in their broadest sense. **In all probability, however, a GFF-E should not attempt to cover every aspect of education, so as to retain sufficient focus and unity of purpose, or "brand" visibility**. The GFF model's resolute focus on results also calls for greater attention to subsets of under-invested but high-return interventions, some of which arguably require more systematic, aggressive promotion and innovation than others.

We suggest that a **GFF-E could focus on some combination of the following 4 gaps**, subject of course to the preferences of its likely sponsors and partners:

- A first focus area, which we consider as a very strong candidate for the GFF-E to focus on, would be **early childhood development** (ECD). Only 1% of ODA for education in 2014 was allocated specifically to ECD, despite overwhelming evidence demonstrating its importance.[9] In 2014, IDA and UNICEF disbursed only 3% and 4%, respectively, on ECD out of their total education spends, while GPE (and its predecessor FTI) has disbursed a total of $80 million to date in ECD since 2003, i.e. 2.8% of its total disbursement. At the same time, preschool enrolment in low-income countries is extremely low and the quality of ECD services is often poor.[10] While extremely underfunded, ECD is a high-return area with lifelong benefits. Targeted funding and bold action on ECD is urgently required and a possible GFF-E would be well-suited to focus on ECD, also because of strong synergies with the health-related outcomes of GFF itself.

If the GFF-E were to focus on ECD, it would have a clear *brand identity*, which could be useful in attracting donor funding. In addition, it would also align with the recent commitment of the World Bank and UNICEF for ECD.[11] However, a focus on one single topic could also be perceived as too narrow by donors and other key stakeholders, and could

[9] Source: OECD-DAC Creditor Reporting System. For evidence on the importance of ECD, see for example, Behrman, Cheng, & Todd, 2004.
[10] Gustafsson-Wright, E. Gardiner, S. (2016, January). Using Impact Bonds to Achieve Early Childhood Development Outcomes in Low- and Middle-Income Countries. Global Economy and Development at Brookings.
[11] http://www.worldbank.org/en/news/press-release/2016/04/14/world-bank-group-unicef-urge-greater-investment-in-early-childhood-development

make the whole process of country-level investment less efficient. Other potential focus areas for a GFF-E to take on (in addition or as an alternative to ECD) are:

- A <u>second</u> focus area could be **girls' educational opportunities** and related school enhancement and retention, particularly for **adolescent girls**, given the enormous social (particularly health) as well as private returns they carry. An analysis conducted for the Commission found that improvements in female educational attainment drive declines in both female and male adult mortality, and under-five mortality. It concludes that investments should be targeted toward girls' education for a substantial return on health, and that increased efforts are needed to close remaining gender gaps. The most recent (April 2016) pledge by the World Bank President of achieving $2.5 billion of lending within 5 years for investments benefiting adolescent girls, applauded by Michelle Obama, gives a sense of this priority.
- A <u>third</u> potential focus area could be investments in skills-related innovations in **secondary and post-secondary education**, linked to improved international competitiveness benchmarking and **labour market outcomes**, greater cohesion between general and vocational education, and greater private sector engagement in both. This is also an area where engagement by major corporate actors, globally, regionally and nationally, has large potential scope.
- A <u>fourth</u> potential focus could be **educational books.** This could cover increasing effectiveness of book development, procurement, and use for learning. This is currently supported on a small scale as a specialised endeavour of REACH.

Possibly, these four areas could all be brought together under a general umbrella such as "Skills for Life" (or, as we propose below "Learning for Life"), focussing on key life transitions. This choice needs ultimately to be made by the Commission and its partners. We propose, however, to stablish a sharp focus on just two or three easily recognisable areas, above all ECD, with the proviso that they together account for a substantial (not necessarily dominant) slice of national education investments.

In any case, and as the GFF and REACH already do, the GFF-E should also support the systems needed to monitor progress and measure results. This is critical because one of the most important purposes of the GFF-E would be to mobilize additional domestic financing for education. Thorough data collection and investments in data systems is a key requirement to ensure that domestic funding increases and there is no substitution of domestic funding with international funding (as research has shown is often the case[12]).

Country focus

Considerable, but not exclusive, attention should be paid to the needs of a growing subset of transition or "blend" countries. In these now live the vast majority of out-of-school children, and most are experiencing rapid economic transformation and related skills-based

[12] Lu, Chunling, Matthew T. Schneider, Paul Gubbins, Katherine Leach-Kemon, Dean Jamison, and Christopher J.L. Murray. 2010. "Public financing of health in developing countries: a cross-national systematic analysis." *Lancet*, 375: 1375-1387. DOI: 10.1016/S0140-6736(10)60233-4.

bottlenecks. That would tend to tilt any GFF-E in a rather different direction than if it had a sole focus on the least creditworthy and most aid-dependent contexts, which also remain in need of support. A balance of the two target groups may well be desirable.

The existing GFF for RMNCAH started with pilots in **four front-runner countries** (DRC, Ethiopia, Kenya and Tanzania). In addition to the front-runners, an additional eight countries are currently supported (or are in consideration and will likely be supported soon) as part of a second phase. Countries were selected based on a – to some extent – opportunistic process, considering a combination of (a) strong political demand from countries prepared to consider new long-term commitments, including increasing domestic public financing, plus (b) crowding in other funding through the expressed interest of major donors and investors, including IDA, willing to scale up their efforts behind a reinforced joint financing strategy. We recommend this approach of building opportunistically on country and donor energy and interest for GFF-E, at least in its early stages.

Financial size

Ultimately, the initial size and subsequent pace of roll-out of a GFF-E will be determined by its funders, who have to balance multiple other claims. In this regard, a key advantage of the GFF model is that it is inherently "IDA friendly", facilitating but not pre-empting country demand for IDA for health.

This core feature of the GFF model, its catalytic blending/leveraging with IDA credits and IBRD loans, also helps us to visualise a rough indicator of size for the grant funding entrusted to the GFF-E. IDA today (FY 2015) commits about \$2 billion a year for education, and IBRD a very similar amount. Assume however that half of that volume (\$2 billion) falls within the agreed country and thematic focus of GFF-E, and that GFF-E's ambition is to double this subset in, say, 3-5 years. This calls for an additional \$2 billion of relevant World Bank lending *per year* to be mobilised by the end of the desired period. To achieve that increase with an average leverage ratio of 4:1 (the GFF standard), the GFF-E Trust Fund would at full development need about \$500 million in annual grant commitment capacity, a similar level of commitments as GFF itself has achieved in its first full year. Obviously, there would need to be appropriate phasing, in line with growing country demand and GFF-E delivery capacity.

This is just an illustration. We also know that the World Bank has the ambition, and may soon have the capital base, to at least double its overall lending, which scenario would argue for an additional \$4b in education IDA and IBRD merely to maintain the sector's current 10-11% share. Hence, a GFF-E in that scenario could easily aim at a cruising ceiling of \$1b or more over time.

Additional donor funding would also serve to encourage higher leveraging of country (public and private) education funding, which is far more important and sustainable in most countries than external funding alone.

6. Establishing the GFF-E (or Learning for Life Fund): next steps.

Our proposal is to build up a new GFF-E, suitably named-perhaps Learning for Life Fund (LLF, working title), with the focus and ambitions described above.

To do this, the simplest, least costly and probably fastest route would be to expand progressively from the base of the existing REACH Trust Fund lodged at the World Bank.

This “organic” approach would have three main advantages: REACH already has a clear focus on results for education; there is an established link to mainstream World Bank operations; and a trust fund with similar aims already exists, so the additional set-up costs would be relatively low and the subsequent scaling-up process would be commensurately faster.

This expansion will undoubtedly require significant additional management capacity and strong internal and external leadership, and will likely require adaptation of the current governance structure, which would have to be adjusted to ensure sufficient buy-in from a larger group of stakeholders. However, the basic GFF model provides an adaptable starting point. At the country level, in relevant contexts and focus areas, the Global Partnership for Education and UNICEF would provide aligned financing, within country strategies they would also help to shape. We also propose that GPE and UNICEF be represented at high level in the (upgraded) Trust Fund Committee, to ensure strategic coordination.

In finalising such new or enhanced arrangements, beyond the important legal and fiduciary detail it is crucial that they also reflect a genuine sense of shared ownership, involving country governments, official donors, and nongovernmental stakeholders-while keeping day-do-day accountability lines as clear and simple as possible. This balance is not always easy to strike, but the Commission’s early stewardship of the Fund proposal going forward will help reinforce its importance.

Next Steps. The Commission as a whole should endorse the overall approach and mandate a small Preparatory Group, co-ordinated initially by the Secretariat and its advisers, to (a) flesh out this proposal in essential respects (notably the key thematic coverage areas for the Fund) and (b) take more structured initial soundings of interest from potential funders, based also on the Commission’s discussion. This group should aim to report back initially before the Commission report is published at the end of September, but may be further empowered to continue its work up to the stage when an initial pledging round is judged feasible.

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