

Innovative Finance Strategy

Mobilizing Financing for Education

GPE Board Meeting

June 2025

Highly preliminary–pre-decisional

Dalberg x GPE Transforming Education

Objective: To mobilize greater and more diverse sources of finance – including domestic finance- more effectively to catalyze system transformation using innovative mechanisms



'Fine-tuning' existing interventions: Multiplier +

- **Build on the Multiplier's success,** retaining it as the cornerstone of GPE's innovative finance portfolio
- **Increase funds allocated** to multiplier **and** the amount of additional funding it **leverages**
- **Improve operational processes** for Multiplier, to simplify access
- **Engage a diverse set of co-financiers** for Multiplier and ensure partner expertise is always leveraged



Expanding 'menu' of options for new Innovative Finance approaches

- Build on previous work and assess new approaches for **additionality** to GPE priorities and **ease of implementation**
- Identify **pioneering and high-leverage** opportunities to scale financing, incentivize domestic finance, and improve effectiveness of the multiplier and overall innovative finance portfolio
- **Leave flexibility for fit-for-purpose approaches** that can react to demand and at the right moment

Approach/Principles: Refined options through additional research and informal consultations

Design and prioritization of "options menu"

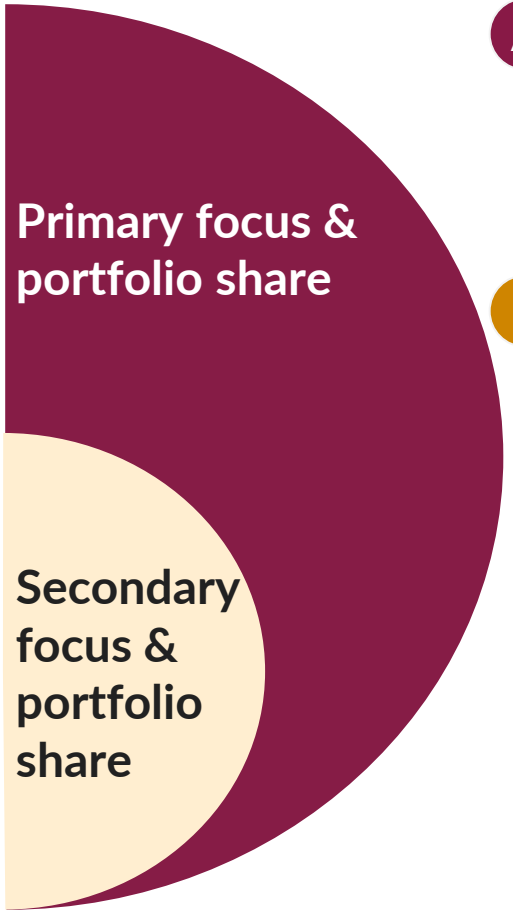
1. Built a **long list of opportunity areas** based on past analysis; prospective new instruments
2. **Prioritized opportunities** and optimized for overall portfolio objectives
3. Assessed feasibility and **preliminary inputs from stakeholders**
4. Developed **initial consolidated overview** across instruments including domestic finance

Feasibility testing and design

Deepened understanding on key questions:

1. What opportunities should GPE prioritize? Why?
    - How much should GPE allocate for each?
    - What kind of leverage can GPE expect?
    - How can GPE leverage partners to realize these opportunities?
    - What additional considerations are needed?

Propositions: A “high-leverage” Multiplier and smaller, more flexible, funding to support innovative opportunities



A Primary: Strengthen Multiplier as GPE’s successful core tool

- **Retain Multiplier instruments (Match, Debt2Ed, SmartEd)**
  - Increase the allocation and expected leverage

B Secondary: Strategic & flexible support to innovative areas:

1. Tap into **new funding pools,** such as climate finance
2. **Incentivize domestic finance further** while freeing up fiscal space
3. **Make large volume lending, unlocked through guarantees, concessional** by working with other global actors to ensure funding is complementary
4. Explore **outcomes-oriented financing** to maximize effectiveness of capital

New and untested opportunities will leverage partnerships to reduce transaction costs while improving expertise and efficiency

A **Primary:** Retain Multiplier as flagship instrument, at a higher expected leverage of 4:1

Recommendation:

1 **Retain the Multiplier's dominant share in the new portfolio**

Rationale:

- **Significant unmet demand signals strong absorption capacity**
- **Early feedback indicates strong trust & demand pipeline**

> ***"Countries are now coming to us with interest to engage the Multiplier and we will continue to support this effort"***
>
> *- Caribbean Development Bank*

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2 **Increase leverage threshold**

From…		*To…*
3:1	»	**4:1**
All countries		All countries
Mobilizing **$2.7B**		*Mobilizing* **$3.6B**

- **Build on proven success: 50% of Multiplier deals** exceed 3.5x leverage
- **64 diverse co-financiers across 52 countries/territories** reached, scope to bring in more capital and co-financiers with expanded options
- **Harness GPE's strong value proposition beyond financial leverage,** as thought leaders to drive systems transformation
- **Maintain simplicity & equity** with a **uniform leverage**

Note – (*) Multiplier mobilized $3.8B of **actual** co-financing with a 3:1 leverage against expectation of $2.7B (i.e. $900M portfolio *3)

A Multiplier (1:1 Match): Keep Match as a core offering at the same (1:1) or higher leverage threshold of 2:1

Scenarios/ Options

#1: Retain same leverage

1:1

All countries

Considerations

- ✓ **Lowers pipeline risk - continuing to attract current and new funders**
- ✓ **Limits additional operational or branding adjustments**
- × **Ensures ease of engagement at the risk of limiting total volume of mobilized co-financing and lower portfolio level leverage**

Partnership consultations noted a preference for retaining 1:1

#2: Increase leverage

From… **1:1** All countries » *To…* **2:1** All countries

- ✓ **Early conversations with the ecosystem suggests** greater awareness of instrument, interest from new funders, and value of systems transformation and partnership approach
- ✓ **Potential value erosion of higher leverage can be offset by lowering cost of engagement through process simplifications** (e.g. grant agent selection process, using the non-profit entity)
- ✓ **Potential to consider a differentiated approach to 2:1** for example in certain countries or on meeting an initial threshold
- × **Risk of discouraging partnerships** in regions with difficult political and economic environment where leverage greatly influences demand and appeal.

B **Secondary:** Small funding envelopes to strategically and flexibly support opportunities for example - climate finance, domestic finance, outcomes-based finance and other innovative solutions based on demand

	Opportunity	Illustrative example of GPE's role to catalyze and scale financing
1	Tap into new and growing **Climate-linked funding**	• Build pipeline of climate x education projects eligible for climate funding* • Co-finance projects at higher leverage with climate funders
2	**Boost domestic finance** through portfolio wide incentives and technical assistance	• Integrate/closer linkages to innovative finance and domestic finance (tax levies, education bonds, Islamic financing etc.) through technical assistance and multiplier linked incentives • Boost domestic finance mechanisms that reduce country debt, building on existing success of Debt2Ed
3	**Provide upfront grants** that make portfolio of loans, secured by guarantees, more concessional	• Partner and provide catalytic/upfront grants to organizations piloting guarantee mechanisms • Bring in other donors for upfront grants/ support underlying guarantees to incentivize new opportunities and solutions
4	Support scaling of learnings and innovations in **outcomes-based funding**	• Partner with other outcomes funders/risk investors to provide outcomes funding to help scale existing innovations • Provide space for learning and knowledge exchange in innovative finance solutions

Note- (*) Continuing the existing efforts from CSESI and BRACE

B Tap into climate x education: Dedicated pool of funds to tap into new climate finance for education

Highly preliminary – pre-decisional

How should GPE operationalize this?

1 Support design of climate-smart education projects

- Offer technical assistance to **build a project pipeline through expanded Climate Smart Education Systems Initiative -** enhancing government capacity and concept note development for GPE/UNFCCC funding

2 Co-financing from GPE (up to 5:1)

- **Focus on 2-3 core themes** e.g., climate-resilient infrastructure, or themes typically overlooked by climate funders

3 Advocacy for climate X education agenda

- **Elevate visibility of climate x education in global forums**, drawing climate-focused funders and integration with innovative financing models in climate

Why should GPE do this?

- Tap into a **$1.4 TN climate finance pool**, with strong donor and country interest in education. Demand already proven in climate financing to draw significant finance – support domestic finance
- **Ability to leverage existing efforts** by GPE, and **leverage grant agents** who can drive pipeline creation. Lowers barriers to entry.
- **Fill current ecosystem gaps** by supporting early-stage climate-education projects and enhancing project readiness for climate funding

B Incentivize domestic finance (DF): Portfolio wide domestic finance incentives supplemented with technical assistance to enable access to these opportunities

Highly preliminary–pre-decisional

How should GPE operationalize this?

1 Provide Technical assistance to help countries

- **Enable countries to set up mechanisms based on context** ranging from micro-levies, remittance charges, lottery funds and municipal bonds

2 Supplement with incentives for accessing the Multiplier

- Continue **existing domestic finance mechanisms including** – results-based disbursements and domestic finance linked top up triggers
- Introduce **new incentives** that allows a new levy/bond/other mechanisms to **serve as a trigger to access Multiplier**

3 Integrate similar conditions in other instruments

- Expand **Debt2Ed transactions** that can engage domestic bond markets (e.g. climate-debt swaps)
- Ensure **outcomes-based projects include domestic funding** and/or embed domestic finance **key performance indicators in concessional loans**

Why should GPE do this?

- Improving domestic finance is **core to GPE's current and future strategy** and a flexible approach will allow **GPE to support and incentivize a wide variety of approaches** to improving domestic finance as opposed to a one size fits all
- Ability to leverage **existing efforts by GPE and partners** leading similar efforts to strengthen domestic funding

B Minimize capital fragmentation: Provide upfront grants that make portfolio of loans, secured by guarantees, more concessional

Highly preliminary–pre-decisional

How should GPE operationalize this?

Test demand for lower cost loans supported by grants

- **Work with partners** who already leverage guarantees to assess demand for such facility.

Help bring together more funders to support such instruments

- **Pool other funders to provide upfront grants**, with GPE potentially matching philanthropic contributions to make the loans more concessional or encourage philanthropies to set up education finance guarantees

Why should GPE do this?

- **Expanded choice & flexibility for countries**– who can opt to use conventional Multiplier route or participate in this facility, which can potentially make funding more concessional through ready co-financing partners and grant support.
- **Higher leverage unlocked** in exchange for upfront grants especially with existing anchor funders
- **Leverage regional funding and new forms of capital** to support development of guarantees (e.g. regional development banks or regional philanthropy).
- Build on existing efforts led by Multilateral Development Banks to **unlock and make development finance more accessible**

B Maximize capital effectiveness: Support scaling of learnings and innovations in outcomes-based funding

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How should GPE operationalize this?

1 Providing outcomes- based & catalytic funding

Provides **outcomes funding through Multiplier** to scale **existing Outcomes Based Financing innovations**

Offer **Technical Assistance for program design & critical operational costs** (e.g., Monitoring, evaluation & learning) to enable large-scale adoption

2 Support Adoption & Scale Outcomes Based Finance Learnings

Encourages governments to embed/ scale existing learnings from existing Outcomes Based finance efforts into national efforts

Advocate via partnership compacts to embed outcomes-driven spending in education

Why should GPE do this?

- Critical need in education ecosystem to tackle **student learning crisis** and **adopt best practices – a priority for GPE donors who are increasingly looking for accountability to/evidence of outcomes**
- Outcomes based finance models deliver cost-effective impact, supported by a growing ecosystem of funders and experts but large-scale funding remains a limiting factor **- where GPE's role as an outcomes funder and its government relationships can help fill bridge this gap.**

Operating implications: GPE is already well-positioned to achieve this with a few key shifts, including strengthening partnerships, streamlining disbursement processes, and enhancing advocacy efforts

1. Continue and expand partnerships with Multilateral Development Banks, philanthropies, private sector and grant agents to drive pipeline and execution for innovative investments at low transaction cost and continue to focus on existing pipeline building initiatives such as the Climate Smart Education Systems Initiative.

2. Enhance support measures for co-financiers including simplification of grant agent selection process and utilizing the recently set-up not for profit entity to engage more private sources of capital e.g., corporations, HNIs, family offices and foundations, which currently do not donate using the GPE Fund.

3. Increase role in advocacy, for example in highly opportunistic financing spaces like 'climate x education' and outcomes-based approaches to drive broader adoption

Additional operationalization plans will be built in closer consultation with proposed partners

Note - GPE 2030 Strategic Plan Survey's results highlight the importance of engaging with and through new or under-leveraged partners from within the education sector and beyond

Critical success factors for GPE's operations are already in place

Most critical success factors within the Secretariat are already in place...

Track record in pioneering innovative finance solutions
Crowding in ~ USD 4 billion with 64 co-financing partners to reach countries with a ~ USD $1 billion GPE Multiplier envelope

Open-minded approach
Mindset of welcoming new insights and adapting to learnings

Speed and flexibility
Agility and ability to react to changing circumstances and apply new instruments effectively. To meet where countries they are

Focus on education system transformation
Commitment to enabling partner countries to take systems-based approach

Focus on partnerships
Dedication to leveraging and partnering with actors across the education sector in service of systems transformation lowering transaction costs and lowering barriers of entry

... with opportunity to grow existing efforts

Financing and brokering capabilities
Ability to broker and incentivize financing from a range of partners.

Partnership in measurement efforts
Work with broader partnership to ensure consistent measurement of impact of crowded-in, co-financing, and creative financing mechanism

We would welcome your feedback on –

1. Overall composition of proposed expanded menu of innovative finance portfolio including leverage thresholds
2. Specific opportunities and partnerships GPE should prioritize
3. Alignment of the recommended changes and new instruments with GPE 2030 Strategic Plan's goals and operational boundaries