

Innovative Finance Strategy
Mobilizing Financing for Education

Briefing Packet

June 2025

Highly preliminary–pre-decisional

Dalberg x GPE Transforming Education

This document supplements the recommendations that will be presented during the Finance and Risk Committee meeting by providing supporting analysis for both the primary (80% portfolio share) and secondary (20% portfolio share) focus areas of the innovative finance portfolio.

Please note that the secondary opportunities presented are examples, highly preliminary and pre-decisional. The supporting analysis aims to fine tune these opportunities for potential future consideration.



Part A | Background and overview

Part B | Deep dives of primary focus areas

Part C | Deep dives of secondary focus areas
(Unallocated financing envelope)



Background and Overview

Recap: GPE's inaugural innovative finance (IF) portfolio was successful - catalyzing co-funding worth ~USD 3.4 billion across its 45 partner countries, ahead of target time

GPE'S 2021-25 PORTFOLIO MIX AND LEVERAGE

The Multiplier was over subscribed ahead of time (early 2024), with **nearly USD 4B in leveraged financing to date** —far **exceeding the USD 2.5 B target**- crowding in **64** co-financiers and supporting **52** countries & territories - validating the demand for the instrument and innovative financing solutions

NOTABLE PORTFOLIO ACHIEVEMENTS

Unlocked funding from new capital sources

Attracted new funders including climate players like Green Climate Fund and regional investors like Islamic Development Bank, Inter American and Caribbean Development Banks as well as foundations including the Jacobs Foundation

Reached higher than targeted leverage with **50% of 3:1 multiplier and 1:1 multiplier (Match)** exceeding **3.5x** and **>1x leverage respectively**

Driving innovation through IF tools

Pioneered debt swap for education, in Côte d'Ivoire, reducing **debt burden** and freeing up **~$77 M** for education programs.

Supported pioneering programs to ramp up climate-smart education systems through **Climate Smart Education Systems Initiative (CSESI) and Building climate smart education systems (BRACE) -** providing **technical assistance** and **co-funding pilots** in 3 countries

Enabled sustainable impact through alignment with national priorities

Promotes greater collaboration between co-financiers and governments through GPE's consultative process that ensured funding alignment with reforms grounded in country realities

Notes: ACG is Arab Coordination Group; BRACE is Building the Climate Resilience of Children and Communities through the Education Sector initiative, and CESCI is Climate Smart Education Systems Initiative; Apart from these Multiplier grants, GPE allocates **~3 BN for traditional grants** focused on **specific purposes.** These include **Systems transformation grants** (budget= US$162.5 MN budget), **Knowledge and innovation** (KIX) grants (budget= US$164.5 MN of budget), and grants under the **Girls' Education Accelerator** (budget= US$ 250 MN), amongst others (Source: BCG analysis and GPE website); Mathematica, GPE Multiplier Evaluation Report, 2023; GPE, GPE Results Report Chapter 2, 2024

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 +

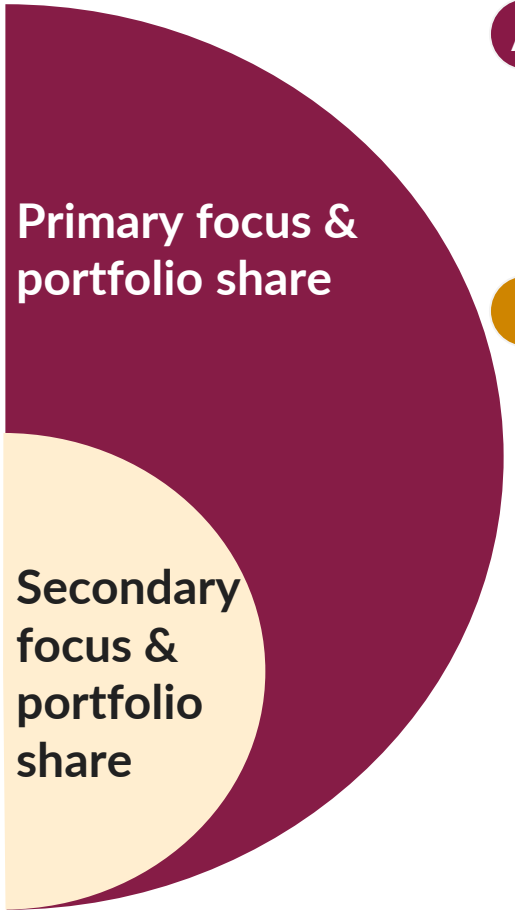
- **Build on the Multiplier’s success,** retaining it as the cornerstone of GPE’s innovative finance portfolio
- **Increase funds allocated** to multiplier **and** the amount of additional funding it **leverages**
- **Improve operational processes** for Multiplier, to simplify access
- **Engage a diverse 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

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, Arab Coordination Group 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

Implementation: GPE is already well-positioned to realize these opportunities

Most critical success factors within the secretariat are already in place…

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

Speed and flexibility
Ability to react to changing circumstances and adopt new instruments effectively

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

Focus on partnerships
Dedication to partnering with actors across the education sector in service of systems transformation

… with opportunity to grow existing efforts

Financing and brokering capabilities
Focus on developing and growing the team's expertise in finance and creative brokering

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

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

Implementation: Additionally, GPE will adopt and follow certain key principles to ensure smooth operationalization

1

Continue to remain a grant-making entity

- No fundamental change in current approach with 100% of GPE's revised portfolio continuing to be grants

2

Continue to have majority of funding linked to the multiplier

- The new portfolio will continue to be linked to pre-existing Multiplier instruments.
- New instrument (unallocated finance pool) will comprise opportunistic deals, all of which will follow the same quality assurance and GPE grant processes.

3

Ring-fence some funds for specific opportunities

- Some multiplier funding will be ringfenced where previously all funding was earmarked in the multiplier- which will help ensure GPE can pursue more innovative structures.

4

Leverage partnerships to reduce transaction costs

- Partnerships will be leveraged for the entire expanded portfolio - especially around deal sourcing, structuring, and technical assistance- minimizing operational burden while maximizing expertise and efficiency

5

Enhance support measures for co-financiers

- Measures will include the simplification of grant agent selection processes 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.

Deprioritized: Besides shortlisted opportunities, we have also considered but deprioritized other instruments

Criteria for assessment	Additionality	Ease of operationalization
• Instruments that may not fit within GPE's immediate priorities or operational framework • Less feasible or relevant to GPE's current core mission • While not being pursued actively, they may offer insights or value for long-term strategic planning	**Early-stage finance facility** for education focused start- ups (venture debt/ philanthropy) through partner incubators	
	• Crowded space with limited additionality due to presence of existing players (Hercules capital, Reach capital) • Limited innovation potential	• Necessitates creation of a separate structure, guidelines, operating framework, etc. within GPE to enable investment into for-profit entities
	Equity co-investments in education focused social enterprises	
	• Crowded space with limited additionality due to presence of existing players (GSV, Newschools venture fund) • Limited innovation potential	• Might not be fully suitable to GPE's current grant model • Necessitates creation of a separate structure, guidelines, operating framework, etc. within GPE to enable investment into for-profit entities
	Annual innovation challenges in education	
	• Crowded space with presence of several innovation challenges/prize funds (Wise prize fund, Yidan prize)	• Will require high operating overload and investment • Might not fit within operating structures of grant agents
	Individual results-based projects	
	• Limited ticket size for most individual transactions	• High operating overload to evaluate individual projects
	Advanced market commitment/volume guarantees and financing for private for-profit companies	
	• Limited use cases beyond promoting digitization, but could be a unique tool to stimulate private sector investments	• Might require creation of a separate structure, guidelines, operating framework, etc. within GPE to enable investment into for-profit entities
	Bonus coupon payments on green bonds that incentivize allocation of funds towards education linked climate initiatives	
	• Limited impact/limited deal size as the model is not well proven	• Might require creation of a completely new separate structure, guidelines, operating framework, etc.

B

Deep dives of primary focus areas in the portfolio

Subsequent section outlines key recommendation and analysis for the Multiplier and the Match which will form ~80% of the total innovative finance portfolio

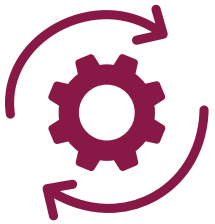
Subsequent deep dives cover 3 key questions for the Multiplier and the Match



Q1: WHY SHOULD GPE CONSIDER THIS?



Q2: HOW CAN GPE OPERATIONALIZE THIS?



Q3: WHAT CAN GPE DO TO BEST REALIZE THIS?



Build on the Multiplier's success to drive the GPE's IF portfolio, with enhanced allocation and leverage thresholds

WHY SHOULD GPE CONSIDER THIS?

- **Significant latent demand for the Multiplier in the last cycle– at the current transaction rate**, there is **potential unmet demand of ~USD 0.3-0.4 bn** i.e., a total of ~USD 1.3-1.4 bn over 5 years
- **Additionality of Multiplier beyond funding and willingness of co-financiers** indicates the potential to **increase leverage**
- In current portfolio, **~50% of all deals are levered >3.5,** indicating potential to increase leverage in Low Middle Income Countries/Upper middle income countries

HOW CAN GPE OPERATIONALIZE THIS?

- **Maintain the Multiplier as the dominant driver of GPE's innovative finance portfolio** and **raise leverage to 4:1** across all partner countries.

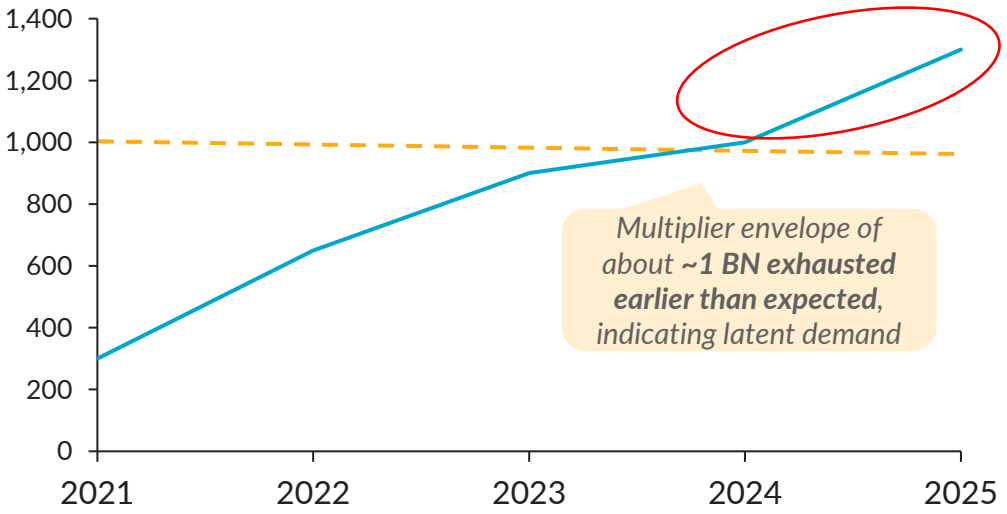
WHAT CAN GPE DO TO BEST REALIZE THIS?

- **Push for high leverage deals with MDBs** who frequently access the Multiplier, and **encourage new co-financiers** by simplifying processes, and proactively engaging with and supporting funders
- Move from first come first serve to **country-specific allocation** to ensure more high priority regions avail the Multiplier

Significant latent demand for the Multiplier with co-financier appetite to support higher leverage

Significant unmet demand in past cycle provides confidence of latent, underlying demand…

Multiplier allocation
2021-2025 (in USD MNs)



This indicates that at the **current transaction rate**, there is **potential unmet demand of ~USD 0.3-0.4 bn** i.e. a total of ~ USD 1.3-1.4 bn over 5 years[1]

… and co-financiers show a willingness to use it even at higher leverage thresholds as Multiplier's impact goes beyond funding

Multiplier is widely valued for its ability to unlock a high quantum of funds particularly in LIC countries

"Multiplier funding is valued by countries interested in taking loans - especially Low Income Countries since they value every opportunity for concessional finance."
- Asian Development Bank

Beyond funding, the Multiplier also helps engage senior govt. stakeholders, local CSOs to improve capital effectiveness

"The Multiplier's consultative process fosters dialogue between ministries and local CSOs, promoting stronger alignment. Furthermore, as an innovative instrument, it effectively engages ministries of finance, key decision-makers in driving increased funding for education."
- Inter-American Development Bank

Existing strong demand and co-benefits, paired with appetite within co-financers point to higher leverage potential

"Countries are now coming to us with interest to engage the Multiplier and we will continue to support this effort."
- Caribbean Development Bank
(when asked about supporting higher leverage opportunities)

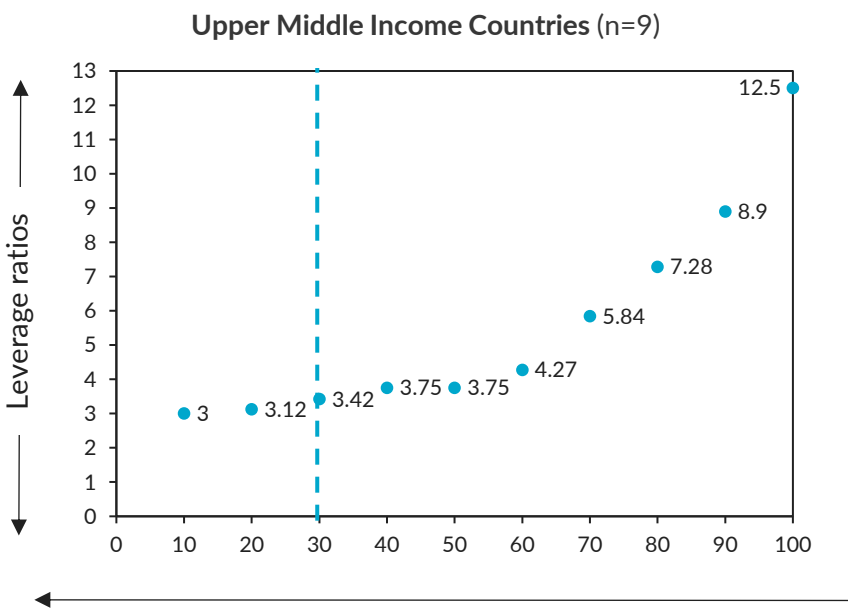
Notes: (1) Calculation based on Multiplier use across 2021-25; (2) Calls with experts

In the current portfolio, ~50% of all deals are levered >3.5 indicating potential to increase leverage in LMICs/UMIC countries

Percentile-level overview of leverage ratio across the Multiplier portfolio[1]

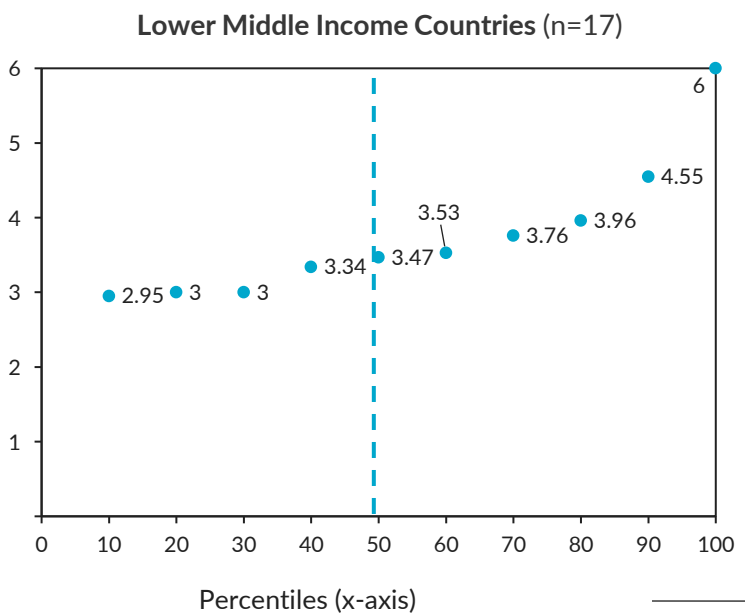
Legend: - - - *Indicates the percentile at which deals reach a 3.5 leverage*

70% of deals in UMICs had a leverage >3.5



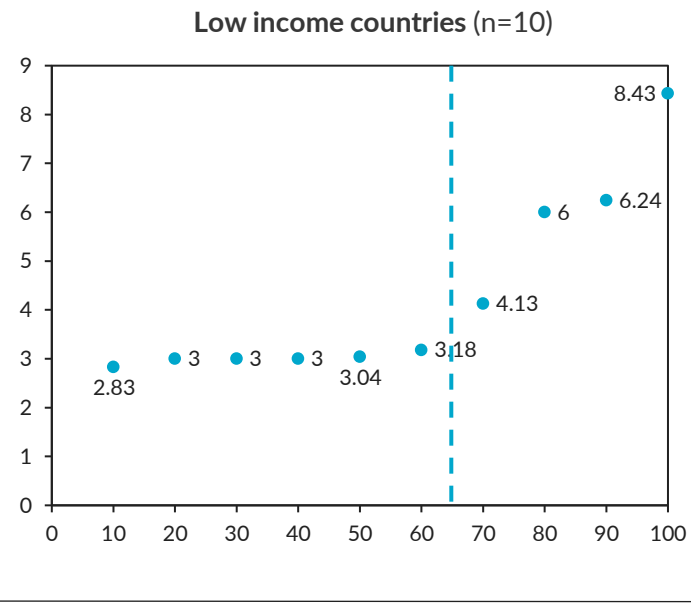
- **Portfolio share by volume:** 10%
- **Median leverage-** 3.75
- **Co-financiers with high leverage:** World Bank, Caribbean Development Bank, Inter-American development Bank

50% of deals in LMICs had a leverage >3.5



- **Portfolio share by volume:** 60%
- **Median leverage-** 3.5
- **Co-financiers with high leverage:** World Bank, ADB, EU, DFAT, JICA

35% of deals in LICs had a leverage >3.5



Percentiles (x-axis)

- **Portfolio share by volume:** 30%
- **Median leverage-** 3
- **Co-financiers with high leverage:** World Bank

Notes: (1) Calculation based on Multiplier use across 2021-25

Hence, GPE should retain the Multiplier as the dominant instrument driving GPE's IF portfolio, at a higher expected leverage threshold of 4:1

Increase leverage threshold

From…
3:1
All countries

Mobilizing
$2.7B

To…
4:1
All countries

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**

While there is potential for even higher leverage, GPE is also keen to improve the quality and diversity of its portfolio which is why a less aggressive push on leverage threshold may be preferred

(More details on next page)

Note: Portfolio refers to total MCA amount for the 3:1 Multipliers; World Bank's share includes World Bank and related entities such as IDA grants and funding by IBRD, in both single and multiple funder instances across deals; *This is due to a case of unusually high LR of 12.5 in one deal.

Besides leverage, improve quality of portfolio by developing country level allocations, diversifying co-financiers, and incorporating a stronger focus on results and outcomes

1

Push for higher leverage deals with MDB 'super users'

- Encourage higher leverage from grant agent 'super users'. This will help increase the average leverage of transactions with grant agents who have built comfort with accessing the Multiplier and encourage GPE to work more with other co-financiers

2

Move from first come first serve to country-specific allocation

- Country-contextualized adjustments to country allocation and a move from the first come first served approach to country specific allocations will be necessary to ensure high priority regions are able to avail the Multiplier
- E.g. For large middle-income countries like India, country allocationof $50 million may not interest the govt, though it garners interest in Indonesia. Conversely, some MCAs are too large to fully unlock[1]
- LICs will benefit from country wide allocation, avoiding being crowded out by others in first come first serve approach

3

Create awareness and support for new co-financiers

- Grant agents and especially their country level teams can benefit from improved awareness and increased assistance in applying for Multiplier (especially upstream processes which can have high transaction cost and time investment)
- Co-financiers acknowledged that GPE's processes are more streamlined now, but there may be room to reduce approval timelines further
- GPE peers like The Global Fund have also committed to simplify their internal grant disbursal process by 30% for the 2023-25 funding cycle

4

Incorporate a stronger focus on outputs and outcomes

- GPE should focus on tracking co-financing disbursements and downstream program level outcomes achievement to better support their results management
- Effective matching grants link disbursements to performance and strengthens the case to GPE donors around accountability e.g., Global Financing Facility, ties disbursements to coverage and impact indicators, aligning funds with outcomes and strengthening financial, monitoring, governance, and accountability systems[1]

Diversifying the co-financier mix could impact GPE's process efficiency, as it would require engaging beyond the current select pool of grant agents who are highly experienced in utilizing the Multiplier effectively

Source: (1) Mathematica, GPE Multiplier evaluation,2023 (2) External calls



Continue to operate Match with enhanced allocation and leverage thresholds

WHY SHOULD GPE CONSIDER THIS?

- **50% overachievement of internal targets** indicates appetite from foundations and potential to continue match and current portfolio demonstrates **instances of high leverage**

- Private foundation co-financing was in many cases contingent on Match due to the attractive **leverage** and ability of Match to **unlock additional funds especially from multilateral development bank- like entities**, alongside facilitating **systems transformation efforts and dialogue at country level**

HOW CAN GPE OPERATIONALIZE THIS?

- **Continue to operate Match** and **retain current leverage or raise it to a 2:1** across countries

WHAT CAN GPE DO TO BEST REALIZE THIS?

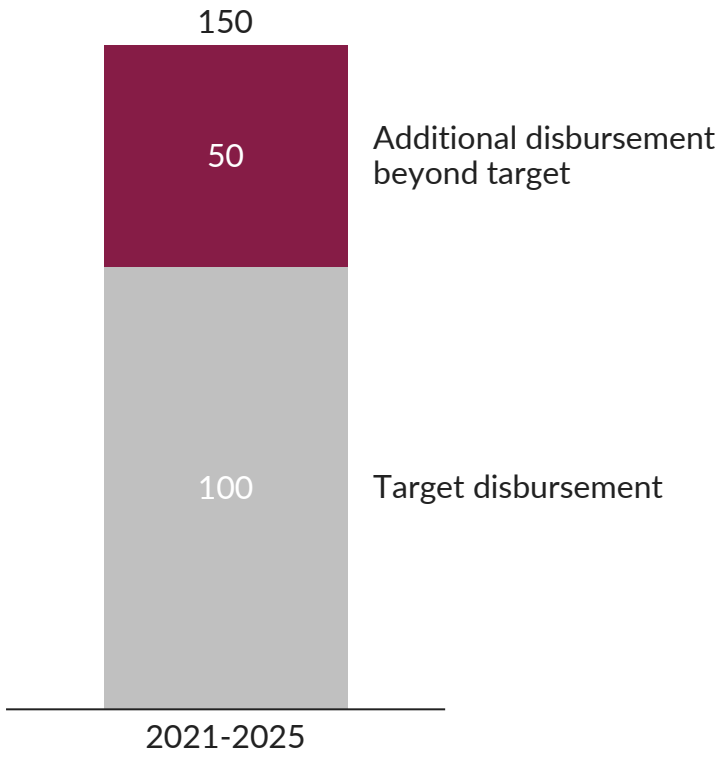
- Strengthen support in **post funding implementation and/or fund disbursement mechanisms** to enhance partnership incentives beyond just funding

- Explore partnerships with **philanthropic collaboratives to deepen reach** and increase leverage

Significant demand indicated from overachievement of internal targets and highly valued for bringing in true, additional funding and enabling systems transformation through its consultative approach

Match overachieved on internal targets by 50% indicating its high appeal…

Match allocation[1,3]
2021-2025 (in USD MNs)



…and is valued for unlocking multilateral capital and driving systems transformation through its collaborative, government-focused approach

Private foundation co-financing decisions in many instances were affected by Match [2]

- **Lesotho:** Roger Federer Foundation committed to co-finance a scale-up (rare for the Foundation), made feasible by the Multiplier.
- **Kenya:** LEGO Foundation explicitly expressed interest in using the Multiplier's matching fund opportunity.

Foundations, both new and existing valued the unique proposition of their impact dollar being able to leverage funding from global MDB-like entitles

> *There is nothing like the Multiplier- this is a true incremental dollar raised for every dollar contributed which excites new funders to join and pushes existing donors to give more… the fact that it also triggers World Bank dollars is an added attraction for philanthropists.*
>
> - Imagine Worldwide

Beyond funding, Match provides pathways for foundations to engage in systems transformation efforts and dialogue at country level, which is GPE's core focus

> *What truly excites us about working with GPE is their focus on ensuring funding is directed toward proven interventions, alongside their unique and systemic approach to collaborating with governments on national education plans.*
>
> - Jacobs Foundation

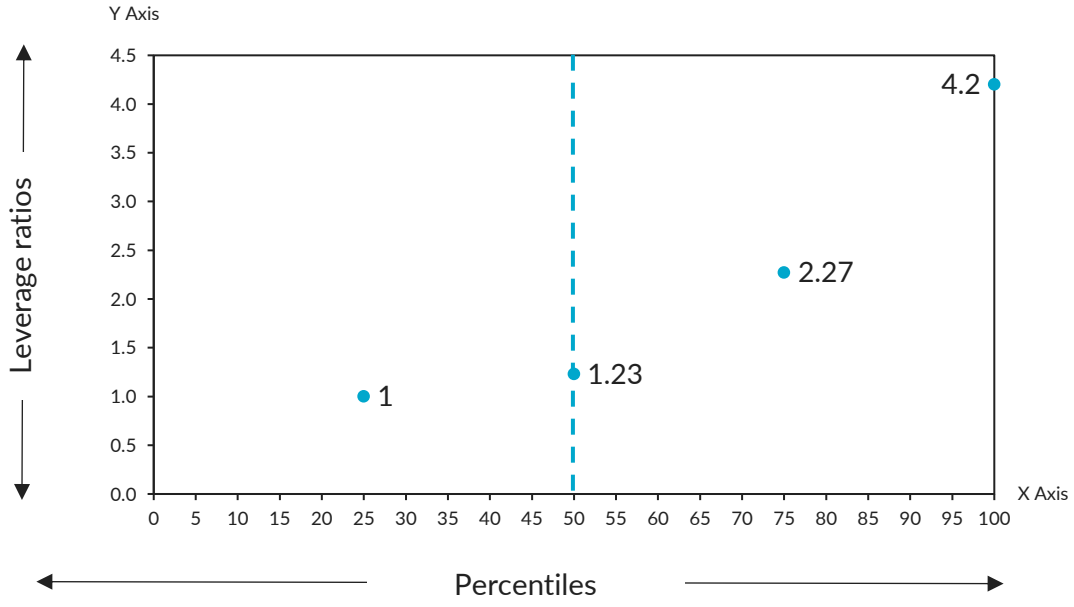
Notes: (1) Calculation based on Multiplier use across 2021-25; (2) Mathematica, GPE Evaluation report, 2023 (3) Call with GPE internal teams and external stakeholders

Current portfolio demonstrates instances of high leverage, predominantly focused on LMICs, where philanthropic giving and blended finance transactions are already gaining significant momentum

LMICs dominate the match portfolio with >70% of deals by volume and 11 transactions…

Percentile-level overview of Match leverage ratio in LMICs[1]

Legend: – – – *Indicates the percentile at which deals reach a 1 leverage*

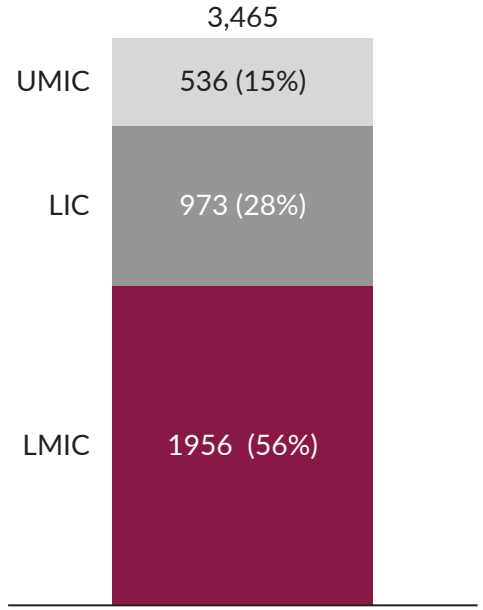


50% of deals are at a leverage ratio of >1 which is lower than ecosystem average of ~2.1 in blended finance transactions in education[3]

…inline with ecosystem, where low middle income countries receive most overall philanthropic funding and blended finance for education

Breakdown of private philanthropy by income group (2018-20) [2]

Average, USD million, 2020 prices



From 2021-2023, **8 out of the top 10 countries** with the most blended finance transactions in health and education were LMICs

Note - LIC: 1 transaction in Sierra Leone attracting 1.67 leverage; UMIC: 1 transaction in Ukraine that attracted private sector actors
Source – (1) Calculation based on Multiplier use across 2021-25; (2) OECD, Private philanthropy for development,2021 (3) Convergence, Blended Finance & Leveraging Concessionality,2023

GPE should continue to keep the Match as a core offering of GPE's 2026-30 IF portfolio, at a similar or higher leverage threshold

Scenarios/ Options

Considerations

#1: Retain same leverage

1:1

All countries

- ✓ **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.

Strengthen support in implementation and disbursement to improve additionality beyond funding disbursement and explore partnerships with philanthropic collaboratives to deepen reach

1

Provide better post funding/ implementation support

- Move beyond fund mobilization by fostering partnerships between private funders, multilateral development banks, and local governments, leveraging GPE's credibility to enable smoother implementation.
- Highlight the critical role of private funders in unlocking Multiplier funding to ensure public stakeholders fully recognize their value, fostering appreciation and reducing implementation friction.

2

Expand on funding disbursement support to donors

- GPE could establish partnerships with 3–5 large philanthropies by accepting direct funding into GPE and disbursing it through Match grants aligned with common program opportunities, solving for limited donor capacity to actively engage with GPE processes and strengthening partnerships beyond financial contributions.[1,2]
- GPE could also simultaneously make its Grant Agent selection process simpler and shorter, especially for small-mid sized philanthropic partners, reducing barriers to entry for the Match.
- GPE can also leverage the recently set up not-for-profit entity, which will enable it to receive funds from a range of private sources, e.g., corporations, High Net Worth Individuals, family offices and foundations, which currently do not donate using the GPE Fund.[3]

3

Partnerships with philanthropic collaboratives

- Partnering with philanthropic collaboratives that pool funding from multiple donors around specific themes—similar to SmartED—can enable GPE to achieve greater leverage efficiently.
- Prioritize collaboratives centered on systems change, and/or gender equity.
- *For example*, **Co-Impact** has successfully aggregated funding from 40 donors across 16 countries to support two funds targeting systems change and gender equity.

Note – (1) Interviewees from private foundations conducted by Mathematica emphasized that the support they received from the Secretariat was critical to generating their interest and co-financing commitments as well as completing the process (2) Private foundations, unlike large multilateral and bilateral donors, may be poorly positioned on their own to invest in high-budget, long-term initiatives for systems transformation that align with country policy objectives due to lack of capacity (staffing, country presence, representation in sector coordination mechanisms) to engaged actively and early on in the GPE country-level processes; (3) GPE, Meeting of Board of Directors: GPE Non-profit legal entity , 2024

C

Deep dives of secondary focus areas (Unallocated financing envelope)

Subsequent section outlines key recommendation and analysis for potential secondary but more innovative opportunities that will form ~20% of the total innovative finance portfolio

Highly preliminary–pre-decisional

Small funding envelopes will be ringfenced to strategically and flexibly support opportunities in climate finance, domestic finance, outcomes-based finance and other opportunities

Illustrative examples 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 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 Debt2Ed

3

Provide upfront grants that make portfolio of loans, secured by guarantees, more concessional

- Partner and provide 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 from these outcomes-based funding exercises

Potential to be unlocked by the Multiplier, keeping all quality assurance and operational processes the SAME

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

Subsequent deep dives cover 3 key questions for each of the opportunities

Opportunities:

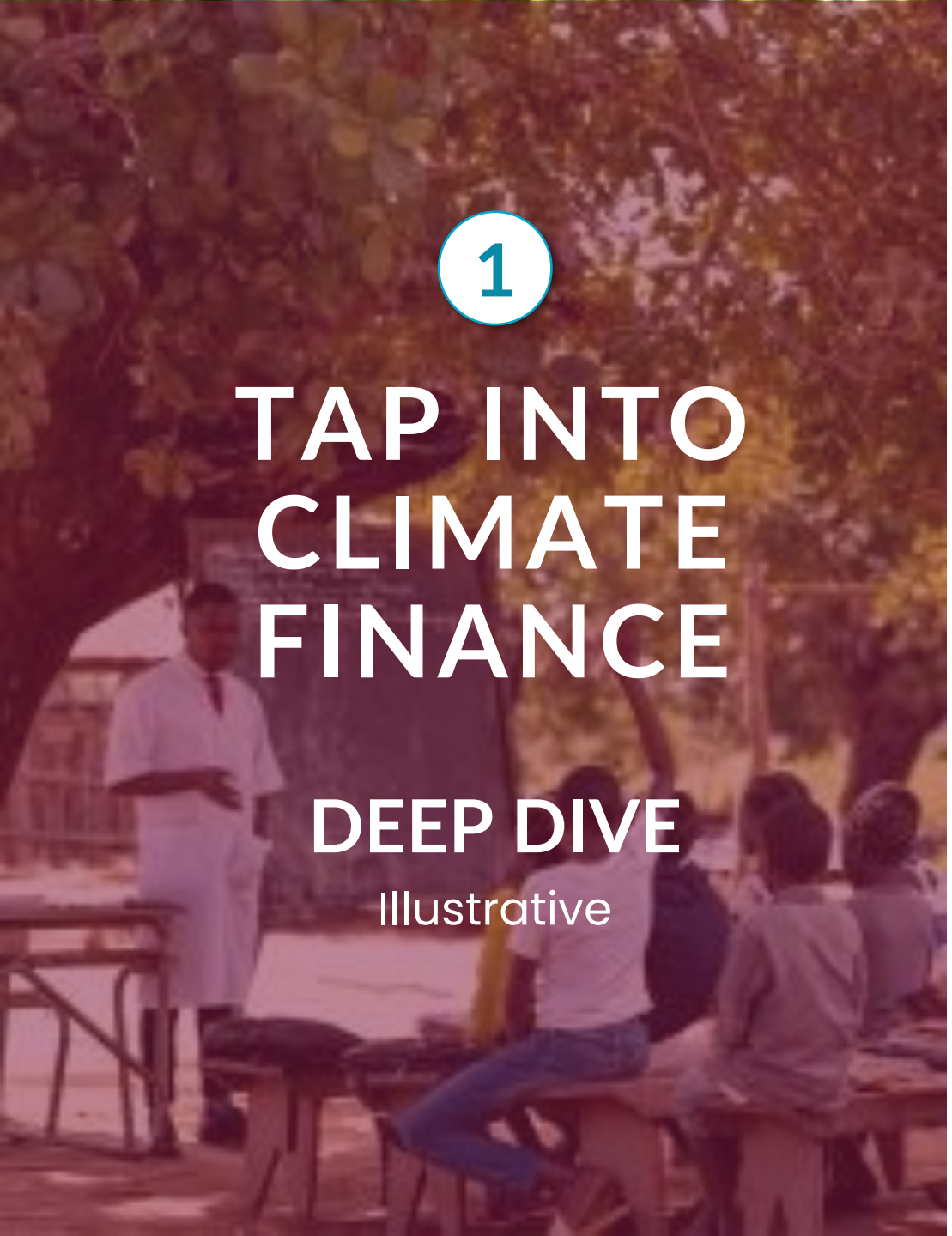
1. Tap into new and growing funding such as Climate-linked funding
2. Boost domestic finance through portfolio wide incentives and technical assistance
3. Provide upfront grants that make portfolio of loans, secured by guarantees, more concessional
4. Support scaling of learnings and innovations in outcomes-based funding

Key questions explored:

Q1: WHY SHOULD GPE CONSIDER THIS?

Q2: HOW CAN GPE OPERATIONALIZE THIS?

Q3: WHAT CAN GPE DO TO BEST REALIZE THIS?



1

TAP INTO CLIMATE FINANCE

DEEP DIVE

Illustrative

Capturing new and growing funding pools in Climate Finance for Climate-Smart Education

WHY SHOULD GPE CONSIDER THIS?

- Opportunity for GPE to tap into **growing $1.4 Tn market of climate finance** out of which **only ~2% is directed to child responsive activities**
- **Emerging interest to leverage climate finance** for education **by countries** and from **climate donors** to prioritize education

HOW COULD GPE OPERATIONALIZE THIS?

- Continue to **create a pipeline of projects** that can access climate finance through an expanded CSESI that covers more countries as a starting point
- Supplement CSESI with **co-financing from GPE through a high leverage climate finance window** (separate to existing Multiplier)

WHAT CAN GPE DO TO BEST REALIZE THIS?

- Besides CSESI, **align other grant agents** who are independently developing a pipeline for climate x education to allow GPE to co-finance those opportunities in addition to CSESI, expanding finance window's reach
- Enhance **advocacy efforts to elevate visibility** in global forums to attract climate-focused philanthropy and integrate with innovative financing models in climate

Opportunity to tap into large funding pools in climate by structuring early demand from countries and capitalizing on increasing interest from climate funders

Highly preliminary–pre-decisional

Opportunity to ride the tailwinds of growing climate funding which currently contributes a fraction to education

$1.46 trillion

Average annual climate finance flows, more than **doubling since 2018**[1]

Growth may slow down, given recent political climate, but will likely continue

~2.4%

goes to child responsive activities

Only ~2.4% of climate finance* has supported projects having components of child-responsive activities, with education-specific projects being negligible, which is much lower than sectors like healthcare (~6-7% climate funding) and insignificant considering the $97 billion annual funding gap for education in low- and middle-income countries[2]

Early interest from select countries and increasing awareness of climate donors can lead to high leverage opportunities

Potential for climate funders to embed education into their funding

So far, education funders have adopted a climate lens, however major climate funders like **GCF, Adaptation Fund, and Global Environment** Fund are keen to support climate-smart education.

"We are very open to furthering our partnership with GPE and are considering elevating education as a key theme in our portfolio."

- Global Climate Fund

Growing demand from mostly vulnerable countries (CSESI and non-CSESI countries) that requires structuring

"Most countries are including education as a large part of their NDCs going forward so we expect an increase in demand for climate x education finance."

- Inter-American Development Bank

Note – (*) funding is mainly coming from four key multilateral climate funds between 2006-2023; Current funding to education is likely mostly contributed by existing education funders;
Source- (1) CPI, Global Landscape of Climate Finance 2024, 2024; (2) STC and GPE, The Need for Climate-Smart Education Financing, 2023;

Generating and structuring upstream demand which can then receive design/execution will be critical to realize the opportunity

Highly preliminary–pre-decisional

Necessary stages in stimulating demand for climate smart education -

GPE focus areas; where support is limited

Support available from climate funders

	Generating demand within countries	Initial demand structuring	Implementation design	Execution
Stages				
Description	*Spark country-level interest to foster engagement with climate-smart education*	*Translate country interest into a pipeline of viable project concepts that focus on key intervention areas*	*Development of concepts into implementable design*	*Funding and implementation of projects*
Need for GPE involvement	**High need-** • Some activities by funder-linked accredited entities; but critical need for awareness-building with governments • Demand generation itself needs to be focused around 2-3 focused themes, such as Climate-Resilient Infrastructure or reconstruction for education systems as opposed to being too broad	**High need-** • Some interventions under BRACE/CSESI (covers subset of countries and should be expanded); but resource constraints limit countries' ability to conceptualize demand which is often a time consuming process • Support needed to ensure countries are tapping into UNFCCC finance (i.e. net new ~~funding to education sector~~)	**Low need –** • Large Climate funders like GCF provide design grants once initial concepts are developed which can be supported by GPE	**Low need -** • Accredited entities drive design execution and grant agents (GAs) support country-level implementation

Opportunity for GPE

Offer technical assistance to build a project pipeline, and offer co-financing through a high-leverage (6:1) funding window focusing on 2-3 core themes e.g., climate-resilient infrastructure

Notes – Based on review of CSESI program and external consultations

Renewing CSESI and building strategic partnerships will help incubate a robust pipeline of climate finance and GPE funding eligible education projects

Highly preliminary–pre-decisional

1 **Extend CSESI to build a pipeline of climate-education projects suited for GPE and UNFCCC funding**	• **Extend CSESI for 5 years** to strengthen government capacity and support concept note development to ensure pipeline readiness for GPE and UNFCCC funding. *(Existing project development grants can be utilized where relevant).*
2 **Strengthen partnerships for pipeline development**	• **Collaborate with grant agents accredited to GPE and climate co-financiers**, who are **already independently** trying to develop a pipeline of climate x education projects to ensure early alignment on funding requirements from both donors. • Expand **roster of common grant agents** to further bolster this effort.
3 **Expand funding reach beyond current CSESI countries**	• Include **additional high-priority countries Window** where partners are **actively developing projects** to ensure absorption of climate window (GPE can continue to focus CSESI efforts on regions where such activities are limited).
4 **Enhance advocacy to unlock greater financing**	• **Elevate visibility in global forums** to attract **climate-focused philanthropy** and integrate with innovative financing models in climate (e.g., IDB's 'Big Clima' initiative).
5 **Incorporate measures to reallocate country allocations incase of underutilization of funds**	• **Measures like a regional allocation as opposed to country specific allocation** allow funding to be pooled into a common regional project or to enable funding to flow to countries in the region where demand has materialized

CASE STUDY



GPE x IDB collaboration for climate x education funding

GPE is co-funding IDB's climate and education program, *i.e., 'Program for Strengthening Educational Trajectories and Climate Resilience of the Salvadoran School System',* ***associated with IDB CLIMA,*** *i.e., IDB's* ***innovative climate finance window***

PROJECT AIM

$150 MN of IDB loans are combined with **$12 MN in GPE grant funding** to ensure continuity of student education, strengthening climate resilience in education systems, and enhancing capacities for accessing green capital markets.*

PROJECT STRUCTURE

About IDB CLIMA I The Biodiversity and Climate-Linked Mechanism for Ambition or IDB CLIMA **rewards investments in biodiversity and climate** commitments allowing a **5% rebate on IDB loans upon achievement of predefined climate-related KPI targets** which boosts country capacities to access green and thematic debt markets to meet environmental commitments.

(Illustrative)

1 IDB and GPE co-fund climate X education projects

IDB Sustainability-linked loans + GPE Transforming Education Grant funding

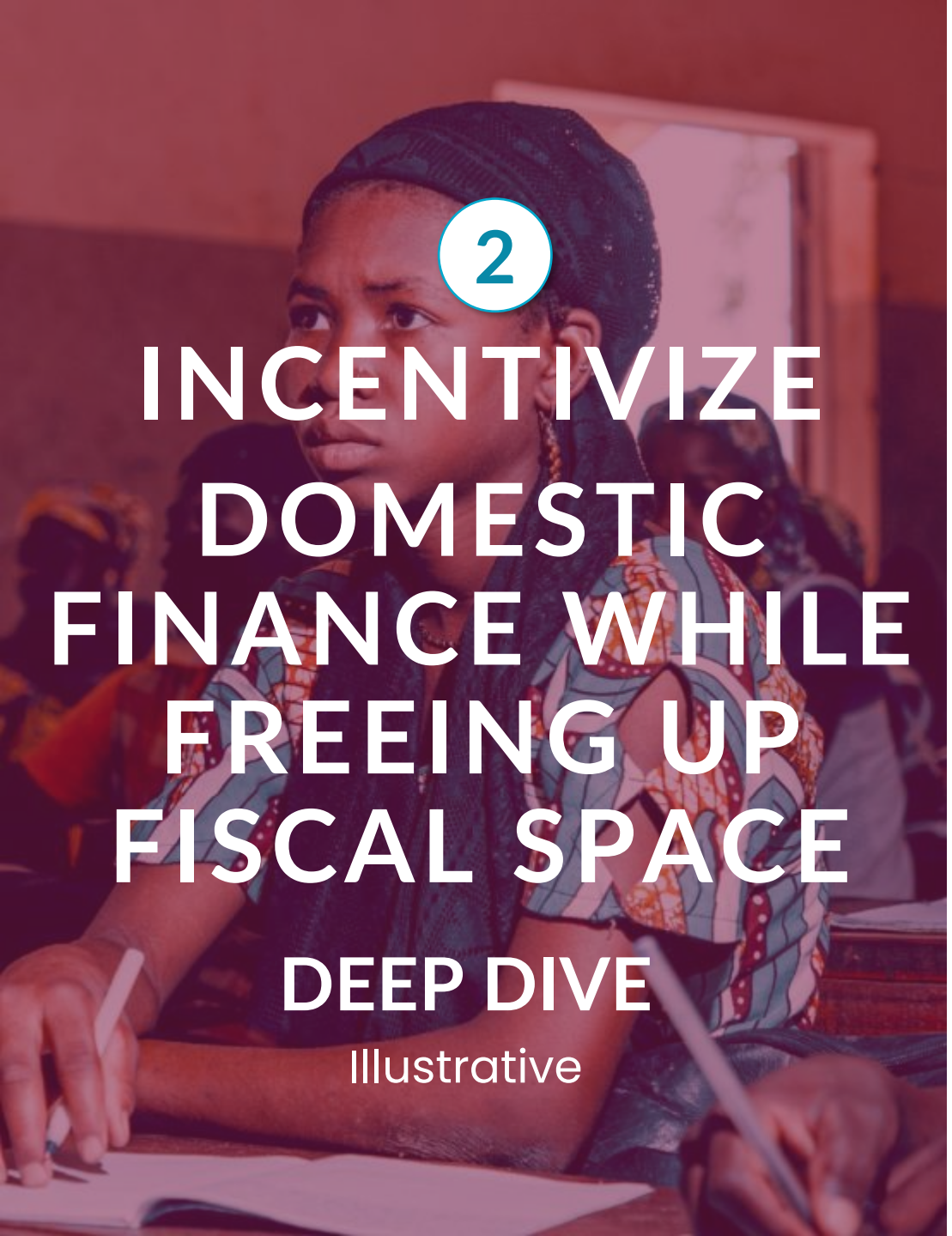
2 **5% rebate granted on loan** on **achievement of climate-linked KPIs**

KEY LEARNINGS

- Channeling net new funding for education through climate windows, e.g., climate funds of MDBs
- Integrating innovative finance mechanisms such as sustainability-linked loans for greater climate X education funding

GPE could explore ***partnerships with MDBs focusing on climate and education funding;*** *and push for* ***inclusion of education resilience KPIs*** *in innovative finance mechanisms like sustainability-linked loans.*

Notes: IADB, Program to consolidate complete educational trajectories and their climate change resilience, accessed February 2025; *Comprehensiveness of information is subject to limitations of secondary research



2

INCENTIVIZE DOMESTIC FINANCE WHILE FREEING UP FISCAL SPACE

DEEP DIVE

Illustrative

Incentivize domestic finance across the portfolio of instruments

WHY SHOULD GPE CONSIDER 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

HOW CAN GPE OPERATIONALIZE THIS?

- GPE can **supplement existing instrument level** incentives for domestic finance across the Multiplier and Debt2Ed by integrating them into newer instruments
    - Expand **multilateral Debt swap 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
- Additionally, **GPE can provide TA support** to help countries tap into different domestic funding pools (e.g. taxes, levies, diaspora bonds) and **explore Multiplier-linked incentives for these specific opportunities**

WHAT CAN GPE DO TO BEST REALIZE THIS?

- GPE can leverage **existing MDBs efforts** to improve domestic resource mobilization, and **adopt a flexible approach** for supporting countries

A

Increase domestic finance

B

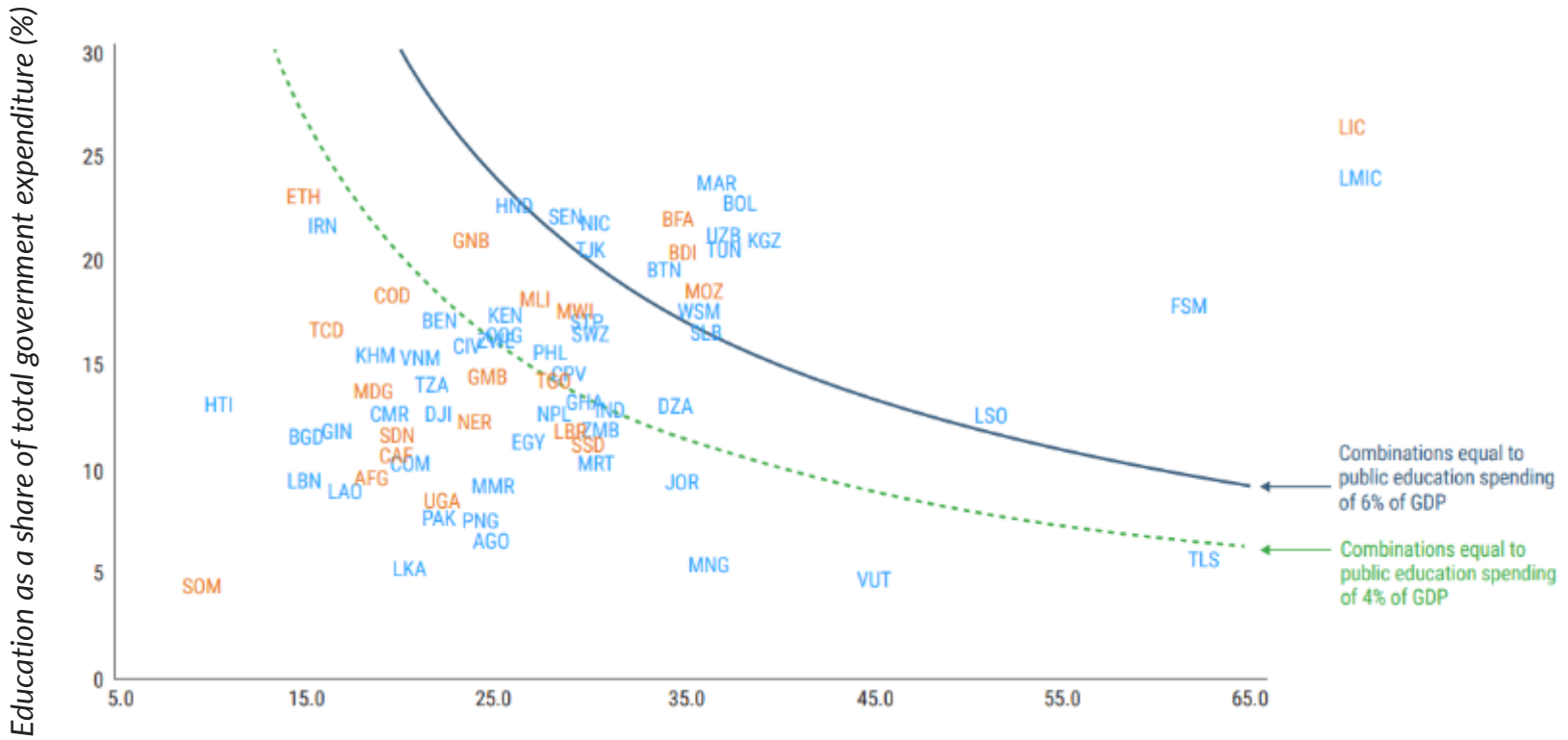
Free fiscal space

A Government spending for education has stagnated resulting in most LMIC and LIC countries spending less than the recommended public spending levels for education

Highly preliminary–pre-decisional

Education as a share of total government expenditure and as a share of GDP in LICs and LMICs

Percentage, 2010-22



- Globally, education spending as share of GDP has decreased from **4.5% in 2010 to 4.3%** in **2022**
- Over the past decade, government funding for education as a percentage of national income has **declined in country income groups except LICs**
- Many LICs and LMICs **still fall short of international education spending benchmarks** (4-6% of GDP). Among 80 countries, **41 met neither target**, 25 met both, and 14 met one
- Additionally, disparities in **annual government spending per child** by country income group remain significant. For every US$100 that HICs allocated on education per child in 2022, LICs allocated less than US$1

Source: World Bank, Education Finance Watch, 2024

A GPE can supplement existing instrument level incentives for domestic finance by integrating them into newer instruments

Highly preliminary–pre-decisional

GPE's current portfolio already includes measures to incentivise domestic finance through the Multiplier and Debt2ED

Instrument	Impact to DF*	Current approach
3:1	High	• **Results based disbursement tied to increasing education's share in national budget** (First 70% of a GPE implementation grant is tied to developing country partner applicants committing to sustainable education financing, with governments expected to allocate 20% of the national budget to education or maintain that level. If universal primary education is unmet, at least 45% of the education budget must go to primary education. The remaining 30% is disbursed based on demonstrated sector progress, often linked to efficiency gains.) • **Top up triggers for countries have at least one trigger related to domestic finance** (DF triggers represent 81% of total top-up allocation)
Debt2Ed	High	Debt2Ed converts debt service into education investments, reducing bo**rrowing costs and creating fiscal space for increased education spending**
SmartEd	Medium	Leverages funding from the Islamic Development Bank and Arab Coordination Group to support 37 IsDB member countries. Linkages can be further explored.
1:1	Medium	Domestic philanthropy, like other private philanthropy, receives 1:1 cofinancing in multi-party transactions **but lacks specific incentives for its promotion**

GPE can integrate minimum thresholds or KPIs for domestic finance in its expanded menu of instruments

Instrument	Impact to DF	Proposed approach
Outcomes based funding	High	• GPE could only **fund outcomes-based projects which have commitments of at least 15-20% of government outcomes funding** • Additionally, GPE can ensure TA support for these projects includes coverage on ways to leverage domestic finance e.g. use of pension funds as risk investor
Grants to make loans from guarantees concessional	High	• When providing GPE grants to a portfolio of MDB loans, **KPIs can be integrated that allow further interest discounts** if a country govt **shows progressive increase in domestic finance during loan tenure.** • GPE can partner with **MDBs** who have explored KPI-based loans (e.g. Big Clima program includes sustainability-linked loans using climate KPIs)

Note: *DF = Domestic finance

A Additionally, GPE can provide TA and incentives to help countries tap into domestic funding pools – support will be required to tailor mechanisms and approaches suited to unique country contexts

Highly preliminary–pre-decisional

Examples of existing mechanisms used by countries to tap into domestic funding -

Finance source	Taxes/levies	Remittances	Lottery funds	Municipal bonds
Examples of mechanisms	• Education cess over and above individual income and corporation tax	• Diaspora bonds to attract savings from migrants, used to fund education welfare	• Revenue from public lottery agencies for education projects (specific lottery series can also target education)	• Municipal bonds for education projects that can be availed by retail investors
Real life application	• E.g. In India, **4% Education levy** is applied on top of calculated income tax and corporation tax to fund salaries, mid-day meals, infrastructure, special schemes, etc.	• E.g. **Israel and India** have seen success with the use of diaspora bonds in the past (none focused only on education)	• E.g. National Lottery Commissions established in many African countries fund **educational initiatives**, including school infrastructure, scholarships, and teacher training	• E.g. many MIC and LMIC countries like **India, Brazil, South Africa** are considering and have leveraged municipal bonds for development funding especially for infrastructure
Geographic suitability	• More suited in middle-income countries where there is less sensitivity to increased taxation; micro levies can be suitable for in LICs	• Suited for LMICs and LICs with large remittance inflows and savings from migrants	• Varies widely- some lottery funds run effectively at a national level while others at a state level in both LMICs and LICs	• Suitable in countries with strong domestic markets with high retail investor confidence
Opportunity for GPE	**GPE can provide TA that allows countries to identify suitable mechanisms to unlock domestic and finance and bonus incentives e.g. allowing countries to use funds unlocked from these mechanisms to trigger access to multiplier grants**			

A GPE can leverage existing MDBs efforts to improve domestic resource mobilization, and adopt a flexible approach for supporting countries

Highly preliminary–pre-decisional

1 Build on existing TA efforts by MDBs to ensure coverage of education

- GPE can align with existing MDB-led initiatives to enhance domestic finance, fund management, and public resource mobilisation for education.
- Example: ADB's TA program in India supports state governments in fiscal management, creditworthiness, private-sector engagement and climate finance; GPE can ensure education financing is integrated into such efforts.

2 Aim for 'big bet' transactions to inspire action in other regions

- Focus on large-scale innovative deals that serve as replicable models for other regions.
- Global Fund has taken a similar approach where joint/blended financing has contributed to increasing the size of domestic funding and debt financing sought by countries to fight 3 diseases (e.g. India TB loan buy-down). This has enabled bolder, more innovative programmatic approaches – e.g. Malaria Elimination initiatives (RMEI in Caribbean/Central America; MEA)

3 Adopt a flexible approach to supporting domestic finance mechanisms

- Countries have varying capacities for new domestic revenue streams; GPE should tailor TA and incentives to local contexts.
- Example: A 4% education cess on income and corporate tax worked in India, while smaller nations may benefit from micro-levies on tourism, hospitality, or remittances

Source: ADB website; Global Fund, The Global Fund's Role and Approach to Domestic Financing for Health (DFH),2022

CASE STUDY

Using social bonds as a tool for domestic finance

Sovereigns have raised ~$15B in social bonds to date, often from domestic markets, and a portion of these funds are already used in education

Source: World Bank, Insights based on World Bank Surveys of Public Debt Management Offices and International Investors, BCG analysis

EXAMPLES OF USAGE

	Chile	Guatemala
Goal	Series of bonds aimed at promoting growth with equity, addressing inequality, and **improving the education of vulnerable groups**	Finances projects related to COVID-19 prevention and response efforts, food security, basic infrastructure, **continuation of free education**, etc.
Year	2020-2021	2020
Bond sum	Total of $16B across 11 bonds	$500M
Interest / coupon rate	4.34%	5.375%
Additional information	81% of thematic bonds were issued in international market and 19% in domestic market	First sovereign social bond issued without a development bank guarantee

OPPORTUNITY FOR GPE

GPE is well positioned to address some of the key pain points in leveraging sovereign bonds

Pain point 1: Cost of arranging issuances and process itself is too complicated
GPE could provide technical assistance grant to off-set cost of preparing issuances or to help countries demystify issuance process

Pain point 2: Difficulties in identifying eligible expenses/projects
Education compacts are ready-made documents that can be tied to the Social Bond Principles to find eligible expenses and projects

A

Increase domestic finance

B

Free fiscal space

B Debt swaps have emerged as a promising solution to ease debt distress, witnessing momentum in sectors like nature, with growing interest and potential to mobilize education investments

Highly preliminary–pre-decisional

Rising debt threatens progress on SDGs like education, making debt relief a global priority

60% countries eligible for IDA funds are either **already in debt distress,** or are at **high risk**[1]

48 **developing countries** spend **more on interest payments** than on **education or health**[2]

>30 GPE partner countries spend equivalent to **at least half of their education budget on debt service repayments**[3]

~10% of the **annual education funding gap** (~100 BN p.a.) in **developing countries** can be met by **freeing up even 1% of their interest dues** by debt structuring efforts[4]

GLOBAL PRIORITY I Debt relief and support for developing countries were key priorities at the **UN's 2023 Financing for Development Forum,** emphasizing debt structuring and collaboration among multilaterals and the private sector.[5]

Debt-for-development swaps unlock fiscal space for countries and are gaining momentum

Debt swaps, particularly in the environment and climate space, have seen a resurgent interest in the past few years

~140 debt-for-nature swaps till date; some of the **largest climate swaps** happened recently, in the past 5 years.[6]

Global Fund's Debt2Health initiative facilitated ~12 swaps since 2007, with US$226 MN in health funding for 10 debtor countries.[7]

Similar momentum for swaps in education sector points to interest by govts and MDBs

World Bank's first debt-for-development swap with Côte d'Ivoire (2024) will free up **€330 MN** in budgetary resources, enabling greater education investments.[8]

"We have received interest for education swaps after we did the biggest debt for nature swap in Ecuador.

- Inter-American Development Bank

Notes:; (1) World Bank, Education Finance Watch, 2024; (2) UNCTAD, A world of debt, 2024; (3) GPE, Debt2Ed, 2023; (4) UNCTAD, Global public debt hits record $97 trillion in 2023, UN urges action;, 2024; Taken (annual) net interest payments by developing nations in 2023, i.e. 847 BN, and assumed the entire 1% of foregone interest payment is channeled towards education; (5) UN, 2023 Session, Financing for Development Forum, 2023; (6) WEF, Climate finance: What are debt-for-nature swaps and how can they help countries?, 2024 (7) The Global Fund, Global Fund, accessed February 2025; (8) WB, Côte d'Ivoire's Debt-for-Development Swap, Enabled by the World Bank Group, Will Free up Funds for Education, 2024

B GPE already has experience with bilateral swaps and can explore multipartite swaps, allowing it to alleviate debt burden through expanded use of Debt2Ed, already a part of the IF portfolio

Highly preliminary–pre-decisional

How does this work

1 Bilateral swaps

No. of parties:	**Two**, i.e. debtor government and creditor government(s)
Debt treatment:	**Debt forgiveness by creditor**, i.e. creditor forgoes principal and/or interest payments in exchange for debtor's commitment to reallocate savings to social investments
Benefits:	• **No added debt burden** for debtor government • Pathway for creditor government to direct more funds towards **development assistance** (meet ODA targets)
Challenges	• Dependent on creditor's willingness to provide debt relief; limited opportunity to leverage private capital

2 Multipartite swaps

No. of parties:	**More than two**, i.e. debtor government, creditor(s), and additional donors/ guarantors
Debt treatment:	**Use of cheaper credit/grants from third parties to reduce debt obligation,** i.e. buy down/ buy back of debt in exchange for channeling savings to social causes; may include credit enhancements like third-party guarantees
Benefits:	• **More opportunities to structure swap deals** with **third party funding**, compared to greater reliance on creditor • Scope to **leverage private players** and raise **domestic finance** (through bonds) to free up sovereign funds
Challenges	• Risk of over-complexifying when too many external players are involved

B Multipartite swaps present a strong opportunity for GPE by stimulating demand, securing partner support, enabling more swap agreements, and aligning with GPE's innovative finance goals

Highly preliminary–pre-decisional



Increasing familiarity can drive a growing pipeline

- Multipartite swaps in climate and nature have grown since 2020s, with the four largest occurring between 2021-2023 (Belize, 2021: funding for conservation: 180 MN; Barbados, 2022, fiscal savings: 125 MN; Ecuador, 2023, funding to climate: 450 MN; Gabon, 2023, funding for ocean conservation: 125 MN).[1]
- World Bank's support for the 2024 education swap in Côte d'Ivoire can attract sovereign interest for swaps in education.



Third party loans/grants can open more pathways for deal structuring

More deals can be structured and realized, at higher values, when debtors have access to third party, external funds to reduce their debt obligations, and are not solely reliant on debt relief and accompanying conditions from creditors.



Growing momentum can create greater partner willingness to collaborate

More likely for GPE to secure support from partners like MDBs and bilaterals given their existing experience and comfort with multipartite swap model.



Co-benefits of these swaps support GPE's overall IF goals

Multipartite swaps offer additional benefits such as the engagement of private sector and domestic finance for education funding, which is in line with GPE's IF goals to leverage non-development sector capital for achieving education goals.

Notes: (1) GCF, Debt for climate swaps: exploring avenues and opportunities, 2024; TNC, Belize Debt Case Study, accessed February 2025; EIB, Barbados launched the world's first debt-for-climate-resilience operation, 2024; ORF, From Galápagos to Global: Leveraging Debt-for-Nature Swaps for Debt Relief and Environmental Protection, 2025; UNEP FI, https://www.unepfi.org/net-zero-banking/case-studies/Bank of America supports restructuring of Gabon's sovereign debt for nature-positive outcomes/, 2023

B GPE can establish ready-to-go partnerships to unlock more multipartite swaps, promote country-level integration of funds, and push for greater debt relief especially in debt-distressed countries

Highly preliminary–pre-decisional

1 Establish ready set of partners to facilitate swaps

- GPE can leverage its existing relationships with governments and M/RDBs to establish agreements with experienced debt swap partners, ensuring smoother coordination when opportunities arise while maintaining simple swap structures which can scale. *(Case study on Ecuador on next page)*
- Additionally, GPE and core partners can socialize a common set of themes that can be funded via swaps to expedite such transactions.

2 Promote greater flexibility in use of funding for education

- GPE can advocate for increased use of country-level administrative and budget-related institutions for management of swap funds. This increases country ownership and transparency in swap agreements v/s use of external SPVs or Trust Funds which often have high admin costs*.
- In countries which lack internal fund management capacity, the GPE Fund can host swap-generated funds, working closely with governments to integrate them into education programs and debt restructuring. This approach will also help reduce the rigid earmarking of fund use (which is often the case with swaps).[2]

3 Focus on countries in debt distress and/or prior swap experience

- Along with prioritizing countries which have already engaged in debt swaps, GPE should also opportunistically consider pilots in new regions which are most in need, i.e. partner countries which have high levels of debt distress.
- Partnerships with MDBs/ lenders with prior experience can ease implementation.

4 Push for greater debt relief by creditors

- GPE can influence swap agreements to adopt models which unlock the maximum possible benefit for partner countries, e.g., through loan forgiveness by creditors.
- GPE can make its existing TA grants available to support country-level implementation and monitoring of fund use, and greater program linkage to education outcomes, inspiring confidence amongst creditors.

Notes: *WB, Debt for Development Swaps, 2024

CASE STUDY

Ecuador's debt-for-nature swap through a multipartite arrangement

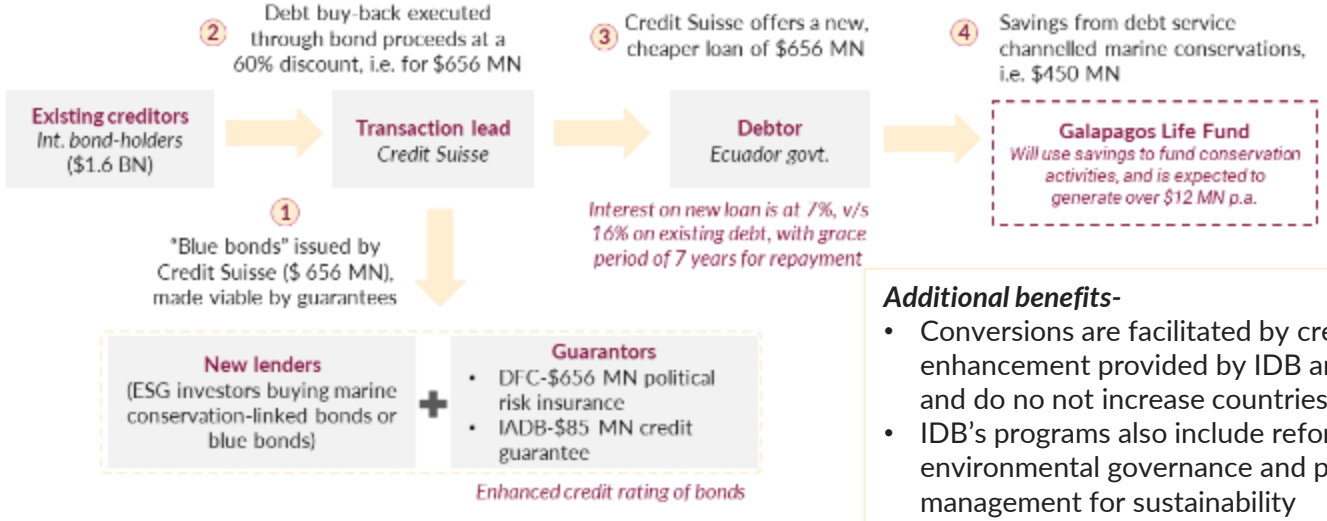
*In the **largest debt swap** to date, **Ecuador bought back $1.6 BN** of its **outstanding international bonds** using a **new, $656 MN debt raised through "blue bonds"**, i.e. low interest bonds intended to **fund marine conservation,** supported by **political and credit guarantees.`***

Notes: Chandrasekhar, Swapping Debt for Nature: Does ecuador show the way?, 2023; Pacheco, Galapagos Deal: An Ignominious Legacy, 2023; ORF, From Galápagos to Global: Leveraging Debt-for-Nature Swaps for Debt Relief and Environmental Protection , 2025; IMF, Addressing Ecuador's Climate Financing Needs, 2024

RESULTS

Debt buy back enabled **net savings of $1.126 BN in debt service costs for Ecuador** ($624 MN in capital reduction and $502 in interest payments), resulting in the government contributing **$450 MN as counterpart funding towards marine conservation.**

DEBT SWAP STRUCTURE



Note: A private, Ireland-based entity called **GPS Blue Financing entity served as the SPV** for the swap, managing funds disbursal, new issuance of bonds and loan

Additional benefits-

- Conversions are facilitated by credit-enhancement provided by IDB and other DFIs and do no not increase countries' debt stock.
- IDB's programs also include reform programs for environmental governance and public debt management for sustainability

KEY LEARNINGS

- Tapping into **large-scale funds like bonds** (here, added strategy of linking bond to environmental gains) and **supporting guarantees** (which instill investor confidence)
- Leveraging **partnerships with private players** for funding and facilitating transactions
- Ensuring **sustainability of funding** by investing funds in long term vehicles

*Building on learning from the Ecuador swap, **GPE could help expedite these swaps, more effectively in education** by working with a **set of experienced partners** (e.g. IADB), mitigating complexity and high costs associated with these transactions; it can also push for **greater integration of funding with country-level systems and goals***



3

GRANTS THAT REDUCE THE COST OF LOANS BACKED BY GUARANTEES

DEEP DIVE

Illustrative

Facilitate concessional grants that unlock larger market loans, secured by guarantees, to achieve higher leverage and developmental impact.

WHY SHOULD GPE CONSIDER THIS?

- MDBs are using guarantees to expand lending capacity, however, concessional finance will be critical to ensure education funding needs are met, especially in low resource settings
- Grants will help de-risk lending ensuring financing is equitably accessed by all countries, and education is prioritized
- Portfolio-level concessional loans expand country choice, lower transaction costs, unlock higher funding leverage and attract new capital

HOW CAN GPE OPERATIONALIZE THIS?

- GPE can explore such opportunities to test demand for lower-cost loans supported by upfront grant funding
- GPE can attract new forms of capital to establish guarantees and/or provide grants that enhance concessionality and incentivize outcome-based lending

WHAT CAN GPE DO TO BEST REALIZE THIS?

- GPE will need compliance measures to ensure grant funding is used for systems transformation, there is no excessive geographic targeting, and international debt sustainability practices are adhered to

Grants to concessionalize loans from guarantees expand country choice, lower transaction costs, unlock higher funding leverage and attract new capital

Highly preliminary–pre-decisional



Expanded choice & flexibility for countries

Countries can opt to use the conventional Multiplier route or participate in this facility, which can potentially further concessionalize funding through ready co-financing partners and grant support, especially benefiting countries struggling to secure additional co-financing.



Higher leverage by tapping into existing anchor funders

Co-financiers can be directed to provide higher leverage in exchange for upfront grant support, increasing leverage beyond the 4:1 Multiplier threshold.



Leverage regional funding and new forms of capital to support development of guarantees

Partnerships with regional development banks (e.g., Islamic Development Bank) and philanthropy can pool new capital for guarantees, with GPE's branding attracting alternative investors.

Source: GPE board notes

GPE can help test demand for such capital, attract new forms of capital to establish guarantees and/or provide grants that enhance concessionality and incentivize outcome-based lending

Highly preliminary–pre-decisional

WHAT CAN GPE DO?

WHY IS GPE BEST PLACED TO DO THIS?

1 In the short term, test demand for lower cost loans supported by grants

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

- **GPE is well positioned to partner with large MDBs** and actors such as IFFED to realize and test such opportunities

1 Engage new capital to set up guarantees/provide grants to increase available funding for education

GPE can **incentivize philanthropy** and other **capital sources to pool funds** for setting up portfolio guarantees/concessional grants leveraged by MDBs.

- **GPE-scale funding will be needed** to concessionalise loans at a portfolio level which can then incentivize other donors to follow
- Involvement of a large funder like GPE **creates a pull for other funders** to join in

2 Promote outcomes-based lending for greater capital effectiveness

By concessionalizing a portfolio of loans, GPE can incentivise co-financiers to offer outcomes linked loans that provide interest relief upon meeting certain KPIs tied to education outcomes. **The KPIs can be linked to better learning outcomes at a project level or even tied to increasing domestic finance in education.**

- GPE has the **ability to work with co-financiers to set these KPIs and also influence government systems**

GPE will need compliance measures to ensure partner co-financiers create equitable and sustainable disbursement to a wide range of countries for systems change using the upfront grants

Highly preliminary–pre-decisional

1

Ensure grants are directed to systems transformation

- The combined financing instrument would be required to meet GPE's funding model requirements, including all GPE quality assurance standards and be fully consistent with safeguards, such as GPE's private sector policy and the policy governing misuse of funds.

2

Drive broad geographic coverage to reduce excessive targeting

- Ensure the partner co-financiers cover a large number of GPE-eligible countries to prevent overly narrow resource allocation.

3

Ensure debt sustainability by adherence to international best practices

- Ensure that the resulting instrument is deployed in accordance with international best practices regarding the sustainability of public borrowing, including relevant internationally agreed safeguards and any limits on public borrowing that are in place.

Source: GPE board notes



4

SUPPORT OUTCOMES FINANCING

DEEP DIVE

Illustrative

Steward much-needed outcomes-focused education financing by taking outcomes-based funding to scale and maximize capital effectiveness

WHY SHOULD GPE CONSIDER THIS?

- Need to create stronger linkage between **disbursement of funding and achievement of outcomes** to tackle the learning crisis – **70% of children in LMIC/LICs are in learning poverty**
- Outcomes based funding models have delivered **impact in cost-effective manner, and are supported by a growing ecosystem of funders and technical experts**
- GPE donors are increasingly looking for accountability to/**evidence of outcomes**

HOW CAN GPE OPERATIONALIZE THIS?

- Current landscape of outcomes-based funding **struggles to expand and sustain learnings**, has **limited incidences of outcomes funding**, and **inadequate TA support necessary** for scale-up of OBF pilots
- GPE can **push the ecosystem** forward by –
  - Supporting **expansion of successful pilots** with simpler designs that work at scale
  - Push adoption of **existing learnings** from OBFs by govts.
  - **Incentivize govts. to be outcomes-oriented through advocacy and TA** (with or without OBF structures), creating system level focus on outcomes

WHAT CAN GPE DO TO BEST REALIZE THIS?

- Provide **catalytic funding** to refine program design for scale-up, support operational costs, and advocate for outcomes adoption

Stronger linkage between disbursement of funding and achievement of outcomes

Highly preliminary–pre-decisional

There is a need to make education funding more effective considering existing funding gaps

70% *of children in LICs and LMICs today are in **learning poverty**[1] arising from suboptimal spending decisions and resource efficiencies[2]*

**Learning poverty is the proportion of 10-year-olds who are unable to read a simple text with comprehension[1]*

$100B ***annual financing gap expected for education** in LICs/LMICs between 2023 and 2030[3]*

~2% decline ***in share of total development aid to education** from 9.3% in 2019 to 7.6% in 2022, due to shifting priorities[3]*

*This requires existing and new **funding to be linked to outcomes**, instead of only inputs and activities*

Notes: (1) World Bank, The State of Global Learning Poverty: 2022 Update, 2022; (2) World Bank, Quality Education and the Efficiency of Public Expenditure, 2019 (3) World Bank, Education Finance Watch 2024, 2024 ;

3 Outcomes-based funding (OBF) models tie funding to improved education outcomes, delivering impact in a cost-effective manner, and are supported by a growing ecosystem of funders and technical experts

Highly preliminary–pre-decisional

OBF pilots have improved outcomes cost-effectively even in low-resource areas; few have started to scale

Prominent examples include-

The Sierra Leone Education Innovation Challenge, 2022-25[2]

Funding	$18 MN
Scale	134,000 children across all districts
Cost & outcomes	Costs capped at $36 per child p.a., key to scale and sustainability; results from year 1 show **positive impact on numeracy (0.125 SD**)** across both girls and boys

Results Based Financing Personalized Adaptive Learning (PAL) programme[2]

Funding	~$5 MN
Cost & Outcomes	Targets **improved learning outcomes** of students from grades 3-8 through a **Personalised Adaptive Learning (PAL) edtech solution**
Scale	Covering 280 public schools across 4 districts in Uttar Pradesh

This space has seen participation by various stakeholders, and even by peer funders in other sectors

OBF has witnessed traction by actors such M/RDBs, philanthropies, and technical experts across the education sector

For instance-

The World Bank, leading in results-based financing (spent US$22BN+), is also **focusing on OBF through "Outcomes Fund"** that focuses on disbursements tied to input/output indicators; education being one of its core sectors.[3]

Prominent global and local **philanthropies** like **Michael and Susan Dell Foundation** and the **Reliance Foundation** have served as outcomes funders in education impact bonds.

Technical experts like EOF now provide specialized **TA support** to actors such as govts. to design and implement OBF models.

GPE peers in other sectors such as health are also gearing towards greater outcomes-based funding

The Global Fund supports a social impact bond to address HIV with a gender lens in South Africa[4]; it is also exploring outcomes-based financing for malaria elimination in African and Asian nations.[4]

Notes: (1) EOF, EOF and the Government of Sierra Leone launch partnership to improve education for 100,000 children, 2024; Global Schools Forum, Sierra Leone Education Innovation Challenge, Sierra Leone, 2024; **SD indicates "standard deviation", quantifying effect sizes in research; (2) ORF, India needs to move from 'spending more' to 'spending better' in education. 2023; (3) World Bank, An Introduction to Outcome-based Financing, accessed January 2025; The Outcomes Fund is launched by the Global Partnership for Results-Based Approaches housed within the World Bank (provides grant funding and TA support); (4) The Global Fund, Innovative Finance, accessed January 2025

3 GPE can push the ecosystem forward by funding scale-up of current OBF programs and their learnings, and advocating with governments for stronger outcomes-focus in national projects

Highly preliminary–pre-decisional

WHAT CAN GPE DO?

1 Support expansion of existing pilots with simpler designs that work at scale

Provide bridge funding to **scale existing OBF innovations** with an emphasis on **simplifying design** and making it suitable for scale. This builds on GPE's efforts to expand research-backed education interventions in Ghana with the Jacobs Foundation.[1]

2 Push adoption of existing learnings from OBFs by govts.

Provide TA support to encourage governments to **embed/scale learnings** from current OBF programs **into national initiatives**. E.g., the QEI DIB shows that adaptive learning products (when implemented well, with focus on use and monitoring) can greatly improve learning, even with varied student proficiency levels.[2]

3 Incentivize govts. to be outcomes-oriented (with or without OBF structures), creating a system-wide focus

Advocate with governments to **focus on outcomes** in education **project procurement and spend,** elevating importance in **country compacts** and by establishing **outcomes-based contracts.**

Supplement with TA support *and focus on operations without creating complex outcomes structures.*

WHY IS GPE BEST PLACED TO DO THIS?

- Involvement of a large funder like GPE will not only **create a pull for other outcome funders**, but also initiate a **mindset shift** amongst them to **prioritize linking funding to outcomes.**

- GPE's **existing relations with country governments and other education actors** enable it to push both aggregation of learnings, and their uptake.

- GPE holds the **ability to influence government systems** through its funding processes which involve country compacts.

Notes: (1) Jacobs Foundation, Ghana: supporting quality education based on evidence, accessed January 2025; (2) Parekh et al., Quality Education India DIB: Learnings from outcomes-based instruments to deliver education outcomes at scale, 2024

3 GPE should provide catalytic funding to refine program design for scale-up, support operational costs, and advocate for nation-wide outcomes adoption

Highly preliminary–pre-decisional

1 Provide TA funding to simplify design of pilots, enabling scale-up

- Provide TA funding to **refine program design** of selected interventions to make them fit for scale up.
- *This can be done through **GPE's existing Program Development Grants.***

2 Ensure funding agility to take on operational costs

- Be ready to **fund operational components** critical for success of OBF like performance management and evaluation which might not have support from all funders/on which funder participation might be contingent.
- *E.g., In the Gambia, co-financier commitments for more funding were contingent on ability of GPE funds to address concerns around country's logistical capacity and teaching quality.*

3 Advocate efforts for greater outcomes adoption

- Work with current OBF **players and support** convening of actors across the education sector to showcase potential of OBF.
- Build on existing country relations and **liaise with governments for adoption** of learning from existing pilots in those geographies, or other applicable countries.

> *GPE could use their advocacy muscle and ability to engage governments, shifting them towards outcomes-based approaches*
>
> - Education Outcomes Fund

Case from LiftEd I USAID committed catalytic funding for LiftEd to support implementation at scale
The **$3 MN contributed by USAID** served as catalytic funding for the LiftEd DIB to support **program design, TA,** and cover portions of **program costs like performance management**; these funds were critical to **crowding in $20M of program funding** and ensuring the DIB runs at the envisioned scale, **building on QEI learnings.**