FREQUENTLY ASKED QUESTIONS: DEBT2ED

Debt2Ed is an innovative and collaborative model to transform repayments on national borrowing into investments in education and secure significant new grant finance from the GPE Multiplier.

Effectively implanted, Debt2Ed will reduce the burden of public debt in poor and vulnerable countries and enable more and better spending to get children into school and learning.

What's the problem?

Immense progress has been made getting girls and boys into school. The COVID-19 pandemic set back or even reversed many of these hard-won gains. Falling government revenues, less overseas aid, and mounting costs of paying off national debt crowd out critical investment in education.

Domestic finance is the most significant and sustainable source of financing for education—but even before the pandemic, nearly four in every 10 of GPE partner countries spent the equivalent of half of more of their annual education budgets paying back government loans.

The world's poorest and most vulnerable economies need flexible, context-specific solutions to protect their education budgets, the engine of recovery and future growth.

How does Debt2Ed work?

Debt2Ed is linked to the GPE Multiplier. The Multiplier unlocks supplemental grant funding for a country's education system if external partners mobilize new and additional funding. Debt2Ed positions donors and partner countries to use *debt treatments* as the source of this additional funding in any of the countries eligible for GPE support in 2021–2025.

A debt treatment is an agreement between the creditor and partner country (sometimes with a third party) to change the amount or repayment terms of a loan—in short, to provide debt relief.

- Partner countries benefit from a lower debt stock and/or debt service payments and increased resources to invest in schooling.
- Creditors create a new channel to support international spending on a critically under-funded sector, helping to meet our shared commitments to Sustainable Development Goal 4 and beyond, as well as their own Official Development Assistance targets.

- The education sector gains new investment through or alongside GPE-supported programs, designed based on rigorous evidence about what works and focused on helping countries transform their education systems.

By agreeing to a debt treatment, donor and partner countries can immediately mobilize supplemental funding from the GPE Multiplier.

Crucially, resources from the Multiplier can be disbursed when a debt treatment is agreed—potentially before the resources from the debt treatment itself are disbursed.

What are the main approaches to implementing Debt2Ed?

Different countries have different challenges. Some may want to work with creditors and donors to lower the costs of repaying existing loans. Others have room to borrow but want to lower the cost of that borrowing to protect their fiscal health and invest more in education. Recognizing the need for flexibility, the Debt2Ed approach can apply to both *debt swaps* and *loan buydowns*.

In a *debt swap*, the creditor and partner country (the borrower, also called the debtor) agree to a *debt treatment* that reduces the debt service payments of an outstanding loan in exchange for a counterpart payment from the borrower to the education sector. GPE will work with the partner country and creditor to determine the best way to channel and monitor the payments to the education sector, which could be through the GPE Fund or through the partner's systems.

In a *loan buy-down*, the creditor—or a third party—pay some or all a loan's interest and / or the principal on behalf of the partner country, the ultimate borrower. Depending on the setting, the participants might make the buy-down conditional on ambitious, mutually-agreed targets, like achieving better results in access to schooling for marginalized children, or implementing critical reforms, like training more teaching staff.

	Debt swap	Loan buy-down
Type of loan	Outstanding loan to any sector	New loan to education or outstanding loan to any sector
Debt treatment	Creditor forgoes all or a portion of the debt service payments.	Creditor or a third-party donor pays all or a portion of the debt service payments on the partner country's behalf.

Conditions of debt treatment	Partner country provides a counterpart payment to education channeled through GPE or through its own country systems.	No conditions if the buy-down is of a new education loan. Conditions related to education are required if the buy-down is of an outstanding loan.
GPE Multiplier	The nominal value of counterpart payment can count as cofinancing to secure a Multiplier allocation.	Depending on the context, the nominal value of a new loan, a counterpart payment, or the debt relief can count as cofinancing to secure a Multiplier allocation.

How do the Multiplier and Debt2Ed work together?

The Multiplier allocates at least US$ 1 in grant financing for every $ 3 committed by external partners up to a partner country's maximum country allocation, which ranges from $ 5 million to $ 50 million. The critical point is that the activity is new and additional: if the debt treatment would have happened even if the Multiplier were not available, it is not additional.

A country eligible for $ 50 million in Multiplier funding could use the Debt2Ed approach to secure this Multiplier grant in several ways.

Counterpart payments: The lender and borrower (partner country) agree to a debt treatment and to allocate some or all the freed resources to education through a *counterpart payment*. The payment can be used as cofinancing to secure the Multiplier.	*For example, if the debt treatment in a debt swap or buy-down requires the partner country to make a counterpart payment of US$ 126 million, then it can access a GPE Multiplier of US$ 42 million.*
New borrowing: When a lender, partner country, and potentially a third party agree to a new loan for education with an attached buy-down, the underlying loan counts as cofinancing to secure the Multiplier.	*For example, if the buy-down involves a new US$ 300 million loan from a bilateral creditor, then the partner country can use the nominal value of the new loan (US$ 300 million) to access its maximum Multiplier allocation of US$ 50 million.*
Debt relief: When a lender, partner country, and potentially a third party agree to buy-down an outstanding loan based on performance or reform targets in the education sector, the nominal value of	*For example, if a foundation agrees to make a payment that offsets US$ 36 million in interest payments on a partner country's behalf, these can be treated co-financing. The bought-down interest*

expected debt relief can be used to secure the Multiplier.	*payments enable the partner country to access a Multiplier grant of US$ 36 million (using a 1:1 co-financing because since the buy-down is financed by a foundation).*

How does Debt2Ed work with GPE's new Operating Model?

Debt2Ed is not a separate instrument and does not have different procedures or requirements. Instead, it is tightly integrated with the full set of GPE resources and anchored in national policy dialogue, led by the local education group. Resources mobilized through the approach would fund programs aligned with a country's partnership compact and with other programs being developed or implemented.

In practice, the counterpart payment and Multiplier grant can increase the size of a future program, provide more financing to an existing one, or implement a new, distinct intervention. (Similarly, any conditions used in a buy-down would be aligned to the partnership compact).

Grants mobilized by Debt2Ed and invested through GPE or as cofinancing would meet all relevant GPE quality-assurance standards and risk mitigation strategies.

Where can I learn more?

Information on the application process and procedures for Debt2Ed and the Multiplier can be found here: https://www.globalpartnership.org/funding/applying-for-grants

Additional information on Debt2Ed can be found here:
https://www.globalpartnership.org/funding/gpe-multiplier/Debt2Ed

Additional information on the Multiplier can be found here:
https://www.globalpartnership.org/funding/gpe-multiplier