Financing and Funding Framework

Select Topic Briefings

Feb. 28 – Mar. 1, 2017
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Briefing 1. Mapping of financing capabilities across GPE

This section is a topic briefing that relates to Board decisions.

1. Opportunities for GPE

GPE could better engage members across the Partnership – at both country and global levels – and leverage their financing knowledge and experience to support the implementation of education sector plans. Findings from the mapping of financing capabilities across the Partnership suggest two broad types of opportunities to do so:

- **Country-level matchmaking.** Many members of the GPE Partnership have experience with financing approaches that are highly relevant to the “investment case” approach that aims to crowd in harmonized financing around education sector plans. This includes but is not limited to private sector engagement, co-financing arrangements, and pooled funding. As part of the “investment case” approach, GPE could proactively engage members of the partnership to contribute to specific funding arrangements (e.g., setting up a country-level grant platform) or transactions (e.g., deploying a guarantee in support of a country-level public-private partnership related to education) alongside the traditional grant financing of ESP activities. This proactive “matchmaking function” could enable new forms of financing – and help hold relevant GPE members accountable to the development partner financing requirement of the GPE funding model. This “matchmaking” responsibility would sit with members of the Secretariat tasked with supporting interested DCPs in pursuing the “investment case” approach.

- **Global knowledge and innovation exchange.** Members of the Partnership are actively deploying and experimenting with new forms of financing. Some innovative financing approaches have been fully implemented while others are in the initial stages of exploration. For example, DfID is experimenting with outcome funds, development impact bonds, and risk finance. USAID continues to roll out initiatives and projects with creative financing. Although not featured in this mapping, many DCPs are pursuing innovative financing arrangements as well.

1 GPE could help open lines of communication across members working on similar types of financing initiatives, thereby facilitating

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1 DCP testing workshop, 2017
exchange of ideas and solutions across GPE members and the Secretariat. In this way, members could share lessons learned as they design, implement, and evaluate financing approaches. These efforts could link to the broader Knowledge and Innovation Exchange funding mechanism.

The sections below provide additional analytical detail underlying these opportunities.

2. **Overview of financing capabilities**

As active members of the SFWG financing sub-group, USAID, the World Bank, DfID, Danida, and DFAT provided responses for this mapping exercise. Therefore, insights discussed below are drawn primarily from these five GPE donors. The mapping could be expanded to include other GPE members in the future.

While most GPE members rely predominantly on grant financing, they also have a diverse set of non-grant financing capabilities.² GPE members pursue innovative financing opportunities through collaborative arrangements as well as standalone programs within their institutions. Danida and DFAT have often engaged in innovative financing through partnerships with other organizations. Meanwhile, USAID and the World Bank have vast resources and expertise in both grant financing and innovative non-grant financing within their institutions. These capabilities range from mobilization of private sector investment to successful co-financing arrangements, as described in the sections below. Collectively, GPE members have directly and indirectly deployed almost every type of financing instrument, including: lending instruments, risk mitigation instruments, direct investment in the private sector, innovative grant mechanisms, bonds, and recoverable grants. These capabilities offer a diverse of skills, lessons learned, and resources for GPE to continue to leverage as the FFF development process continues throughout 2017.

3. **Financing beyond traditional grant-making**

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² USAID, the World Bank, DfID, Danida, and DFAT provided responses for this mapping exercise. Therefore, insights are drawn primarily from these five GPE donors. The mapping could be expanded to include other GPE members in the future.
GPE members have considerable experience in financing beyond traditional grant-making – ranging from public-private partnerships and co-financing to challenge grants and digital finance. However, it is important to note that education has not historically been a sector in which innovative financing approaches first take shape. Therefore, many experiences across the subset of GPE members who participated in the SFWG financing sub-group and this mapping, to date, come from other sectors.

GPE members vary in how they pursue these “non-traditional” financing initiatives. Some donors pursue more “innovative” financing schemes through collaboration, while others have built capabilities in-house. For example, Danida and DFAT often explore new financing mechanisms in partnership with other donors, some of which the World Bank Group helps facilitate (e.g., DFAT’s Pacific Partnership with the IFC). On the other side of the spectrum, internal teams within USAID and DfID have piloted innovative grant- and non-grant financing initiatives. Donors also differ on their levels of expertise for various initiatives. Some financing mechanisms have been tested and implemented, so donors can share lessons learned. Other initiatives remain in the initial stages of exploration.

The paragraphs below categorize the types of initiatives supported by GPE members, noting which past experiences and areas of exploration are particularly relevant for GPE. Going forward, GPE can use these experiences as a resource to support successful implementation of the FFF.

**Private sector engagement:** GPE members have interest and experience in engaging the private sector and forming public-private partnerships to do so. For example, Danida contributes to the Climate Investment Fund and DfID is the lead donor of the Private Infrastructure Development Group. Amongst donors, USAID is a leader in engaging the private sector. USAID has an annual public-private partnerships program in which it matches USAID resources with private sector resources to fund development. USAID also provides its bureaus and missions with technical assistance to mobilize private sector funds. USAID’s Global Development Alliance models *how* to engage the private sector and spells out key principles to follow. Moreover, USAID has emphasized the role of the private sector in education; for example, it assessed private investment opportunities in education in Sub-Saharan Africa. In its Education Strategy 2020, the World Bank stresses the importance of private sector finance for the education sector and

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3 Stakeholder consultations, 2016
engagement with private providers of education (World Bank). SABER has published reports that describe specific policy goals on private sector engagement in education for key developing countries (World Bank). This summary, while not comprehensive, highlights many opportunities to draw on the expertise of already-interested GPE members to help the FFF further mobilize the private sector in support of GPE’s Theory of Change.

**Co-financing:** Danida, DFAT, and the World Bank report participation in co-financing arrangements. The World Bank co-finances projects along with a diverse set of donors and organizations. A closer examination of Danida’s co-financing scheme in Myanmar and DFAT’s pooled and co-financing arrangements in Bangladesh and Afghanistan would provide further insight into these mechanisms. In addition, DFAT and Danida sometimes engage in delegated cooperation where one donor manages another’s funds.

**Sector budget support and general budget support:** DFAT provides budget support in Bangladesh and Afghanistan; Danida also supports these approaches. While more relevant to funding than financing, this could provide insights for GPE’s efforts to strengthen alignment of funding with national systems. Through its work with governments, DFAT has developed expertise in assessment of public financial management, establishment of oversight mechanism, institutional capacity building, and in-house capabilities related to innovative financing and procurement.

**Support of funds and facilities:** GPE members support a range of funds and facilities – including trust funds hosted by MDBs, debt and equity investment funds (e.g., two DFID Impact Programme funds managed by CDC), and topic-specific funds. Many donors invest in trust funds hosted at the World Bank, such as the Climate Investment Fund and the Afghanistan Reconstruction Trust Fund. Some donors host topic-specific funds for innovation, SMEs, women’s empowerment, and more.

**Results-based financing:** Donor experience provides a wealth of knowledge GPE could leverage to strengthen its approach to results-based financing. DfID implements performance-based financing in multiple sectors, including education via the Girls Education Challenge. DFAT has developed a range of approaches for reporting, verification, indicators, and payment options
USAID and DfID have tested, or begun to test, innovative results-based financing mechanisms as well. DfID has started exploring outcomes funds and development impact bonds. USAID has administered Grand Challenges and Prizes across sectors. USAID has offered to share its deep expertise on these results-based mechanisms. The World Bank has increased support for results-based financing in education after the success of this method in the health sector. The World Bank's Results in Education for All Children (REACH) uses a results-based financing approach and strives to build an evidence base in collaboration with SABER (World Bank).

**Other innovations and initiatives:** DfID still relies primarily on grants, but it has and continues to explore innovative finance. Beyond the initiatives noted above, DfID has expressed interest in insurance and risk finance. GPE can consult DfID in the future for its experiences with outcomes funds, development impact bonds, and insurance and risk finance. USAID has carried out other finance initiatives beyond traditional grant-making and can share lessons learned. For example, USAID has engaged in Digital Finance and Public Financial Management. USAID's advanced understanding of these tools could offer new ideas and best practices for GPE.

The figures below highlight initiatives that could be particularly useful to GPE during the ongoing FFF design process in 2017 and rollout in 2018.

**Figure 1: Spotlight – USAID Global Development Alliances**

**Overview:** The Global Development Alliances are USAID's model for public-private partnerships. USAID has entered Global Development Alliances with corporations, local businesses, financial institutions, investment firms, private foundations, and others. USAID's partnership model with the private sector is based on four key principles: 1) Complementary interests and objectives 2) Market-based approaches and solutions 3) Extensive co-creation and shared responsibility 4) Mobilization of private sector resources. (USAID)

**Example – Global Development Alliance Model School Expansion Project in Nicaragua (2002):** GDA aimed to extend the educational reforms of the Basic Education Project (a previous USAID-funded project) in Nicaragua. USAID committed $1.1 million and two local organizations
(American Chamber of Commerce in Nicaragua and American Nicaragua Foundation) committed $1.3 million. Over three years, the project leveraged over $6 million for education. GDA/MSE supported 171 schools and saw an increase of 3% in student retention and of 4.25% in test scores. This impact resulted directly from both the financial assistance and know-how of over 50 private sector partners. (Education Resources Information Center, “The Ingredients of a Public-Private Partnership in Education: The Global Development Alliance Model School Expansion Project in Nicaragua”)

**Relevance to GPE:** The FFF aims to engage the private sector in education financing, in cases where this supports GPE’s core business model and Theory of Change. GPE could look to USAID’s GDA model for guiding principles on how to form public-private partnerships. The GDA/MSE in Nicaragua and other education-related partnerships offer lessons learned for future initiatives and examples of possible private sector partners. GDA/MSE exceeded expectations and brought in $6 million, much of which was from the private sector. Going forward, GPE could aim to leverage this knowledge and experience to help crowd in more resources in support of country ESPs.
Overview: The Bangladesh Primary Education Development Program III is a program that aims to increase the number of students, reduce social disparities, and improve the quality of education and resource use in the Bangladesh national primary school system. The project began in 2011 and will end in December 2017. The Primary Education Development Program III is co-financed by the Asian Development Bank, Australia, Canada, the European Commission, IDA, Sweden, UN Children’s Fund, UK, and Japan.

Results: This project has brought Bangladesh closer to set targets across a wide range of indicators, including primary cycle completion rate, classroom environment, learning resources, and qualified teachers. Its overall implementation progress has been recently rated as “moderately satisfactory.” (World Bank)

Relevance to GPE: Co-financing could greatly expand available resources for the implementation of country ESPs – as many co-financing arrangements that include multilateral development banks, funds, and donor aid agencies have demonstrated success in the education sector. GPE could draw on the Bangladesh Primary Education Development Program III for guidance on how to expand co-financing as one way to crowd in more resources around the ESP. Most of the co-financing partners in this example are GPE members, so GPE can leverage their expertise and existing relationships to successfully implement co-financing recommendations included within the FFF.

4. Mapping of financial instruments

Collectively, GPE members have directly and indirectly deployed almost every type of financing instrument, including: lending instruments, risk mitigation instruments, direct investment in the private sector, innovative grant mechanisms, bonds, and recoverable grants. Levies are the only instrument not yet deployed by the GPE members who participated in this mapping.

Across the five institutions participating in the FFF financing sub-group:

- All directly deploy or indirectly support guarantees and could share their experiences and implementation methods with GPE.
- All utilize challenge grant and matching grant mechanisms, except Danida, and GPE’s new funding mechanisms under the FFF could benefit from GPE members’ best practices and
knowledge on challenge and matching grants. USAID has explicitly offered GPE its expertise on challenge grant and matching grant mechanisms and credit guarantees.

- Only one GPE member, the World Bank, has performed multiple loan buy-downs. DfID conducted the only loan buy-down in education: in 2003, it bought down an IBRD loan to China to IDA terms. Therefore, GPE may need to consult with actors outside the Partnership (e.g., Gates Foundation, Islamic Development Bank) to benefit from additional expertise.
- DfID is currently experimenting with development impact bonds, which the World Bank and USAID also use.

**Figure 3: Financial instruments used by the subset of GPE members from the SFWG financing sub-group**

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Australia (DFAT)</th>
<th>World Bank</th>
<th>Denmark (Danida)</th>
<th>United Kingdom (DfID)</th>
<th>United States (USAID)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lending instruments</strong></td>
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<td></td>
</tr>
<tr>
<td>(public sector or sovereign borrowers)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-concessional loans</td>
<td>✓</td>
<td>✓</td>
<td>*</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Concessional loans</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Loan buy-downs</td>
<td></td>
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<td></td>
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<tr>
<td><strong>Risk mitigation instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guarantees</td>
<td>*</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td><strong>Direct investments</strong></td>
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<td></td>
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<tr>
<td>(to private sector)</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Debt investments</td>
<td>*</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Equity investments</td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td><strong>Innovative grant mechanisms</strong></td>
<td></td>
<td></td>
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<tr>
<td>Challenge grant mechanisms</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Matching grant mechanisms</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Other instruments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Debt swaps</td>
<td>✓</td>
<td>✓</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Development impact bonds</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Levies</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Recoverable grants</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

Legend:
✓ Deploys financial instrument directly

* Supports financial instrument indirectly, e.g., via partners or as a member of multilateral institutions

Note: Australia (DFAT) deploys instruments indirectly through partnerships with World Bank Group, ADB, Pacific Partnership with the IFC, USAID, World Vision, foundations

Note: Australia (DFAT) deploys instruments indirectly through partnerships with World Bank Group and regional banks
**BRIEFING 2. MULTILATERAL DEVELOPMENT BANK FINANCING**

This section is a topic briefing that relates to Board decisions.

As part of stress-testing and refining the FFF financing recommendations, GPE developed test cases for how it could work with specific MDB partners – namely, the World Bank and the Islamic Development Bank – to pursue co-financing and more formal leveraging arrangements (e.g., “blend” financing or loan buy-downs) in the future.

GPE conducted a working session with each institution to discuss the following topics:

- **Current situation**: How do GPE and MDB partners currently collaborate in co-financing approaches, and what are the lessons learned from this experience?
- **Opportunity**: How would this financing approach provide value to countries, and strengthen funding results for both the MDB partner and GPE alike?
- **Risks and mitigation**: What are some of the potential risks, and options for mitigating these risks?
- **Design features, operational processes, and requirements**: What design features are recommended to maximize opportunities and minimize risks?

The table below summarizes key findings for both MDBs.

*Figure 4: Financing collaboration with World Bank – Additional detail*

<table>
<thead>
<tr>
<th><strong>WORLD BANK</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current situation:</strong></td>
</tr>
<tr>
<td>- 7 of 40 (18%) GPE ESPIGs supervised by the World Bank as of Dec. 31 2016 receive IDA co-financing</td>
</tr>
<tr>
<td>- IDA co-financing totals $1.2 billion across these 7 grants, which effectively quadruples the amount of financing available to these GPE countries</td>
</tr>
<tr>
<td>- A key benefit of these co-financing arrangements is that they reduce aid fragmentation by providing harmonized financing</td>
</tr>
<tr>
<td>- However, a key challenge is that these co-financing arrangements often increase transaction costs for World Bank grant agents due to the requirements associated with GPE funds:</td>
</tr>
<tr>
<td>- Separate quality assurance processes</td>
</tr>
<tr>
<td>- The complexities of the new funding model and DCPs’ lack of familiarity with results-based financing</td>
</tr>
<tr>
<td>- The involvement of the LEG in the project design and implementation stages</td>
</tr>
</tbody>
</table>
### Opportunity:
- Reduce aid fragmentation by harmonizing GPE and World Bank financing to support a country’s high quality, evidence-based ESP
- Provides extra leverage to the World Bank in the country-level policy dialogue

### Risks and mitigation:
- Lack of institutional alignment – at strategic, operational, and administrative levels

*See section C for more information*

### Design features, operational processes, and requirements:
- **Target countries:** All GPE countries (especially IDA countries) can work to pursue more systematic co-financing with the World Bank, as is already the case with 18% of GPE ESPIGs supervised by the World Bank. For countries eligible for more formal leveraging arrangements (e.g., loan buy-downs), please see Annex A/the eligibility and allocation materials.
- **Financial instrument:** For IDA countries that receive an ESPIG, co-financing (e.g., adding IDA financing to a GPE ESPIG or vice versa) is likely the most attractive arrangement. For countries that do not receive an ESPIG, further exploration is required on what type of instrument (e.g., loan buy-down vs. a “blend” arrangement) is more attractive.
- **Concessionality of financing:** World Bank financing would follow existing country lending terms. IDA lending terms are based on the country’s risk of debt distress, the level of GNI per capita, and creditworthiness for the International Bank for Reconstruction and Development (IBRD) borrowing. Countries with a high risk of debt distress receive 100% grant financing. The addition of a GPE grant to any IDA financing would further increase its concessionality.
- **Link with GPE funding model:** Financing collaboration would bring more resources to support the implementation of the ESP developed with GPE support. However, results-based financing (e.g., 70-30 fixed-variable split) should only be required of the GPE grant financing – although it can apply to the entire financing package if desired by the country.
- **GPE’s role:** Continue to support countries with education sector planning and policy dialogue. For countries that receive an ESPIG, proactively encourage more IDA co-financing. For countries that do not receive an ESPIG, provide leveraging grant to the World Bank to transfer to the country as part of a broader financing package (see Annex A/the eligibility and allocation materials).

### Operational processes
- **Country-level processes:** In general, it is critical to streamline World Bank and GPE operational processes and simplify requirements (e.g., quality assurance processes) – wherever possible – to encourage more systematic collaboration and increase the scale of World Bank-GPE co-financing. Several World Bank task team leaders (TTLs) note that it is currently easier to implement two standalone programs (one GPE, one World Bank) than to pursue a co-financing arrangement. This must be addressed in order for GPE-WB co-financing to be attractive and viable.
- **Approval process:** Timing could be challenging given IDA approvals happen on a rolling basis whereas the GPE Board only meets three times each year. Therefore, conversations between GPE and the World Bank regarding potential collaboration will need to begin much earlier in the country workplanning process in order to align pipelines and identify opportunities.

### Requirements
- The World Bank would need to be the Grant Agent for countries receiving IDA co-financing, which does not conform to GPE’s existing policy on an open process for the selection of the Grant Agent. This would need to be understood and the exception agreed to (presumably by the GPE Board)
- Predictable GPE grant resources dedicated to leveraging financing, even in the case of a lower-than-expected replenishment
- Secretariat capacity (e.g., staff) with expertise in development finance to liaise with the World Bank regarding more formal leveraging arrangements (e.g., buy-downs) and provide strategic and technical guidance to DCPs

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4 See IDA lending terms: https://ida.worldbank.org/financing/ida-lending-terms
- Development of clear process for GPE-WB countries to access leveraging funding – highlighting deviations from the standard ESPIG processes (e.g., LEG does not make the decision regarding the Grant Agent given World Bank would need to play this role); see Annex A/the eligibility and allocation materials for indicative process

**Figure 5: Financing collaboration with the Islamic Development Bank**

<table>
<thead>
<tr>
<th>ISLAMIC DEVELOPMENT BANK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current situation:</strong></td>
</tr>
<tr>
<td>- The IsDB pledged $400 million in lending – to be combined with $100 million in GPE grants – during the 2014 GPE replenishment</td>
</tr>
<tr>
<td>- However, this arrangement fell through when the $100 million in GPE grants was cut due to a lower-than-expected replenishment</td>
</tr>
<tr>
<td>- Therefore, to date, GPE and IsDB have not yet collaborated on co-financing or more formal leveraging arrangements</td>
</tr>
<tr>
<td><strong>Opportunity:</strong></td>
</tr>
<tr>
<td>- For IsDB, collaboration can help better address the needs of lower-income IsDB client by providing concessional financing for education</td>
</tr>
<tr>
<td>- For GPE, collaboration can crowd in harmonized co-financing around countries' ESPs</td>
</tr>
<tr>
<td>- For both institutions, partnership can strengthen the dialogue and collaboration between the Ministries of Finance and Education in each country</td>
</tr>
<tr>
<td><strong>Risks and mitigation:</strong></td>
</tr>
<tr>
<td>- Unpredictable resources. In 2014, a lack of predictable grant resources from GPE made financing collaboration with IsDB not possible, at the time. To mitigate,</td>
</tr>
<tr>
<td>- GPE grant financing for leveraging should be part of the replenishment ask; it should not be reduced in the case of a lower-than-expected replenishment.</td>
</tr>
<tr>
<td>- IsDB would use ordinary capital resources and has the ability to raise these resources from the market; therefore, they do not foresee any issues from their side.</td>
</tr>
<tr>
<td>- Lack of country demand &amp; buy-in: In 2014, GPE and IsDB approached countries separately (e.g., Cote d'Ivoire) and received different signals regarding interest in the buy-down arrangement. Moreover, if given the choice between a blend/buy-down option and a grant, countries will often choose the grant. To mitigate,</td>
</tr>
<tr>
<td>- It is important for GPE and IsDB to have a common strategy and &quot;speak with one voice&quot; when approaching countries in order to generate country buy-in and develop a strong pipeline with quality demand for this offering.</td>
</tr>
<tr>
<td>- Countries should not have the option between a formal buy-down/blend arrangement vs. a pure grant. Instead, GPE needs to think about this as a new product offering, and the grant funding from GPE must be conditional on taking the loan from IsDB. In order for the GPE Board to approve this conditionality, GPE and IsDB must first focus on lower-middle-income countries (LMICs) that are not eligible for a GPE education sector program implementation grant (ESPIG)</td>
</tr>
<tr>
<td>- Lack of institutional alignment: Per the points above, GPE and IsDB need to work together and have a common strategy and voice to ensure successful collaboration.</td>
</tr>
<tr>
<td><strong>See section C for more information</strong></td>
</tr>
<tr>
<td><strong>Design features:</strong></td>
</tr>
<tr>
<td>- Target countries: Likely LMICs that are GPE and IsDB member countries, but not eligible for a GPE ESPIG. Pending final eligibility decisions, this may include: Kyrgyz Republic, Tajikistan, Uzbekistan, Egypt, Indonesia, Morocco, Tunisia</td>
</tr>
</tbody>
</table>
• **Financial instrument**: A “blend” co-financing arrangement between GPE, IsDB, and the country is likely most attractive. In this arrangement, IsDB – acting as Grant Agent – would transfer a financing package to the country that includes a loan from the IsDB and a grant from GPE, as depicted in the figure below. However, it is important to maintain flexibility for other options, such as a loan buy-down.

• **Concessionality of financing**: IsDB thought a ~25% grant component of a total financing package would be attractive to middle income countries (e.g., Tunisia); this corresponds approximately to a 1:3 GPE grant to IsDB loan financing ratio.

• **Link with GPE funding model**: Financing collaboration would bring more resources to support the implementation of the ESP developed with GPE support.

• **GPE’s role**: Continue to support target countries with education sector planning and policy dialogue – and provide leveraging grant to the IsDB to transfer to the country as part of a broader financing package.

![Figure 6: Potential "blend" co-financing arrangement between GPE and IsDB](image)

**Operational processes:**

• **Country-level process**: GPE and IsDB have compatible country-level processes and would aim to sync these processes, wherever possible (e.g., via joint country missions during program development). IsDB thinks development of an ESP helps ensure quality and is supportive of directing its financing toward activities in the plan.

• **Approval process**: IsDB Board meets 6-7 times per year and could sync approvals with the triannual GPE Board meetings. Before discussion by the Board, each project requires: development of a concept note; development of a project appraisal document; presentation to management; and iteration based on comments.

**Requirements:**

• Certification of IsDB as a GPE Grant Agent; for this to happen, IsDB needs to go through accreditation process established by the GPE Board.

• Predictable GPE grant resources dedicated to leveraging IsDB financing, even in the case of a lower-than-expected replenishment.

• Secretariat capacity (e.g., staff) with expertise in development finance to liaise with the IsDB and provide strategic and technical guidance to DCPs.

• Development of clear process for GPE-IsDB countries to access leveraging funding – highlighting deviations from the standard ESPIG processes (e.g., LEG does not make the decision regarding the Grant Agent given IsDB would likely need to play this role); see Annex A/the eligibility and allocation materials for indicative process.

**Immediate next steps:**

• GPE and the Trustee should explore whether IsDB could be accredited to become a GPE Grant Agent, as the Trustee expressed views that IsDB is less likely to meet GPE’s accreditation criteria.
- GPE CFO to reach out to IsDB following the SFWG Paris meetings & February/March Board meeting to provide an update
- Following the February Board meeting, GPE and IsDB to work together to develop a detailed plan for blend co-financing so they can start rolling out this option in early 2018
**BRIEFING 3. PRIVATE SECTOR INVESTMENT IN EDUCATION ACROSS GPE COUNTRIES**

*This section is a topic briefing that relates to Board decisions.*

The FFF enables GPE to leverage a range of sources of financing to support education sector needs and enhance learning, equity and efficiency outcomes. This includes spurring private investment that supports education sector plans and is beneficial to education system strengthening. As discussed in Section B.3 of this document, the rationale for increased private sector engagement is grounded in widespread recognition of the private sector’s potential for adding value through investment capital, networks, and expertise in partnership with public sector stakeholders. Leveraging private investment in support of education system outcomes also helps deliver on GPE’s objective of “more and better” financing by promoting better-structured finance for select activities within a country’s sector plan.

**What is private sector investment?**

Within the context of the FFF, “private investment” refers to the participation of private capital in education sector investments. GPE’s role in catalyzing or helping to coordinate private capital participation in education sector investments will primarily involve a “blended finance” approach: the strategic use of public and philanthropic resources to crowd in private capital for greater scale and impact.5

As a part of the FFF development process, this annex a.) identifies examples of past and current private investment in education across GPE and non-GPE countries, b.) identifies potential roles for GPE based on this landscape, and c.) provides an initial assessment of each role based on GPE’s capabilities and resources.

**Who is investing?**

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5 A private investor can invest capital directly into a public-private investment project or a business that provides education services or solutions; or, an investor can invest indirectly in a fund or “funds-of-funds,” which then invests capital directly.
The vast majority of the ~$2.5 trillion spent annually on education – excluding private household contributions – comes from the public sector. Public actors and governments provide US$2 trillion and private funding contributes $500 billion.

The table below summarizes select investors in education including public DFIs and donors, philanthropic foundations, and private investment firms (e.g. venture capital firms). The priorities and motivations of these investors vary across a spectrum. Some investors prioritize financial returns whereas others prioritize impact goals related to education outcomes. The table below includes grant-making, impact-first, and finance-first investors.⁶

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**Figure 7: Examples of investors in the education sector**

<table>
<thead>
<tr>
<th>Public DFIs and donors</th>
<th>Philanthropic foundations</th>
<th>Private investors/Funds: More return-oriented⁷</th>
<th>Private investors/Funds: More impact-oriented</th>
</tr>
</thead>
<tbody>
<tr>
<td>• DFID/CDC</td>
<td>• Dell Foundation</td>
<td>• Emerging Capital Partners</td>
<td>• Novastar Ventures</td>
</tr>
<tr>
<td>• AFD/Proparco</td>
<td>• Ford Foundation</td>
<td>• Oasis Capital Ghana</td>
<td>• Echoing Green</td>
</tr>
<tr>
<td>• World Bank/IFC</td>
<td>• Carnegie Corporation</td>
<td>• Metier</td>
<td>• Omidyar Network Fund</td>
</tr>
<tr>
<td>• USAID/DCA</td>
<td>• Open Society Foundations</td>
<td>• New Enterprise Associates</td>
<td>• Schools and Education Impact Investment Fund of South Africa</td>
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<td></td>
<td>• Deutsche Bank Foundations</td>
<td>• Fanisi Capital</td>
<td>• Learn Capital</td>
</tr>
<tr>
<td></td>
<td>• MacArthur Foundation</td>
<td>• AfricInvest</td>
<td>• Song Investment Management Company</td>
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<td></td>
<td>• Hewlett Foundation</td>
<td>• Schulze Global Investments</td>
<td>• Acumen Fund</td>
</tr>
<tr>
<td></td>
<td>• Partnership for Higher Education in Africa</td>
<td>• The Abraaj Group</td>
<td>• Xsml</td>
</tr>
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<td></td>
<td>• Rockefeller Foundation</td>
<td>• TPG</td>
<td>• Educate Global Fund</td>
</tr>
</tbody>
</table>

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⁶ See D. Capital report “The Impact of Private Investment in Education in Sub-Saharan Africa” (2015). Investor priorities fall on a spectrum. Grant-making investors are primarily philanthropic foundations (e.g. Rockefeller Foundation). Impact-first investors do not seek an immediate financial return or prioritize returns at all. Alternatively, finance-first investors aim for competitive market returns. Between the impact-first and finance-first extremes, there are “investors who prioritize social returns and financial sustainability with varying levels of risk and return expectations”

⁷ Investor priorities lie on a spectrum from impact-first to finance-first. Investors can fall in a gray area between these extremes, so please note that classifications of certain funds listed here may vary.
Across this landscape, new investors are emerging in the education sector. A recent landscape of education finance in Sub-Saharan Africa found that about a quarter of current education sector investors are new to education impact investment. Local investors have entered the education sector as well; for example, Centum (a Kenyan investment company), Investbridge, and SABIS formed a consortium in July 2015 to build 20 primary and secondary schools in Africa. These trends are promising for actors interested in private sector engagement in education – including GPE and its members.

What are they investing in?

Many investors have supported private sector transactions in the education sector – ranging from CDC’s commitment to GEMS Africa, an operator of international and British schools, to IFC’s investment in Coursera Equity, an educational technology company that offers massive open online courses. The paragraphs below detail the broad categories of transactions that have taken place in the education sector.

Training, education technology, and school resources: Investors have financed educational technology, teacher training, classroom resources, and more. Private sector investments have been made in specific publishers, technology companies, and training and professional services firms. Additionally, investors have been attracted to education companies that offer a range of services. For example, IFC invested US$14 million in Edilar, a company that provides training materials, books, electronic media, and other financing to public sector teachers in Mexico. Investment in educational technology supports both student-level learning and teacher training at scale. In 2013, Coursera, which offers massive open online courses to students around the world, received $43 million in venture capital funding from actors including the IFC.

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11 The examples and trends noted primarily come from examining the investments of CDC, Proparco, International Finance Corporation, USAID’s Development Credit Authority, and Emerging Markets Private Equity Association (EMPEA) member firms.
12 Public portfolio data from DFIs and member institution data from EMPEA.
13 IFC Project Information Portal.
to expand access to free online education.\textsuperscript{14} Education technology presents many private investment opportunities, but few investors have tapped into this space. One explanation could be the difficulty of creating sustainable business models for these companies.\textsuperscript{15} Currently, investments into training, technology, and resources occur relatively infrequently; however, support of these companies could benefit both private and public schools.

**Private schools and universities:** Many private sector investments currently focus on private school systems, and in particular, higher education. Many investments occur in countries that are not GPE members. For example, Proparco provided a loan to expand a private university in Peru, and IFC invested in Anima Growth, an education company with 16 campuses in Brazil.\textsuperscript{16} In addition to individual schools, investors frequently finance education companies that operate chains or networks of private schools and universities. Some of these companies aim to provide low-cost, affordable private education. For example, private equity firms, IFC, and CDC have all invested in the Bridge International Academies in Kenya.\textsuperscript{17} Regarding higher education, investors have supported university expansion and infrastructure development. For example, IFC invested in OzU II’s university campus in Turkey.\textsuperscript{18} However, a recent landscaping of education finance in Sub-Saharan Africa – which includes ~2/3 of GPE member countries – concluded that most private capital is invested in early childhood development and primary and secondary education.\textsuperscript{19} Therefore, as illustrated by examples in **Error! Reference source not found.** below, private investment in basic education is occurring in lower-income, GPE member countries.

**Student lending:** Beyond investment in schools and education companies, the private sector supports education through student loans. USAID’s Development Credit Authority and the Kyrgyz Investment and Credit Bank started the Education Loan Program in 2009.\textsuperscript{20} The program provides affordable loans to students in higher education institutions or vocational schools. These education loans have interest rates about 1.5 times lower than other loans. USAID’s investment in the private sector thus improved educational opportunities for young people in Kyrgyzstan.\textsuperscript{21}

\textsuperscript{14} Coursera blog.
\textsuperscript{15} D. Capital, “The Impact of Private Investment in Education in Sub-Saharan Africa,” 2015.
\textsuperscript{17} Public portfolio data from DFIs and member institution data from EMPEA.
\textsuperscript{18} IFC Project Information Portal; Proparco, “Annual Report,” 2013.
\textsuperscript{20} USAID, “YES! To education loans,” 2015.
\textsuperscript{21} USAID, “YES! To education loans,” 2015.
Proparco loaned money to a Mexican financial institution to support student lending, and IFC invested US$30 million in Trustco Equity for microinsurance and micro-student lending in Namibia.\(^{22}\) While investment in universities often finances campus expansion and university growth, low-interest student loans make higher education more affordable.

### Spotlight: Andela and education-to-employment

One trend is the increase in private sector investments in early-stage education-to-employment opportunities.\(^{23}\) For example, Andela is a tertiary education provider. It has campuses in Lagos, Nigeria, and Nairobi, Kenya, and opened an office in San Francisco last year. Andela has trained hundreds of African software engineers through an intensive six-month program. After the program, Andela matches its students with technology partners, who often hire the engineers for full-time jobs.\(^{24}\) The Chan Zuckerberg Initiative led a US$24 million funding-round for Andela last year. Google Ventures, Spark Capital, Omidyar Network, Learn Capital, and CRE Ventures participated in the round as well.\(^{25}\) Andela reflects the growing popularity of education-to-employment investments.\(^{26}\) Other programs, like USAID’s Education Loan Program in Kyrgyzstan, have also incorporated education-to-employment services into their model.\(^{27}\)

### Funds: Public DFIs, donors, and philanthropic foundations can directly invest in private schools and education companies – as described above. Another approach to support these same private education deals is to indirectly invest in dedicated funds and “funds-of-funds” that raise capital and invest it directly in companies.\(^{28}\) Examples of various fund managers are listed in Figure 7. Learn Capital is a venture capital firm that funds education technology companies, such as Coursera and Bridge International Academies.\(^{29}\) IFC funded the establishment of the Education Innovation Fund, a US$100 to $150 million venture capital fund that invests in innovative education companies.\(^{30}\) Meanwhile, CDC manages the DFID Impact Fund, a £75-million fund-of-funds that aims to support businesses that benefit vulnerable and/or underserved people in Africa and South Asia.\(^{31}\) These relatively new funds present an interesting opportunity for public DFIs, donors, and philanthropic foundations to invest in multiple innovative education companies through one channel.

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\(^{27}\) USAID, “YES! To education loans,” 2015.

\(^{28}\) A “fund of funds” invests in financial intermediaries – e.g., another fund or financial institution – instead of enterprises or other end recipients.


\(^{30}\) IFC Project Information Portal.

**Project finance:** Investors can also finance specific projects – e.g., infrastructure projects – through public-private partnerships. This is relevant to GPE’s core business given that a large share of ESPIG funding supports school construction and rehabilitation.

However, private project finance in education in GPE countries remains uncommon – although a few examples that exist. For example, the New Schools Public-Private Partnership involved private sector participation in the building and management of about 300 new public schools (through a competitive bidding process). This project was put forth by the PPP Central Unit within the Egyptian Ministry of Finance, and the IFC advised the government on implementation as the project’s Transaction Lead Advisors.32 Additionally, the government of Botswana developed the country’s second national university – the Botswana International University for Science and Technology – through a public-private partnership model. A private operator designed, constructed, financed, maintained, and operated the university’s new physical facilities, while the IFC structured the project and acted as a transaction advisor to attract private participation.33 Lastly, some countries – notably, South Africa – have issued municipal bonds to support infrastructure development, but there has not been a focus on schools.

In general, private project finance of public education faces a number of key constraints. First, private investors often see private schools as more attractive business opportunities. The private provision of education thrives in many parts of the developing world, particularly Africa, due to limitations and gaps in the public school network. Second, many investors in developing countries do not see clear returns from investing in public education infrastructure – especially when compared to roads and energy projects.34 Issuance of municipal bonds to support infrastructure – an otherwise commonplace occurrence in developed countries – involves a range of challenges in developing markets. Notably, the development of sub-sovereign lending markets (i.e., those in which municipalities or other administrative units below the level of the national government issue bonds for public works) is nascent or non-existent in many GPE countries. This is due to limited legal frameworks, challenges to public financial management, limited investor recourse, and limited potential for local investment. Further, foreign investors are reluctant to invest in sovereign bonds – let alone municipal bonds backed only by local governments.

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34 Stakeholder consultation, 2017
One opportunity to help overcome these obstacles is to use donor money to crowd in private project finance by increasing returns or reducing risk for investors through a variety of financial tools – including guarantees, matching grants, and first-loss capital. Yet again, experience in the education sector to date is limited. However, with appropriate expertise, members of the GPE Secretariat supporting DCPs with the “investment case” approach could help identify opportunities if/when they arise, to catalyze greater levels of financing for education investment by using modest levels of GPE grant resources strategically to crowd in other financing.

Of note, private project finance in the education sector has been more common in developed countries, including the U.K. and Australia. Under the U.K.’s Private Finance Initiative, the private sector raises money, builds, and maintains public sector infrastructure (e.g. hospitals, roads, schools). The government then repays these private firms over a longer period of time (usually between 25 and 30 years). A key success factor of this initiative was high-level political buy-in. This model could be relevant to GPE countries, but would require further exploration.

What are potential roles for GPE?

Within this landscape, certain types of private investment are most relevant to GPE’s core business and Theory of Change. First, GPE supports national education systems strengthening; therefore, investment in companies that provide private education falls outside of GPE’s focus and will not be considered at this time as part of the FFF (pending development of the Private Sector Engagement Strategy). Second, investments related to technical, vocational, and tertiary education are less relevant to GPE’s focus on basic education; however, select opportunities could be applicable in some countries depending on priorities set by the ESP. This leaves a subset of investment opportunities related to project finance and companies that support national education systems – whether through technology, training, student lending, or classroom resources – and are therefore relevant to GPE’s core business. For example, in 2014, Proparco issued a loan of MXN 190 million to Edilar, a company that provides educational materials and in-service training to public school teachers in Mexico. Using the ESP as a guide, GPE could aim to support similar investment opportunities that align with country priorities.

37 Proparco, “PROPARCO supports the development of the education offer in Mexico,” 2014.
GPE could consider two broad roles to support this subset of private investment opportunities that strengthen education systems and align with the country ESP:

1. **Investing directly.** GPE could raise a small pool of dedicated resources to make investments that unlock private capital for education through a “blending”38 of GPE/donor and private resources. In these cases, GPE could help mobilize private capital for greater impact by investing alongside private investors seeking a return on their investment. This could include financing for public-private education infrastructure projects or investment in education companies that support systems strengthening, such as: technology providers, textbook publishers, financial institutions with student lending, and/or teacher training firms. **Example 1:** DFID’s Impact Fund “aims to direct investment capital towards sectors or pro-poor businesses that are otherwise unable to attract commercial investment,” including education, and with a focus on LICs and LMICs in South Asia and Sub-Saharan Africa. **Example 2:** Investments in educational technology, such as Coursera and Owl Ventures, support both student-level learning and teacher training at scale. In 2013, Coursera secured $43 million in venture capital funding from actors including the IFC to expand access to free online education.

2. **Enabling investment.** Instead of investing its own resources directly, GPE could use its capabilities to help facilitate ESP-aligned private sector investments. GPE could do this through several different approaches.

   - **Proactively leverage the financing capabilities of GPE members.** GPE could leverage the blended finance instruments already in use across members of the partnership. Through the “investment case” approach described in Section B.1, GPE could act as a facilitator to match interested GPE members with specific activities within the ESP. **Example:** USAID’s Development Credit Authority (DCA) currently provides loan guarantees across a number of sectors, and partners with co-guarantors to share risk and with resource partners who fund the cost of the guarantee. DCA’s current partners include multilaterals (e.g., AfDB) and bilaterals (e.g., SIDA). Using a guarantee

   “Bilateral donors have so many options that GPE could work with; for example, USAID DCA or the private capital group. GPE could engage bilateral donors in much more robust ways. But, GPE needs someone in-house who knows how to tap and engage these resources.”

   - Stakeholder consultation

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38 Blended finance is defined as the strategic use of public and philanthropic funds to attract private capital towards investment that can deliver development impact in emerging and frontier markets.
to help finance infrastructure projects could free up GPE grant money to support other critical activities within the ESP.

- **Using a small pool of GPE resources to support financial innovation.** In line with its broader approach to support innovation (see funding technical paper), GPE could aim to use a small pool of grant money to unlock financing for innovations in the education sector. *Example 1:* The Global Innovation Fund provides an array of debt, equity and grant instruments to support the unique funding needs of innovators. Moreover, GPE could use its resources to support the design of new education *finance* innovations. *Example 2:* The Rockefeller Foundation is currently providing funding to GPE to support exploration and design of disaster and political risk financing instruments for education. *Example 3:* The Inter-American Development Bank (IDB) supported Mexican financial institution FINAE to develop a student loan financing scheme for higher education.

- **Promoting knowledge sharing and learning.** As part of its broader knowledge efforts, GPE could promote exchange of best practices and lessons learned related to private sector investment in education. As detailed in Annex B, GPE members alone are involved in a range of investment activities that could produce insights and public goods that benefit the sector as a whole.

Further design work throughout 2017 is required to explore these options.

**Analysis and consultations to date suggest GPE is better positioned to act as a facilitator and convener to help enable ESP-aligned private sector investments – rather than investing directly.** Compared to many of the investors summarized in Figure 7, GPE does not currently have a comparative advantage to make direct investments in projects or private companies, as this would require largescale changes in Secretariat capacity and expertise. Instead, by acting as a facilitator and convener, GPE could use its credibility as a leader in global education and relationship with its members to facilitate ESP-aligned private sector investment. GPE could match interested donors with relevant private sector investment opportunities within an ESP. By “matching” other investors – and in particular, GPE members – with these opportunities, GPE could free up grant money to fund other components of the ESP. Lastly, this approach could support creation of global public goods by bringing partners, such as USAID and the World Bank, together to share expertise and lessons learned related to private investment in education.
The table below assesses each option according to fit with GPE core business; fit with GPE expertise; and GPE’s comparative advantage.

### Figure 8: Assessment of GPE’s potential roles related to private investment

<table>
<thead>
<tr>
<th>Fit with GPE core business</th>
<th>Fit with GPE expertise</th>
<th>Comparative advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Directly investing</strong></td>
<td><strong>MODERATE</strong></td>
<td><strong>LOW</strong></td>
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<tr>
<td></td>
<td>Although GPE focuses on supporting public education systems, there are specific cases in which private investment can help crowd in more resources to implement activities in the country ESP. Therefore, if well-designed, GPE support of ESP-aligned investments could strengthen the education sector planning and implementation process.</td>
<td>GPE provides grant funding to national education systems. It does not have any experience investing in projects or private companies, and the current Secretariat has limited expertise in blended finance.</td>
</tr>
<tr>
<td>Enabling investment</td>
<td>MODERATE/HIGH</td>
<td>MODERATE</td>
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<td>As described above, ESP-aligned investments could strengthen the education sector planning and implementation process. Moreover, GPE acting as a facilitator to enable these investments – rather than making them directly – leverages GPE’s unique platform. Inclusion is core to GPE’s model: GPE 2020 seeks to promote inclusive and evidence-based sector policy dialogue and sector monitoring with participation from diverse actors – including the private sector. Enabling investment is one option to engage the private sector in a way that aligns with the mission, objectives, and practices of many private sector actors.</td>
<td>GPE does not have any experience in private investment and the current Secretariat has limited expertise in blended finance. However, GPE has considerable expertise in bringing relevant actors together at country-level for sector planning and implementation. The FFF recommendation to take an “investment case” approach in each country would further enhance GPE’s ability to facilitate private investment, where appropriate.</td>
<td>GPE is a multilateral partnership that includes many members with expertise and experience in private investment. GPE also has close relationships with DCPs and supports the end-to-end sector planning and implementation process. Therefore, GPE is well-positioned to act as a facilitator between the government, GPE members with private sector investment experience (e.g., USAID), and interested investors to help them support specific activities within the ESP for which private investment capital (e.g., non-grant financing) is more appropriate.</td>
</tr>
</tbody>
</table>