IMPACT-LINKED FINANCE FUND

IMPACT-LINKED FINANCE FOR EDUCATION

Mapping the ecosystem of key actors to finance SDG4 in West Africa and MENA

June 2022

WITH THE KIND SUPPORT OF:

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iGRAVITY

Roots of Impact

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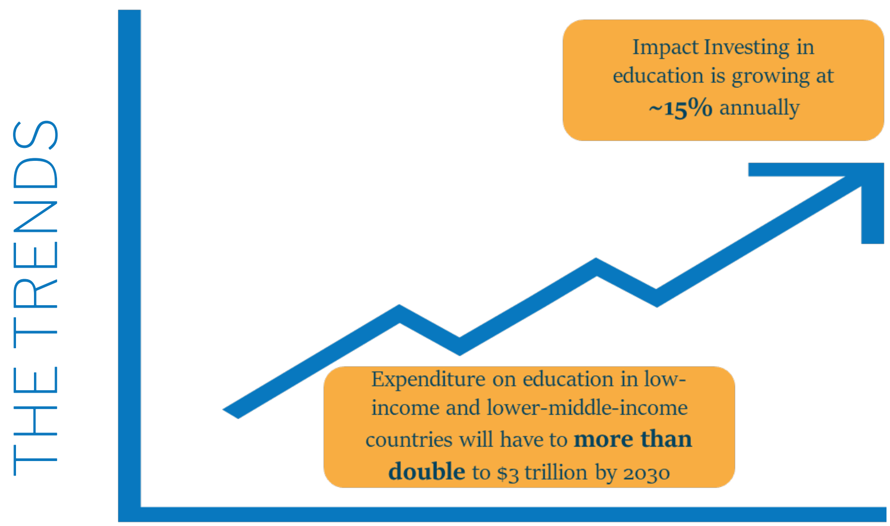
June 2022

Executive Summary



THE FACTS

1/5 of the global school-age population is out of school (265 million children)

617 million children globally lack minimum proficiency in reading and mathematics

Just 1 additional year of education leads to **10%** increase in an individual's earning and **18%** higher GDP

USD 75 Million estimated annual education external financing gap over the next decade

USD 10+ Billion Total AuM by impact investors in education

Education makes up only about **4%** of total assets under management for impact investing (USD 10+ bn)

Introduction

Urgent call for action to achieve SDG 4

The role of education in promoting economic growth and social justice has long been recognized, and its benefits are amply documented across a range of sectors, from improved health to enhanced livelihoods. For instance, one year of primary schooling boosts wages by 5 to 15 %[1]. Despite strong progress over the past decades, ensuring an inclusive, quality education (SDG 4) to vulnerable children and youth across the globe is far from reality. According to the UN, in 2017 over 260 million children globally are currently out of school and 617 million lack minimum proficiency in reading and mathematics[2].

The economic and social crisis caused by the Covid-19 pandemic has aggravated this alarming gap, with the risk of further increasing the already high financial disparities in the future. While there are several estimates of the amount needed to fund quality education worldwide, the uncertainty of Covid-19's impact on education funding makes it difficult to put an exact figure on it.

The Global Business Coalition for Education and the global children's charity Theirworld estimate that the average education external financing gap (besides government and household education spending) is at a minimum of USD 75 billion annually over the next decade[3]. Without urgent action, in only a decade, around 825 million children – half of all young people in the world – will not have the most basic skills necessary for the jobs of the future.[4]

More than ever, an effective use of resources is critical to achieving the rapid impact and results required to end the global education crisis. The four imperatives articulated by the key stakeholders in the global education sector when launching the Sustainable Development Goals (SDGs) remain relevant today:

1. Building strong, well-performing systems by investing in what works and rooting out corruption and waste.
2. Supporting innovation in how education is delivered while better supporting the teaching profession, and embracing technology.
3. Prioritizing inclusion, to ensure that the most marginalized, the poorest, and children with disabilities receive a quality education.
4. Mobilizing sufficient finance through domestic finance and increasing international support, including innovative finance.

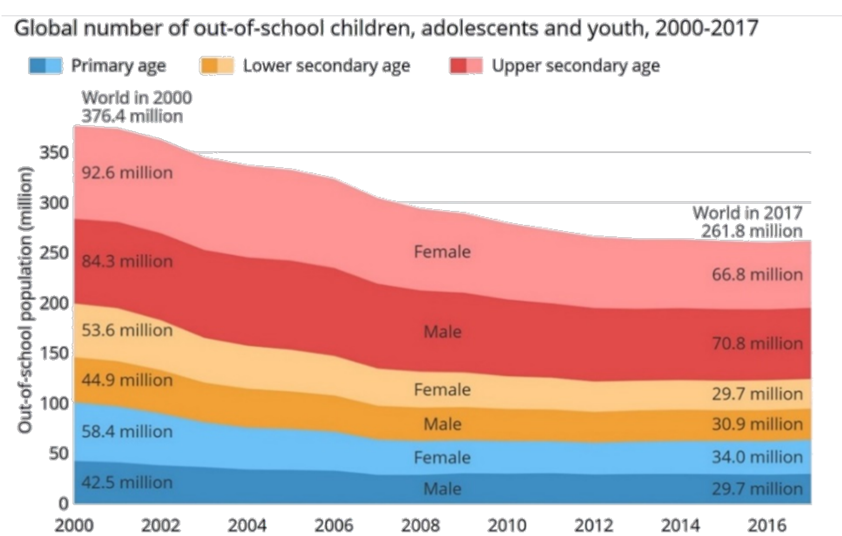


Figure 1: Global number of out-of-school children according to age and gender. Source: UNESCO Institute for Statistics database.

The Impact-Linked Fund for Education

To contribute to objective 4, initiatives jointly driven by the public and private sector are necessary. The Impact-Linked Fund (ILF) for Education, funded by the Swiss Agency for Development and Cooperation[5] and the Swiss-based Jacobs Foundation in December 2021, aims to ensure the right to inclusive and equitable quality basic education, especially for vulnerable children and youth. The key elements of the Funding Window, which make it relevant for SDG 4 and the fourth imperatives described above are:

1. The Funding Window targets High Impact Organizations (HIO) aiming to improve basic education skills and competencies, by creating improved systems, processes, and logistics to achieve positive education outcomes and support the establishment of important drivers of change
2. The Funding Window focuses on HIO reaching the most vulnerable children and youth and;
3. It makes impact-linked financing available to HIO to ensure they secure the resources they need to scale impactfully

In Burkina Faso, Chad, Mali and Niger, more than half of all children and adolescents of primary and lower secondary school age are not in school

The ILF for Education will focus on the West Africa and MENA regions, given the insufficiency of public education spending in most of the countries of these regions to achieve Sustainable Development Goal 4 (SDG4) on one side and the growing private education ecosystem on the other side.

For example, according to UNICEF, in Burkina Faso, Chad, Mali and Niger, more than half of all children and adolescents of primary and lower secondary school age are not in school.[6] Nearly two-thirds of children in MENA cannot read with proficiency and only 31% of MENA children receive pre-primary education.[7] Most countries in West Africa are falling short of meeting the Dakar target of allocating 20% of government resources to education (less than 10% in Nigeria, Liberia and Mauritania). Therefore, given the focus of the Funding Window, this publication aims at supporting the funding activities, particularly by:

- Synthesizing data about the financing gap in SDG 4 and the main challenges related to it
- Highlighting the urgent need for more and better private funding in education
- Showcasing innovative solutions to address SDG 4 and inspire and motivate other public and private funders to use innovative finance forms for education

The Financing Gap in Education

Global Context

According to the UN, the annual global spending on education is estimated at about USD 5.0 trillion in 2019, of which roughly two-thirds is spent in high-income countries[8].

In addition to the unequal distribution of overall funds, it is striking that the share of household spending for education activities in low-income countries is (in relative terms) almost twice as much as in most developed countries. This automatically reflects the low share of government spending for education in low-income countries and the gap is only partially filled with official development assistance. Especially the small share of official development assistance (ODA) targeting education in low and lower-middle income countries reflects the urgent need for additional funding sources to achieve SDG 4.

These figures are in strong contradiction to the Education 2030 Framework for Action, which called on countries to spend at least 4 % of gross domestic product (GDP) and 20 % of total public spending on education. While countries are meeting the first benchmark globally – public education expenditure stands at 4.4% of GDP – they are not meeting the second.[9] Poorer countries spend less on education as a percentage of GDP because of their lower capacity to raise revenue. In these countries, reaching the share of GDP benchmark for education spending requires a diverse set of interventions and inventions:

- The availability of more domestic resources
- More effective and fair taxation that contribute to resource mobilization
- A re-thinking of how ODA funds can be allocated more effectively
- Private funding to complement government activities

Given the current state of education financing in low and lower-middle-income countries, it becomes clear that the involvement of the private sector is key to achieving SDG 4. Even if governments in these countries successfully raise the amount of education spending, it is estimated that the international community will need to mobilize a minimum average of USD 75 billion per year until 2030 to be within striking distance of giving all children a quality education by 2030.[10]

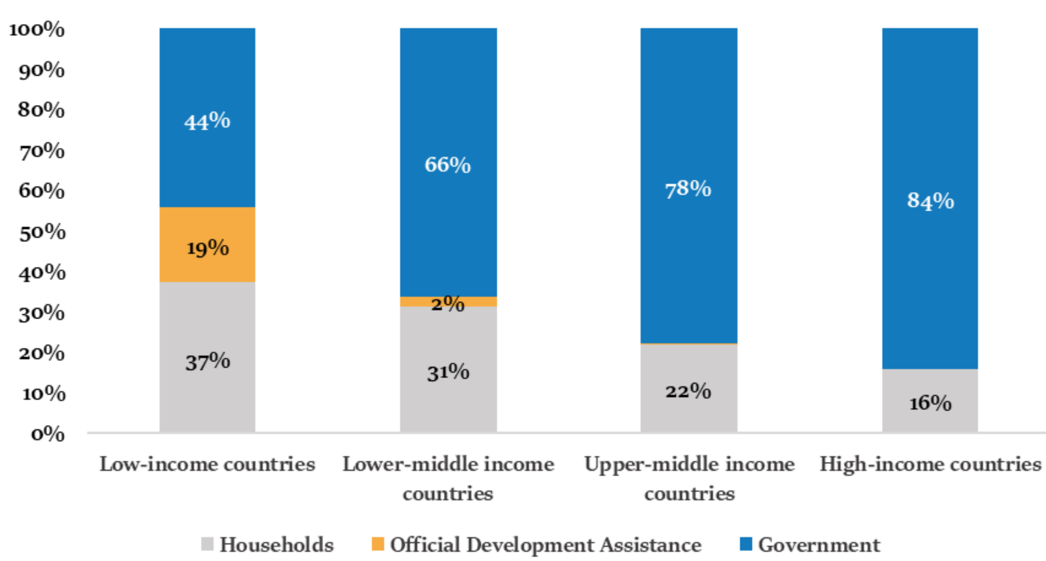


Figure 2: Distribution of total education spending by source, constant 2018 USD (billions), 2018-2019. Source: Education Finance Watch 2021.

The Regional Context Overview

West Africa

In Burkina Faso, Sierra Leone, Togo, Senegal, Ivory Coast and Ghana which, less than 50% of second or third-grade students achieving at least a minimum level of reading literacy

Despite progress in school enrolment in West Africa, a large proportion of children are still out of school and therefore do not learn basic reading and mathematical skills, which limits their ability to lead productive lives as adults. For example, in Mali and Chad, 43% and 57% of primary school-age children are not in school. Still too many countries in the region are falling short of meeting the international target of allocating 15% of government resources to education. It is the case for Nigeria (6%), Liberia (8%), Gambia (11%) Niger (12%), Guinea (12%).

For countries that follow international guidelines on education spending, the disconnect between education funding and education performance raises severe concerns about the value for money of education spending. This is the case for Burkina Faso, Sierra Leone, Togo, Senegal, Ivory Coast and Ghana which, despite following international recommendations, have less than 50% of second or third-grade students achieving at least a minimum level of reading literacy. The poor performance of education is as much related to low investment in the sector as to the inefficient use of existing resources.

Given the fact, that governments in West African countries can only partially fulfil the right for an affordable and quality education for children and youth, other actors are needed to step in the breach. The following figure pictures some key stakeholders from the public, private and civic sector that are contributing with finance and other resources to the education ecosystem in the region.

Figure 3: Mapping of Relevant Stakeholders in the Education Ecosystem in West Africa

For illustrative purposes only, does not claim to be comprehensive

The Regional Context Overview

Middle East & Northern Africa

MENA has the most significant gender gap in learning poverty among all regions, with boys far more likely to be in learning poverty than girls

While the MENA region is mainly made up of middle-income countries, it faces a complex and challenging context that combines intense and prolonged crises with high inequalities between and within countries, which has a negative impact on the education system. According to UNICEF, in 2020, an estimated 15 million children in the region between the ages of 5-14 were out of school. An additional 10 million children were at risk of dropping out of school, due to poverty, social marginalization, displacement, and the disruption of infrastructure caused by conflict. [11]

In MENA, less than half of the countries have collected recent learning data that can be used for reporting on "SDG 4.1.1: Education proficiency" which makes it difficult to assess the quality of the education system. Tunisia and the Occupied Palestinian Territory did report the data but recorded meagre proficiency rates with 47% and 26% of second or third-grade students achieving at least a minimum level of reading literacy. As stated in a report from the World Bank, in the MENA region, learning poverty rates are second only to those found in the Sub-Saharan Africa region, with 59% of MENA's children unable to read and understand an age-appropriate text by age 10. [12] MENA has the most significant gender gap in learning poverty among all regions, with boys far more likely to be in learning poverty than girls.

Even though the MENA region, on average, is economically speaking more advanced than most countries in West Africa, there are important gaps in the basic education ecosystem, which are met by the public, private and civic actors pictured in figure 4.

Figure 4: Mapping of Relevant Stakeholders in the Education Ecosystem in the Middle East and Northern Africa.

For illustrative purposes only, does not claim to be comprehensive

Mapping Key Actors in Education Finance

The Global Education Finance Actors

The international community has a diverse set of organizations and tools to support countries' aspirations to deliver universal education. While many donor countries may choose to direct their funds bilaterally, either directly to governments or through NGOs, channeling funding through multilateral vehicles allows to pool resources and decrease donor fragmentation at the country level. The figure below illustrates in a simplified way how donor countries can channel their resources to support education.

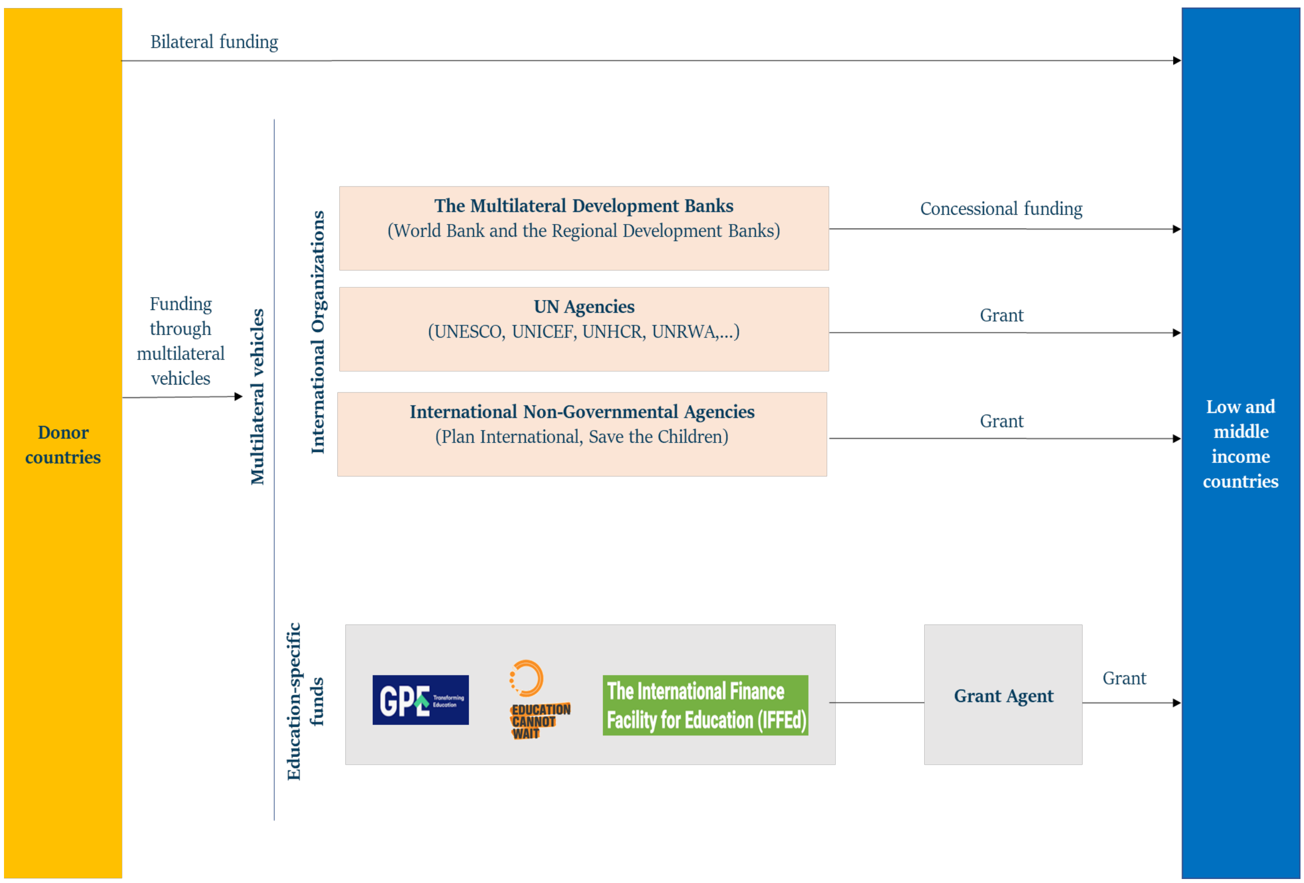


Figure 4
Options available to donor countries to channel their resources to support education, adapted from the Education Finance Playbook (2021)

Type of organizations	Description	Examples
International organizations	The majority of the below-mentioned organizations do not limit their activities to education and work on other development issues (e.g., climate, health, nutrition, etc.). Global standards recommend that international organizations direct at least 15% of their funding to education. However, apart from the UNICEF and UNRWA, most of them do not meet this target.[13]	a. Multilateral Development Banks: they are highly efficient in their use of Official Development Assistance, but funding to these institutions cannot generally be earmarked for education. The World Bank alone contributes over USD 2 billion, on average, per year, making it the single largest donor to the education sector. b. UN agencies: each UN agency active in the education sector has specialized expertise such as global coordination for countries (UNESCO) or acting as grant agents (UNICEF, UNHCR). UNICEF is the most significant agency funding education, with a contribution averaging USD 1.2 billion annually (equivalent to 22% of its overall funding). c. International NGOs: they can coordinate funding from multiple donors to support education programs in countries.
Education-specific funds	The sole focus of these organizations is to mobilize resources specifically for education. After overhead or administrative costs, 100% of the resources raised are allocated to education projects or initiatives. These funds pay management fees to the international organizations or multilateral development banks that host them and to the grant managers through which they channel their funds. We have named and described the largest ones[14] on the right-hand side.	a. The Global Partnership for Education (GPE): it supports governments in creating education sector plans and provides grants to support implementation. About 55% of its funding goes to low-income countries. b. Education Cannot Wait (ECW): it provides rapid support to education when it is disrupted by crisis or emergency and supports countries in building and funding multi-year plans to bridge back to longer-term development. It predominantly uses grants and about 78% of funding goes to low-income countries. c. The International Finance Facility for Education (IFFEd): it is an independently registered organization with ODA eligibility which aims to generate additional funding for education through innovative finance. The IFFEd uses 2 instruments: guarantees, which are made available to the World Bank and Regional Development Banks (the MDBs) and grants, which are made available to countries.

Table 1: International organizations and Education-specific funds

Regional, National, and Local Education Finance Actors

While international actors are important in making financing available to advance SDG 4, the ultimate safeguard of education policy and spending are national bodies. The main characteristics and roles of the education finance actors at the regional, national and local level are summarized in the below table.

Governments	Households	Donors (Impact first)	Private investors (Finance first)
• Remain the largest source of education financing • Have a duty to offer everyone the opportunity to learn • Can provide predictable and flexible financing to facilitate the expansion of quality learning initiatives with proven positive effects	• Represent the second source of education financing (16% of education expenditure in high-income countries and 36% in low- and middle-income countries). • May be needed to complement low government spending (e.g., fees for public and private schools, uniforms, supplies…) • Actively spend to improve their children's life chances (e.g., private tuition)	• Represent a tiny share of education financing • Have a greater risk appetite • Have shorter-term and more restrictive funding • Can play an important role in the scaling process, particularly in investing in earlier stages of ideation before an idea or approach is proven	• Have hardly entered the education market, still small in deal size and limited in scope • Can play a role in financing the wider educational ecosystem through innovative financing and direct investment in innovative and scalable ventures and the broader supply chain such as infrastructure and ICT

Table 2: Main characteristics and roles of the education finance actors

The Key Role of Governments

It has been widely acknowledged that governments are the guardians of education policy and ultimate responsible to provide access to basic education for children and youth. However, as described in the introduction of this report, especially in low-income countries governments do not have the means to fulfil this mission and the cooperation with other public and private actors can play an important role. However, given the sensitivity and importance of the sector it is absolutely key to follow certain principles, which are summarized below and shall guide any public-partnership partnership in the basic education sector:

Principles and best practices for engaging with Governments	
Leveraging existing partnerships	1. Leverage on other partners that already have a relationship with Governments for getting initial introductions or for strengthening the existing relationship
Building a solid long-term relationship	2. Ensure early participation and consultation of Government stakeholders 3. Carefully manage communication and relationships to build trust and respect 4. Engage with the Government towards the exit of the project as it can provide long-term sustainability and scaling opportunities
Alignment	5. Agree on (and discuss) the shared mission and goals of both parties 6. Ensure outcomes are meaningful to Government stakeholders and other essential partners 7. Identify and manage potential conflicts of interest
Open communication and knowledge sharing	8. Cultivate honest and transparent communication 9. Create strong accountability through evaluations and shared learnings
Long-term stewardship	10. Ensure some level of shared decision-making and responsibilities to ensure buy-in and long-term perspective of Government stakeholders 11. Advance stewardship for Government to be part of the initiative's exit strategy, for example, through procurement, subsidies, or ensuring the enabling environment.

Table 3: Guidance for public-private partnerships

Case Study: Transforming Education in Cocoa Communities (TRECC)

Background

The idea for the TRECC partnership, officially launched in 2016, arose from the need to solve the issues of child labor and low productivity in the cocoa and chocolate industry in Ivory Coast.

The TRECC program aims to improve the living conditions of all children and youth in Ivory Coast. It does this by improving access to early childhood development services, providing quality education at the primary level, and offering training opportunities for young people in rural areas.

To date, the coalition led by the Jacobs Foundation has brought together the Ivorian Government, 17 cocoa and chocolate companies, 20 civil-society organizations and academic partners and 3 foundations.

Because of the significant social change it has brought about in Ivory Coast's cocoa-producing communities, the TRECC partnership has become a blueprint for social action for quality education beyond the country's borders and presents a model of successful government engagement.

Motivations to engage with the Government

Working with the Government to support public policies and programs has been the guiding star of the TRECC initiative and is seen as an essential element in enabling successful, scalable, and sustainable change.

Government engagement process

The Jacobs Foundation, wishing to have a structured policy dialogue, began to seek dialogue with the Government of Ivory Coast. The Jacobs Foundation's local presence, its expertise in the education sector and the openness of the Ivory Coast Government to testing different forms of private-public partnerships facilitated the engagement process. In October 2016, the signing of a formal partnership with the Government of Ivory Coast, defining TRECC's modus operandi and the expectations and commitments of each party, marked a critical first step towards establishing a reliable collaboration.

TRECC's activities involving the Government and their results

Request that the Ministry of National Education (MNE) establishes a steering committee to ensure government ownership, foster the alignment of the TRECC activities with national priorities, and promote mutual understanding of each partner's perspectives and constraints
→ *15 steering committee meetings held with the MNE and 12 national policies impacted*

Introduction of educational innovations that have been tested and proved effective in other countries facing similar challenges to the MNE (organization of some "study tours" for key officials within the MNE to learn from the experience of local teachers)
→ *11 educational innovations introduced to the MNE and 4 "study tours" organized*

Active involvement of the MNE in the selection process of the most promising educational innovations to be piloted in the Ivorian context
→ *3 educational innovations selected by the MNE for a pilot*

Presentation of the findings of the independent evaluations for the 3 pilots to allow evidence-based decision by the MNE on the program to pursue
→ *« Programme d'Enseignement Ciblé »(PEC) selected by the MNE for implementation*

Invitation of Government's officials to participate in an executive training in leading and scaling early childhood initiatives to enable the MNE to reflect and learn about the scaling process
→ *Scaling Lab established by the MNE, PEC rolled out from 50 to 200 schools, then to 1,000 schools and adapted to facilitate its integration into existing administrative structures and processes*

Box 1 : TRECC case study

Main Challenges in Education Finance

To ensure inclusive and equitable quality education, all actors in education finance will need to redouble their efforts to channel more capital into the education system in a more efficient manner. The table below summarizes the main challenges faced by the key actors in education financing and suggests potential solutions.

Challenges	Description	Recommendations to address the challenges
Governments are not mobilizing enough resources and investing in education on the required scale and as effectively as necessary	• Targets for public spending on education of at least 4-6% of GDP and 15-20% of public expenditure are not met by every government • Public spending on education is not always equal, with wealthier groups often capturing a greater share of the available resources. • There are large differences in terms of translating public spending on education into years of schooling and learning outcomes among countries.	Governments need to: • Formalize the economy to be able to collect income taxes more effectively through fair taxation, elimination of tax loopholes and tackling corruption • Maintain a strong equity focus through financing policies by making funding proportional to need • Improve the availability, monitoring, transparency, and use of financing data
Education ODA is insufficient and not efficiently channeled to education	• Total annual development cooperation budget is insufficient • Education ODA is not sufficiently targeted to countries most in need, especially for basic education • The channelling of education ODA to education is insufficient	• Donor countries need to increase ODA budget from 0.3% of gross national income on average to 0.7% • Ideally, ODA to basic education should be aligned with the amount it would take to educate all out-of-school children • Increasing Education ODA should be channelled through multilateral institutions and education-specific funds (GPE, ECW, IFFEd) for greater efficiencies
The cost of education can be a heavy burden on households	Households in many developing countries spend a far greater share of average GDP per capita on education than those in developed countries, which raises concerns about progress towards SDG 4, given the commitment to free primary and secondary education for all and its emphasis on equity	In addition to increasing government budget allocation towards education to reduce spending at the household level, there is a need to increase and harmonize the collection of data on education expenditure to assess the direct cost of education to households and to provide evidence to policymakers

Philanthropic giving for education is growing and evolving but is not always perceived as legitimate	• Philanthropic giving for education is growing but is modest compared to Official Development Assistance (ODA). • Philanthropic practices are evolving with innovative structures and mechanisms taking shape, often drawn from businesses which creates serious legitimacy risks • There is a lack of advocacy and knowledge sharing among philanthropic actors and with public actors	Philanthropic actors should: • work closely with "evidence brokers" (such as the International Initiative for Impact Evaluation) to help answer the questions of what works, for whom, why and at what cost and improve outcomes and ultimately help decision-makers take more informed decision • engage in peer-learning networks • foster dialogue and knowledge sharing with public actors • be transparent and accountable to their missions, governments and the wider public
High-impact organizations (HIO) in the education space lack adequate capital to scale and/or deepen their impact	• Without flexible, long-term, predictable funding, many interventions die in the "middle phase" of scaling, i.e., between innovation and scale • HIO are held back from expanding more quickly because of limitations with general operating support (people and process)	• Donors should move away from the project funding logic and aim for more systemic and long-term impact (e.g., systems and capacity building) • Public and private actors should collaborate to explore new and more flexible ways of financing HIOs • HIOs need to professionalize the way they measure and manage their impact
Innovative Finance is nascent in the education space and empirical evidence of its benefits and dangers is generally lacking	• Only few impact investors are active in the education space (due to the high risks perceived), and when active, only as a side line • As Innovative Finance is recent, there is still a lack of evidence on the effectiveness of its different mechanisms, especially regarding additionality (e.g., high transaction costs, risk of crowding out traditional funds) • The tension between the conceptualization of innovative financing and the local realities of implementation (regulations, lack of capacity and data) can make the implementation challenging	• Dialogue should be encouraged between the bearers of innovative financing, donors, and beneficiary states and communities • Innovative financing projects in the area of education should be subject to independent evaluation to allow knowledge sharing • More communication should be done to foster knowledge sharing between actors and promote innovative finance as one of the aspects of the solution to achieve SDG 4
Insufficient data on education finance	The availability, quality, coverage, and comparability of Education finance data at country level is insufficient to allow to monitor progress in the education sector	• Effort should be made to harmonize definitions and measurement approaches between the three main data providers (UIS, IMF and the World Bank) • Adoption of common approaches to collect data such as the "National Education Accounts" approach should be encouraged by providing technical support to statistical agencies at the country level

Table 4: Main challenges faced by key actors

Highlights in Innovative Finance for Education

Innovative Finance is used for a set of non-traditional investment strategies and structuring approaches that focus on the creation of positive social and environmental impact with the means of finance.

As stated in the "Education Finance Playbook 2021"[15], Innovative Finance is only one of the three-point plan to fund education:

1. Governments do their part to mobilize domestic resources through equitable taxation and sufficiently resourced education budgets – and use the money effectively.
2. Donors and philanthropists step up and meet their funding commitments.
3. All stakeholders leverage finance through innovative means to greatly multiply the resources available to the education sector.

Innovative Finance is a general term typically used for a set of non-traditional investment strategies and structuring approaches that focus on the creation of positive social and environmental impact with the means of finance.

NORRAG in its systematic literature review on Innovative financing for education summarizes the potential benefits of innovative financing for education as [16]:

a) providing additional revenue or making expenditure more efficient
b) reforming the state according to the practices of the private sector
c) changing education practices to focus on outcomes.

The table below lists recent and important examples of initiatives and transactions in the education space to illustrate the different innovative finance mechanisms used.

	Mechanism/ Vehicle	Example	About	Key highlights
Result-based finance	Development impact bonds (DIBs)	Educate Girls (launched in 2015-2018)	Educate Girls was the first DIB in Education and had the goal to improve education for over 7,000 children in Rajasthan, India. It was a 3-year program and it provided operational and financial flexibility for Indian NGO Educate Girls. The partnership involved the UBS Optimus Foundation (investor), Children's Investment Fund Foundation (outcome payer), Educate Girls (service provider), Idinsight (outcome evaluator).	The DIB achieved 116% of the enrolment target and 160% of the learning target in its final year. The results showed that 92% of all out-of-school girls identified in the program area in the Indian state of Rajasthan were enrolled in school, while the difference in learning gains between Educate Girls students and others quadrupled compared to year one.
		The Innovation Fund Impact Bond (launched in 2018-2021)	The Innovation Fund Impact Bond was an early childhood development program seeking to improve early childhood learning and development outcomes of 2,000 children in two underserved communities near Cape Town, South Africa. The partners included an international NGO, a local community-based organization, a financial consultancy, two corporate foundations, a local investment house, a Swiss-based private bank, and a provincial government department.	No results are shared publicly yet but some insights. • Cost and complexity should have been managed from the outset. • The public and private sector seek ways to collaborate, which takes time • Significant operational improvements have been achieved as a result of outcomes focus
	Outcomes Fund	The Education Outcomes Fund (EOF) (launched in 2020)	The EOF is a global platform that aims at improving learning and employment outcomes for 10 million children and youth by tying funding to measurable results by scaling up results-based financing in education It is a partnership model which brings together governments, donors, implementing partners, and investors to achieve concrete targets for learning, skill development, and employment. EOF is an independent trust fund hosted by the United Nations Children's Fund (UNICEF).	No results are shared publicly yet, but it plans to raise USD 170m of total outcomes and program funding and achieve financial sustainability for its core program delivery work by the end of 2023.

Blended finance	Impact private debt fund (Structured Fund)	Regional Education Finance Fund for Africa (launched in 2012)	This thematic fund designed to address the needs of the education sector in Africa. Its main objective is to increase equal access to secondary, vocational, and higher education and enhance education quality. It provides funds to financial intermediaries in Africa for on-lending and expanding their education loan portfolios. The fund is initiated by KFW, sponsored by BMZ and managed by BlueOrchard.	Portfolio outcomes: ~130'000 learners and students reached ~1'500 education providers reached ~130,000,000 total education finance portfolio Investor outcomes: Total of USD 50 million capital committed of which 50% capital mobilized in the mezzanine and senior tranche Additionality: ~50 TA projects initiated ~90% of the loans are in local currency ~90% of investments were lent long term
	Bond	The Asian Development Bank education bond (launched in 2021)	The ADB Education bond is a USD 57 million, 10-year bond, which aims at financing a pool of projects related to the educational sector, including technical and vocational training, in Asia and the Pacific.	The bond has been fully subscribed by the Dai-ichi Life Insurance Company.
Impact investing	Impact private equity fund	RISE fund	The fund invests in companies driving measurable social and environmental impact alongside business performance and strong returns. It invests in different sectors such as Agriculture and Food, Energy, Healthcare, Education worldwide. The fund has invested in various Edtech companies such as Teachers of Tomorrow Renaissance Learning, Dreambox, Meishubao Education and InStride.	The fund drove enhanced academic achievements to 41 million students through its funds RISE I and II.
	Venture Philanthropy	EWB Ventures	The EWB ventures program makes customized, long-term investments of up to $100,000 USD in first-of-kind scalable social enterprises with the potential to positively impact millions of people living in poverty in various sector including education. It has for example invested in M-Shule.	EWB ventures program invested in 8 ventures (cross-sector), did 4 follow-on investments and placed 20+ fellows in the ventures. More specifically, in the education space, the investment and fellow made available by EWB Ventures to M-Shule allowed the venture to increase its reach.

	Income Share Agreements (ISAs)	[Edifund](#)	Edifund is a fintech financing students' Education in South Africa through Income Sharing Agreements. An income share agreement is a financial contract where a student's education is financed. In return, the student pays a fixed percentage of his/her income from their job after graduation. The conditions are negotiated before the contract is signed. If the student doesn't find a job, he/she owes Edifund nothing.	ISAs are best suited for higher education or vocational training and are growing in popularity as an alternative to private student loans. The known benefits for students are that it defers tuition and reduces risks. The known downsides of ISAs are that they are not regulated and might end up being more expensive than student loans.
	Income Contingent loans (ICLs)	The English Government (established for many years)	The English Government has been using ICLs to finance higher education for decades. An ICL is a loan offered by the Government, who then does the debt collection as taxation after graduation. The charging ceases once the student has repaid the loan in full. The Government is the investor and risks are shared by both the Government and the student.	ICLs are used in around 10 countries. ICLs are close cousins to ISAs, the main difference is in their set-up: as an example, an ISA may require a student to pay 10% of income for 10 years, whereas an ICL may require 10% of income until the loan is paid off. The known benefits for students are the same as for the ISAs. One of the downsides of ICLs is that they require sophisticated administration requirements that may be unachievable for some countries (collected through tax).
Others	Debt Swaps	Between Russian / Mozambican governments for an investment in the World Food Program (started in 2017)	Through a debt swap, Russia agreed to waive Mozambique's public debt, releasing 40 million USD that the Mozambican Government has committed to the WFP to implement a school meal program for 150,000 children between 2017 and 2021. Debt swaps for education are the cancellation of external debt in exchange for the debtor government's commitment to mobilize domestic resources (fiscal resources otherwise devoted to debt servicing) for education spending.	The known benefits are: - From a receiving country perspective, the fund generated by debt swap can be used to finance social development, including education. - From a donor country perspective, debt swaps can support education projects without conventional ODA funding. However, the practical budgetary gains from debt relief are often more modest than expected and gradually materialize over time, which may be problematic to finance program. In addition, the high costs associated with the complex administration of debt swaps are often criticized (due to number of conditions and requirements).
	Crowdfunding	Crowdfrica	A Ghana-based fintech which connects people to help provide healthcare and quality education in Africa. .	The main benefit of crowdfunding is that it provides visibility and access to a new source of financing for local early-stage ventures and projects. The main downsides are the lack of scale and the risks of fraud and failure.

Impact-Linked Finance: opportunity for the education space

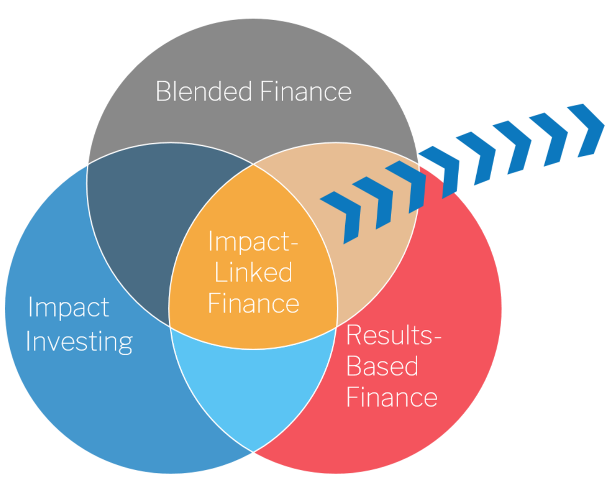
Impact-Linked Finance is a catalytic instrument which links rewards to positive impact and rewards directly the High Impact Organizations (HIO) creating this impact. It is a highly effective way of aligning positive impact with economic viability and lies at the intersection between blended finance, impact investing, and results-based finance. While ILF is under the umbrella of results-based finance (which provides rewards after agreed-upon results are achieved and verified), it differentiates from other instruments such as Social or Development Impact Bonds by financing (directly) organizations that already have a revenue-generating business model in place.

Impact-Linked Finance represents a growing portfolio of financial instruments and design principles that incentivizes private investment to support HIO in scaling up their impact. It emphasizes additionality in the sense that financial rewards should nudge organizations to deliver additional outcomes and deepen their impact. By increasing the financial profile of the HIO, Impact-Linked Finance allows them to attract commercial capital to further scale their activities without compromising on impact, or to deepen their impact and ultimately achieve sustainability.

HIO provide much-needed products and services at an affordable price to vulnerable communities, often in rural areas. HIO, which are usually social and impact enterprises, apply sustainable business principles and have demonstrated that they are able to create strong, measurable impact. Therefore, supporting HIO is an efficient way to allocate funds. Indeed, successful social enterprises continue scaling beyond the end of the intervention, and thus growing and reaching out to ever more (low-income and vulnerable) clients.

Based on the characteristics mentioned above, Impact-Linked Finance has a strong potential to improve education outcomes by;

1. Leveraging on public funding to mobilize more private sector investments and financing. ILF can use international cooperation or government funds to help HIO attract or scale through private investment
2. Financing organizations with a trading or revenue-generating model, thus ensuring long-term financial sustainability and impact of the activities which will continue after the ILF provided finishes
3. Value for money of investments or grants increases, and spending is made more efficient by tying payments to the achievement of results and not only activities.



Impact-Linked Finance

refers to financial solutions

- for market-based organizations
- that directly link financial rewards
- to the achievement of positive social outcomes

Figure 1: Impact-Linked Finance
Source: Impact-Linked Finance Fund

Example of instrument: Social Impact Incentives (SIINC)

SIINC is a funding instrument that rewards impact enterprises with time-limited premium payments for achieving social impact. By linking public or philanthropic funding to pre-defined and proven social outcomes, high-impact enterprises can earn extra revenue and improve their profitability, which in turn helps to attract additional investment to scale. Since raising repayable investment is a pre-condition for receiving SIINC payments, it can effectively be defined as a blended finance mechanism. In other words, catalytic funds are leveraged to mobilize private investment for impact enterprises.

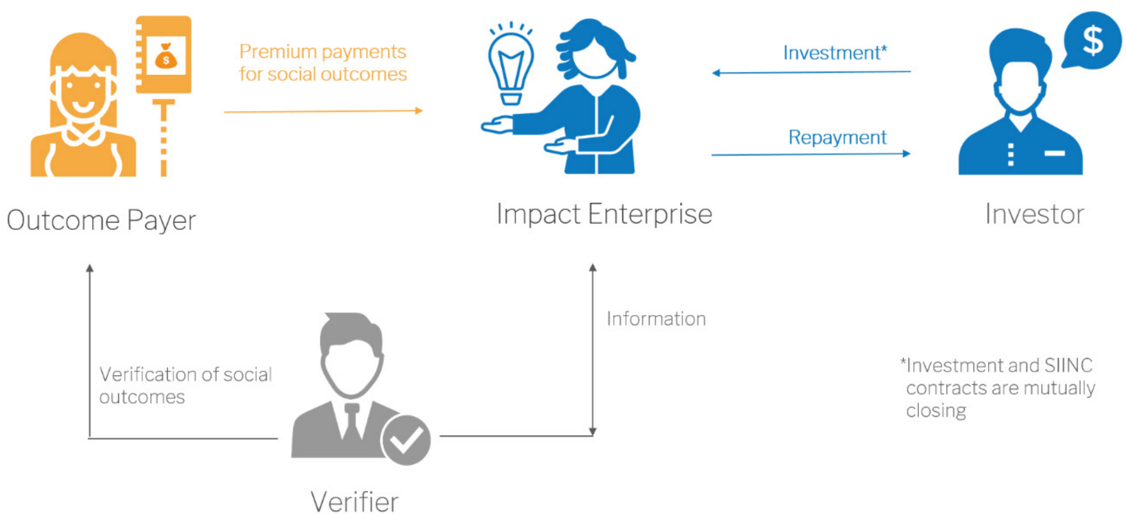


Figure 2: Actors and process of a SIINC transaction
Source: Impact-Linked Finance Fund

Example of instrument: Impact-Linked Loan

An impact-linked loan builds upon the standard procedure and terms of a traditional loan agreement between a lender and a borrower, with the main exception that interest rates (potentially even repayment obligations) are tied to borrowers' achievement of pre-defined and independently verified social outcomes. The higher the impact achieved by the impact enterprise, the lower the interest rate to be paid. In specific scenarios and contexts (e.g., particularly difficult market environment or crisis) additional loan forgiveness can be agreed upon for achieving additional pre-defined outcomes. Overall, providers of Impact-Linked Loans are primarily motivated by impact (catalytic funders/impact-first investors), as they are expected to take lower returns due to the more favorable terms for the enterprise. However, there is the option for public or philanthropic funders to provide investors with a compensation to make up for the lower return.

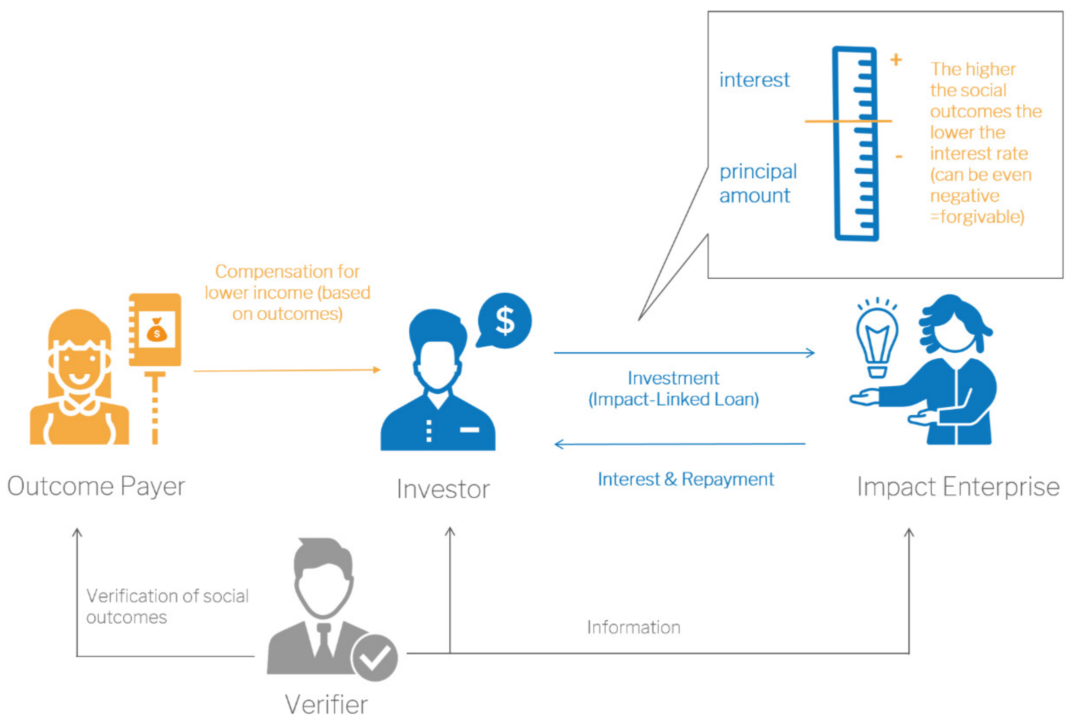


Figure 3: Actors and process of an Impact-Linked Loan transaction
Source: Impact-Linked Finance Fund.

Annex

Education Indicators for West Africa

Country	Population (% of total region)	GDP/Capita (constant prices, PPP[17])	Government spending on education as a % of GDP	Spending in education as a % of total government spending	Average years of schooling[18]	Out of school rate (primary school)[19]	% grade 2/3 students who can read[20]
Source of information	*IMF*	*IMF*	*UIS*	*UIS*	*UIS*	*UIS + UNICEF report*	*UIS + UNICEF report*
Nigeria	50%	4,920	-	6%	-	28%	17%
Ghana*	7%	5,664	4%	19%	-	7%	6%
Ivory Coast*	6%	5,237	4%	15%	-	23%	33%
Niger*	6%	1,239	4%	12%	-	High	44%
Burkina Faso*	5%	2,236	6%	23%	-	High	34%
Mali*	5%	2,307	3%	16%	1.6	43%	Low
Senegal	4%	3,385	5%	21%	2.8	39%	48%
Chad*	4%	1,497	2%	15%	-	57%	34%
Guinea	3%	2,579	2%	12%	2.1	34%	23%
Benin*	3%	3,404	3%	17%	-	32%	37%
Togo	2%	2,153	5%	22%	-	8%	24%
Sierra Leone	2%	1,655	9%	34%	-	10%	6%
Liberia	1%	1,484	2%	8%	-	-	-
Gambia	1%	2,194	3%	11%	5.3	18%	5%
Guinea-Bissau	0.4%	2,272	3%	15%		-	6%
Cape Verde	0.1%	6,203	4.7%	15%	5.9	-	-

Table 6: Key country indicators relevant for education in West Africa
Sources: IMF: World Economic Outlook (2021), UIS (latest available data)
**Priority countries for the ILF for Education funding Window*

Education Indicators for MENA

Country	Population (% of total region)	GDP/Capita (constant prices, PPP)	Government spending on education as a % of GDP	Spending in education as a % of total government spending	Average years of schooling	Out of school rate (primary school)	% grade 2/3 students who can read
Source of information	IMF	IMF	*UIS*	*UIS*	*UIS*	*UIS*	*UIS*
Egypt*	23%	12,282	0.9%	-	9	-	-
Iran	19%	12,805	1.2%	21%	10.3	-	-
Algeria	10%	10,824	-	16%	-	-	-
Iraq	9%	9,531	-	-	-	8%	-
Morocco	8%	7,629	-	6%	-	-	-
Saudi Arabia	8%	44,756	-	-	11.3	-	-
Yemen	7%	1,671	-	-	-	-	-
Tunisia*	3%	9,810	-	22%	7.1	3%	47%
UAE	2%	67,941	-	10%	12.7	-	-
Israel	2%	41,148	2.4%	16%	13	-	-
Jordan*	2%	9,902	1.4%	10%	10.6	2%	-
Kuwait	1%	40,822	-	12%	7.2	-	-
Libya	1%	12,344	-	-	-	-	-
Mauritania	1%	5,758	2%	10%	-	42%	-
OPT*	1%	5,181	-	18%	9.9	1.5%	26%
Oman	1%	29,582	1.5%	12%	11.6	-	-
Qatar	1%	91,544	-	9%	9.7	-	-
Bahrain	0.3%	48,617	0.9%	7%	10.5	-	-
Lebanon*	-	-	-	10%	-	-	-
Syria	-	-	2%	-	-	-	-

Table 7: Key country indicators relevant for education in MENA
Sources: IMF: World Economic Outlook (2021), UIS (latest available data)
**Priority countries for the ILF for Education funding Window*

End Notes

[1] Psacharopoulos, G. & Patrinos, H. A. (2018). Returns to Investment in Education - A Decennial Review of the Global Literature.

[2] UIS (2019). UIS Statistics.

[3] Theirworld and The Global Business Coalition for Education (2021). Education Finance Playbook

[4] WEF (2020). Classroom to workplace: what young people need to succeed.

[5] More specifically, SDC's Education Unit and the geographical divisions MENA and Western Africa

[6] UNICEF (2021). Analysis of education spending in the West and Central Africa region.

[7] The World Bank (2021). Middle East and North Africa (MENA) Regional Update 2021.

[8] UN (2020). Global Education Monitoring Report.

[9] Ibid.

[10] UNESCO (2020). Global Education Monitoring Report.

[11] UNICEF (2021): Rebuilding quality learning for all in the MENA

[12] World Bank (2021) Advancing Arabic language teaching and learning

[13] Theirworld and The Global Business Coalition for Education (2021). Education Finance Playbook.

[14] The education-specific funds named have raised or disbursed a minimum of USD 100 million in one of the previous three years.

[15] Theirworld and The Global Business Coalition for Education (2021) Education Finance Playbook

[16] NORRAG (2020). Innovative financing for education: A systematic literature review.

[17] Constant prices, Unit: Purchasing Power Parity, 2017 international dollar

[18] Mean years of schooling (ISCED 1 or higher), population 25+ years, both sexes (world median is at 9.5)

[19] Out-of-school rate for children of primary school age, both sexes (household survey data) (%)

[20] Proportion of students in Grade 2 or 3 achieving at least a minimum proficiency level in reading, both sexes (%)

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CONTACT US FOR MORE DETAILS ON THE REPORT AND THE IMPACT-LINKED FUND FOR EDUCATION

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