

Innovative Financing for Education: Potentials, Challenges and Learnings

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Innovative Financing for Education: Potentials, Challenges and Learnings

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Foreword

Spending on education globally remains insufficient despite long-standing promises. In this context, Innovative Financing for Education (IFE) has evolved from a niche set of tools into a broader arena of practices that are reshaping how education is funded, with significant implications for how education is governed and may be valued.

The articles in this issue navigate a crucial systemic tension. On one hand, advocates argue that blended finance, results-based mechanisms, and impact bonds can mobilise private capital, mitigate risks, and enhance efficiency. On the other, sceptics warn that these instruments risk commodifying students and learning and privatizing public goods; undermining governments' role as duty bearers for the right to education and distracting from necessary public reforms; replacing accountability to learners and local communities toward investors; and shifting finance away from sustainably funding future educational needs to shorter time horizons.

The editors have curated a diverse set of perspectives that navigate the binary between macro-structural fiscal reforms and micro-level results-based accountability. They demonstrate that learning across this divide is essential since no single financing mechanism offers a complete solution. Across both, the critical questions addressed are: who provides capital, who bears risk, who determines outcomes, to whom actors are accountable, and over what time horizon?

What emerges from the evidence? First, all financing mechanisms need to be context-sensitive in their design and implementation. Secondly, results-based mechanisms can improve internal efficiency and external collaboration, and yet they can also encourage gaming and auditing behaviours over educational logics. Finally, system-capacity constraints need to be resolved not masked by short-term mechanisms. Thus the assessment of IFE tracks if more financing is mobilised, for better and more equitable results; it also goes beyond these immediate questions to examine the resulting system-wide effects.

This collection points us towards key orientations as we move forward putting into practice the lessons identified in this volume. Finance (public and private) is not only a question of resources, but also raise important governance issues. Funding innovations need to support long-term system-strengthening, including the technical capacity of mid-tier administrators, decentralized data use, and robust, multi-tiered teacher professional development. Better counting (and accounting) is needed for how much additional funding has actually been mobilised, and who carries the risks and who banks the benefits. Equity cannot be assumed; it must be designed into projects and evaluated in implementation. Context-responsive action matters; there is no silver bullet. Evaluation also needs to include the system effects of IFE as well as immediate resource mobilisation.

Overall, this collection of articles constitutes a valuable resource for researchers, policymakers and practitioners who seek to understand and interrogate innovations in education finance. **Section 1** traces changes in global IFE debates, inviting readers to weigh systemic and decolonial critiques of IFE. **Section 2** focuses on domestic resource mobilization, showcasing how national tax justice, sovereign debt swaps, and results-based intergovernmental transfers can improve accountability and the predictability of aid. **Section 3** explores the mechanics of blended finance, student lending, private equity loopholes, and social impact bonds, illustrating both the potential (whether realised or not) of IFE to address funding gaps, and the systemic friction it introduces when private capital is applied to public goods. **Section 4** provides a rich collection of real-world practice, tracing how IFE models function when they collide with the messy realities of learning and teaching, revealing a series of deep structural tensions.

We welcome readers to engage with this contribution to the ongoing conversation about the purposes, possibilities and consequences of innovation in education financing.

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NORRAG Special Issue (NSI) was launched in 2018 with the ambition to be an open-source periodical giving prominence to authors from various countries and with diverse perspectives. In line with NORRAG's strategy and seeking to bridge the gap between theory and practice, each issue focuses on the current debates that frame global education policy and international cooperation in education. The issues aim to stimulate discussion and present different viewpoints on a topic; therefore, they do not necessarily represent the views of NORRAG as an organization or the wider NORRAG membership.

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Innovative Financing for Education: Potentials, Challenges and Learnings

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Over the past two decades, innovation in social and economic development financing has been explored as a way to not only bring additional funds to fill persistent development funding gaps but also to reshape the way funding is disbursed within development projects. Innovations in financing in the education sector have involved experiments with engaging non-state providers, efforts to catalyse private investment, linking funding to the achievement of results, using data to drive programmatic decisions, alongside calls for broader fiscal reforms, including taxation and debt management, to increase the availability of public resources. Innovative financing for education (IFE) has also faced opposition from multiple fronts. Some critics have challenged the focus on mobilising private financing, arguing that it delivers only marginal gains when far larger public resources could be unlocked through measures such as tax reform. Others question the push for innovation altogether, noting that it often sidesteps the deeper structural causes of chronic underfunding in education.

The purpose of this NORRAG Special Issue is not simply to showcase examples of IFE but to critically examine whether and how innovation in financing addresses the most urgent challenges facing the education sector. It brings together scholarship, practitioner insights, and case-based evidence to examine what forms of innovative financing are being tried in education, how they are being implemented, and with what consequences. By drawing on experiences from across regions—particularly from the Global South—the volume seeks to move beyond promotional narratives and interrogate the realities and effects of design, execution, and sustainability. The Special Issue offers a snapshot of the current state of the field while prompting deeper questions about the role of IFE initiatives in tackling education’s critical financing, learning, and equity issues. Are these initiatives truly mobilising new resources, or are they redirecting existing funds under new contractual forms? Do they contribute to improving equitable and inclusive access to high-quality education? How do they address or potentially exacerbate systemic issues, such as the chronic underfunding of education and persistent resource disparities, among others?

We invite the readers of the Special Issue to situate innovative financing for education not just as a technical solution for filling the education funding gap but as a contested set of practices that are shaping the future of education finance.

Global Context – Why IFE, Why Now?

Despite longstanding global commitments, including Education for All (EFA), the Millennium Development Goals (MDGs), and Sustainable Development Goal 4 (SDG4), and despite recognition of education as a human right, a public good, and a common good, education financing remains inadequate, particularly in the Global South. The [2024 Education Finance Watch report](#) notes that while low-income countries have modestly increased their education budgets relative to their national income, most other income groups saw declines between 2010 and 2022, leaving overall government, household, and donor spending insufficient to address the global learning crisis or achieve SDG4.

This persistent shortfall has prompted governments and international organisations to explore alternative strategies, including innovative financing. In 2002, the [Monterrey Consensus](#) first proposed the idea of innovative financing for development as a complement to traditional aid and domestic resources. Subsequent education-specific declarations reinforced this call: the [Paris Declaration: Global Call for Investing in the Futures of Education \(in 2021\)](#) urged governments to adopt innovative measures and public-private cooperation alongside stronger taxation; the [Transforming Education Summit](#) in 2022 reaffirmed spending benchmarks while promoting progressive taxation, ring-fenced budgets, and debt-for-education swaps and PPPs; and the [Fortaleza Declaration](#) in 2024 explicitly named instruments such as debt swaps, results-based financing, social impact bonds, and structured PPPs while stressing institutional capacity building for such innovations. The momentum was further reinforced at the [Fourth International Conference on Financing for Development](#) (FFD4), which was held in Sevilla in July 2025 and called for catalysing private investment through blended finance and addressing debt burdens via debt swaps as critical avenues for overcoming development financing challenges.

While IFE projects in education have been designed and implemented in diverse manners, many still remain at the pilot stage. Early efforts, such as the Debt Swaps for education implemented in Argentina, El Salvador and Cameroon, have enabled government funds to be redirected towards education, although they were limited in scope. Many national governments have initiated their own innovations, such as Brazil's [Bolsa Família](#) linked cash transfers to school attendance, India's [education cess](#), and Ghana's establishment of an Education Trust Fund through its value added tax ([GETFund](#)) to finance basic education. These early models represent one category of IFE, which encompasses both domestic and publicly driven innovations.

The launch of the [Educate Girls Development Impact Bond](#) (DIB) in 2015 marked the beginning of momentum towards combining private investment with results-based financing. Financing instruments that use market-based and blended approaches constitute another category of innovative financing mechanisms, including development and social impact bonds, outcomes funds, impact-linked loans, and blended finance facilities that combine concessional capital, meaning funds provided at below-market rates or with more flexible conditions, from public and philanthropic sources with private investment. A common feature of these instruments is an effort to attract private capital, share risks between public and private actors, and link financing to measurable outcomes.

Across these various mechanisms, certain features are consistently evident. Many IFE mechanisms draw heavily from new public management principles, such as performance-based contracting, quantifiable outcomes, financial incentives, and a focus on accountability, effectiveness, and efficiency. IFE advocates argue that these innovations introduce new resources and optimise the utilisation of existing and new funds for the delivery of education services. Nonetheless, critics question whether such financing innovations truly achieve these aims. Concerns also persist regarding transaction costs, the equity implications of outcome-based targeting, and the shift of accountability from learners to investors.

The current landscape of IFE remains both diverse and contested. On the one hand, it demonstrates an expanding array of tools and experiments; on the other, it raises unresolved questions about what types of innovation are desirable, under which conditions, and for whose benefit. It is within this tension—between optimism for new solutions and scepticism about their systemic outcomes—that the contributions to this Special Issue are situated.

Framing and Understanding Innovative Financing for Education

The first set of contributions questions the very foundations of innovative financing. Authors here differ sharply in their

assessments: Terway and Dreux Frotté trace the history of the concept to demonstrate that it is gaining mainstream acceptance in education financing, which needs to be carefully designed if its promised potential is to be realised. Conversely, Klees argues that IFE is a distraction from the real structural reforms needed in education and development finance. Boa-Amponsem's contribution questions the focus on internationally driven models, asking to redefine IFE and calling for expanding the framework to include domestic resource mobilisation as an equally valid form of innovation. Across these perspectives, there is a consensus that definitions of IFE are ambiguous and its purposes and effects are contested.

Innovations in Public Sector Resource Mobilisation and Management

This section focuses on innovation within public financing systems. Governments remain the primary financiers of education, and there is growing recognition of the need to strengthen domestic resource mobilisation while reducing over-reliance on aid or household spending. Innovative approaches also support reforms in governance, often drawing on private-sector principles that promise to enhance efficiency and accountability.

Contributors approach this theme from different angles. Archer argues that real gains require systemic reforms in taxation, debt, and macroeconomic policy, positioning tax justice and fairer debt architectures as essential innovations. Nyamweya builds on this by calling for a feminist approach centred on debt relief, participatory governance, and intersectionality. Others highlight government-led reforms that are already underway: Biney describes how Côte d'Ivoire has diversified its revenue sources and managed its debt to ease pressure on education budgets, while Ossom, Akinsolu, Zaidi, and Sanni show how Nigeria has adopted results-based transfers from central to state governments to improve accountability.

These contributions affirm the central role of governments in education financing. The divergence lies in how innovation is defined: for some, it means large-scale structural reforms in fiscal and debt systems, while for others, it involves embedding results-based accountability into public finance management.

Private Capital and Market-Based Approaches

This section examines the role of private capital and market-based instruments in expanding resources for education. The authors here discuss impact investing and blended finance as ways to mobilise additional funding, share risks between public and private actors, and reallocate public funds where markets cannot deliver.

Manfredi, Villalobos, and Duboy-Luengo critique private-sector engagement through a social impact contract, warning of

commercialisation and misalignment with public goals. Riany presents blended finance as a transformative tool to address prevailing education funding gaps in the Global South, and Dua, Khambhati, Shah, and Lashkari highlight a student-lending model that shifts underwriting from parents to students' future earnings. Musarurwa reflects on lessons for Sub-Saharan Africa from Palestine's Finance for Jobs Development Impact Bond (DIB). Bhattacharjee analyses how private equity firms enter India's education sector despite restrictions on profit-making. Shaw describes efforts to build a social investment market in Qatar, and Ronalds introduces the Generation Empowerment Fund, designed as a child-focused investment initiative in Africa. Pisani and DiSilvio apply a USAID project framework to blended financing in Honduras and South Africa, showing its potential for early childhood education.

The contributions in this section demonstrate that private capital is already shaping education financing but diverge on how far its role should extend: Some stress risks of profit motives in public goods, while others emphasise opportunities to close persistent funding gaps through carefully structured partnerships.

Evidence and Reflections from Implementation

Finally, several contributions to this Special Issue focus on practice and evidence from implementation. Drawing on cases ranging from outcomes funds in Africa to social lending in Kenya, EdTech investment in MENA, and disability inclusion in Rwanda, these accounts open up the “black box” of IFE—shedding light on what works, what does not, and why. The contributions in this section reflect on design choices, model efficacy, implementation challenges, and the complexities of measurement and sustainability while also highlighting forward-looking trends that push the boundaries of current practice.

Some authors in this section focus on outcomes-based instruments: Aktas analyses global patterns in the spread of impact bonds using NORRAG's Education Impact Bond database, Husain reflects on lessons from the Educate Girls DIB and subsequent programmes in India, and Iyer and Parekh review the British Asian Trust's portfolio of impact bonds, drawing insights on design and partnerships. Schoffelen Oranje, Mommers, and Tshiyombo import lessons from health-sector performance-based financing to education.

Other authors highlight the risks of reductive measurement frameworks: Jhingran and Rana caution against relying on aggregate learning metrics that overlook equity and system-strengthening dimensions; and Kucirkova, Rafla, Michael, Jasińska and Alrawashdeh highlight the need to adopt a multidimensional understanding of learning and educational impact expressed as efficacy, effectiveness, equity, ethics, and environmental impact. Thorne demonstrates how outcomes-based financing in early childhood could be helping to improve accountability for quality.

Additional pieces in the section draw attention to emerging or underexplored dimensions of outcomes financing: Wright and Batamuriza underline the importance of embedding disability inclusion in outcomes funds; Beleli, Castellnou, and Laguna argue that the internal costs of outcomes funds should be seen as system-strengthening investments; and Turner, Kamara, Jalloh and Elliot-Nyumashare share Save the Children's experiences of outcomes-based contracting through the Sierra Leone Education Innovation Challenge.

Another set of contributions examines new financing models. Kimaina, Burns, Nkontwana, Rosenberg, Ngwabi, Musarurwa and Moodley study a social lending initiative in Kenya, to analyse the selection dynamics and raise questions on how financial risk is managed and how it impacts access to higher education. DiSilvio and Pisani analyse the challenges of implementing impact-linked lending in Kenya and South Africa.

These contributions based on implementation experience highlight the promise and pitfalls of IFE. They show that while innovative instruments can mobilise resources and reshape incentives, they also risk distorting priorities or reinforcing inequities if they are poorly designed and insufficiently adapted to local contexts.

Concluding Reflections

Despite its promise, IFE faces several critical challenges. First, there is considerable ambiguity in definitions, with terms like “impact bonds” often being misunderstood, as many do not function as bonds in the conventional financial sense. Questions around additionality versus substitution of education funds remain unresolved. There is also concern about crowding out, where private capital may inadvertently undercut or replace traditional government funding. Does IFE truly generate new funding, or does it simply displace existing public financing? Furthermore, the high transaction and negotiation costs associated with designing and implementing IFE mechanisms can limit scalability and sustainability.

From an equity perspective, the strong focus on measurable outcomes may incentivise actors to target interventions where success is easiest to achieve, excluding marginalised or high-need populations. Additionally, as private investors assume a greater role, there is a risk that accountability shifts away from learners and communities and becomes increasingly oriented towards investors. The issue of acceptable financial returns in social sectors is still contested, as expectations for profit must be balanced against public-interest goals of education.

We hope this NORRAG Special Issue 12 offers a meaningful snapshot of current work in this field and encourages readers to continue posing critical questions and delineating directions for future research.

Part 1

Framing and Understanding Innovative Financing for Education

Innovative Financing in Education: Revisiting the Promise, Asking the Right Questions

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Summary

This article revisits two decades of global debate on innovative finance for education (IFE). Tracing its evolution from the Monterrey Consensus (2002) to recent international calls (Fortaleza Declaration in 2024), it highlights recurring promises and cautions. The authors invite policymakers and practitioners to return to the foundational discussions on IFE and assess whether current initiatives truly meet the conditions for contributing to additional, sustainable, effective and equitable education financing.

Keywords

Additionality
Effectiveness
Equitable finance
Public-private partnerships
International aid

Introduction

The concept of innovative financing for education (IFE) has garnered significant attention in recent decades as a potential solution to the persistent underfunding of education systems, particularly in low- and middle-income countries. IFE is expected to go beyond traditional aid mechanisms by unlocking new sources of funding, leveraging private-sector involvement, and making funds go further by introducing results-based modalities. While enthusiasm for IFE grows, there is a pressing need to return to the foundational motivations for exploring novel financing modalities and to examine whether we are meeting the expectations. When assessing which financing mechanism is most suitable for addressing an education challenge, we must ensure that we are asking the right questions.

In this article, we revisit the original hopes that propelled the exploration of IFE and the cautions that experts had identified. We do not offer definitive answers but invite readers—especially policymakers, funders, and practitioners—to critically examine whether contemporary IFE initiatives are responding to the goals and cautions articulated during their early stages. We trace some of the most influential reports, declarations and calls on IFE—from the emergence of innovative financing in the 2002 Monterrey Consensus through to the analyses and proposals commissioned by the Leading Group in 2010 to more recent global calls for continuing the exploration of IFE in the 2022 Transforming Education Summit (TES) Call to Action on Educational Investment and the Fortaleza Declaration in 2024.

As we elaborate in the next sections, over the years, key reports, declarations and calls on education and development financing have all raised similar hopes, approaches, and concerns about the role of IFE. IFE is expected to mobilise additional and stable financing beyond traditional aid and government resource allocation. It has also been proposed as a means to improve the efficiency and effectiveness of existing funding. And, it has been viewed as a

way to increase private-sector engagement, both to increase funding and to enhance the utilisation of funds. Experts have also warned that, without proper safeguards, IFE mechanisms could undermine accountability, equity, or the provision of education as a public good.

The Origin Story: Monterrey Consensus and the Birth of IFE

The term “innovative financing” first gained prominence at the 2002 International Conference on Financing for Development in Monterrey, Mexico. This conference marked the first global effort to bring together heads of states, ministers, and international institutions to respond to the growing concern about the resource shortfalls for achieving the Millennium Development Goals (MDGs). The resulting [Monterrey Consensus](#) emphasised that achieving the MDGs—including universal primary education—would require both traditional and non-traditional financial mechanisms. It highlighted the need for stable, predictable, and additional resources, and it encouraged countries to explore new public–private partnerships (PPPs), global taxation schemes, and market-based tools to supplement official development assistance (ODA). It framed innovative financing as essential to addressing the “dramatic shortfalls in resources required to achieve the internationally agreed development goals” (United Nations, 2002, p. 5).

The Monterrey Consensus highlighted the interdependence of domestic and international financial flows and underlined the importance of leveraging private capital alongside public funds. It also promoted the formation of partnerships with the private sector to expand the resource base for development financing. Simultaneously, the Consensus signalled caution in the pursuit of innovation. It explicitly acknowledged “the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries” (United Nations, 2002, p. 16). It encouraged further study of proposals but emphasised that any assessment must respect international agreements (like the MDGs) and the governance of multilateral institutions such as the International Monetary Fund.

The Monterrey Consensus laid the groundwork for later initiatives, such as the Leading Group on Innovative Financing for Development, to further explore innovative financing approaches in the development sector as a whole and within the education sector.

The Next Wave: Promises and Cautions for the Education Sector

The Leading Group on Innovative Financing for Development was established in 2006 by Brazil, Chile, France, and Spain. By 2009, it had expanded into a global platform with 66 countries, organisations, and NGOs. Its goal was to act as a

“laboratory and diplomatic tool” to foster dialogue, share practices, and promote innovative financing methods like solidarity levies, taxes, and PPPs to accelerate progress towards development goals.

In 2010, the Leading Group established a Task Force on Education, which resulted in the report “[2+3=8: Innovating in Financing Education](#).” The report outlined mechanisms like international transaction taxes, diaspora bonds, debt-for-education swaps, voluntary migrant contributions, and micro-donations to generate funds and raise the sector’s profile. The report set four key objectives for IFE: to mobilise stable resources, increase education’s visibility, improve aid effectiveness, and foster innovation. It recommended channeling funds through existing structures like the Education for All Fast Track Initiative (now the Global Partnership for Education) to prevent aid fragmentation. Recognising the private sector’s growing role, it proposed PPPs as a promising vehicle for innovative financing, where private actors could bring not only funding but also managerial expertise, marketing capacity, and operational flexibility. The report raised the question of how best to involve the private sector in financing mechanisms without undermining public accountability or equity.

Alongside the Leading Group, the Education Support Program of the Open Society Foundations (OSF) commissioned several working papers to explore the potential for IFE through expert consultations. Three of them highlighted important messages regarding the potential of IFE but also the necessary cautions. In 2010, Burnett and Bermingham (also members of the Leading Group Task Force writing committee) published a primer on IFE, reinforcing key goals from the Leading Group report, including stable, predictable financing to complement aid (Burnett & Bermingham, 2010). They similarly proposed a menu of financing options such as voluntary solidarity contributions, levies, and diaspora bonds. What Burnett and Bermingham (2010) added in this paper was a stronger emphasis on the need to rethink not only financing mechanisms but also systems of delivery. Their definition of innovation encompassed reforms to reduce inefficiencies, encourage risk-taking, and diversify delivery agents within the education sector. They underscored that innovative financing should go beyond just mobilising new money to stimulate new ways of achieving better learning outcomes. Additionally, they highlighted the need to mobilise domestic resources and proposed leveraging large-scale national instruments like pension funds. They argued for diversified delivery mechanisms and suggested that well-regulated private sector involvement could enhance service innovation and outcomes, provided that safeguards for equity and transparency are in place.

Filipp and Lerer (2013), in another working paper for the OSF, outlined why education is a uniquely difficult sector for

innovative financing. They identified several limitations: the complex and interdependent nature of the education value chain, where progress at one level depends on foundational achievements at earlier stages, making it difficult to isolate specific interventions for investment or to attribute outcomes in a straightforward way; the misalignment between private investment models and the long timeframe for social and financial returns in education; the dominance of public sector provision limiting commercial opportunities and complicating cost recovery for private actors; the difficulty in measuring learning outcomes; and, lastly, the low level of research and development activity within the sector, further reducing its attractiveness to impact investors. Filipp and Lerer (2013) called for realistic expectations, nuanced design, and stronger alignment between financial tools and educational goals.

Samoff and Irving (2014), in their critical working paper, warned that some IFE mechanisms might generate minimal new funds or worsen inequality by favouring interventions with clear financial returns over those serving marginalised groups and populations.

Further momentum for IFE came from the International Commission on Financing Global Education Opportunity's [Learning Generation](#) report (2016). The Commission emphasised that mobilising new financing would be essential to closing the estimated USD1.8 trillion annual funding gap for Sustainable Development Goal (SDG) 4 in low- and middle-income countries by 2030. While reaffirming the central role of domestic resource mobilisation, the report stressed the importance of “innovative approaches to financing and new ways to leverage existing resources” (International Commission on Financing Global Education Opportunity, 2016, p. 3). It highlighted the limited impact of traditional aid and proposed using impact investing, education bonds, and results-based financing to improve both the quantity and quality of education funding. At the same time, the report cautioned that more money would not automatically lead to better outcomes and emphasised that systemic reforms in performance, inclusion, and accountability must accompany innovation in financing. It also noted the potential risks of poorly regulated private-sector involvement, underscoring the need for stronger frameworks to ensure that innovation supports equity and learning rather than undermining them (International Commission on Financing Global Education Opportunity, 2016).

Together, these reports made IFE a major topic of conversation within the global dialogue on education financing and shaped subsequent international debates on IFE's potential contributions and limitations.

Where Are We Now?

Innovative financing continues to be seen as a promising avenue to address the underfunding of education. Two decades after the Monterrey Consensus, the United Nations (UN) Secretary-General convened the 2022 Transforming

Education Summit to fundamentally rethink equity, inclusion, quality and relevance of education in light of the COVID-19 losses and to elevate solutions to transform education. One of the key outcomes of the Summit was the Call to Action on Educational Investment, which called on the international community to act in support of innovative financing mechanisms and seek new solutions to unlock funding (UNESCO, 2022, p. 2–3).

More recently, over 50 ministers of education, country delegations, as well as 650 representatives of UN agencies, humanitarian and development partners, international and regional organisations, civil society, teachers, youth and students, the private sector and foundations, have adopted the 2024 [Fortaleza Declaration](#), resulting from the 2024 Global Education Meeting, organised by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and hosted by the Government of Brazil. The declaration advanced commitments regarding education equity and financing and specifically highlighted innovative financing as one of the key actions to provide long-term funding for education. It encouraged countries to “develop capacities within ministries of education and ministries of finance to devise sustainable financing strategies to unlock long-term funding for education service delivery and development, including a mix of innovative financing instruments supplementing domestic resource mobilization efforts such as debt-for-education swaps, results-based financing, low-interest loans and guarantees, social impact bonds and public-private partnerships, as appropriate” (UNESCO, 2025, p. 3).

IFE continues to be portrayed as a promise to be realised, and the last decade has witnessed a proliferation of [initiatives](#) at both the project and institutional levels. Outcome-based financing mechanisms, such as [development impact bonds](#) (DIBs) and [impact-linked finance](#), have attracted investment in both pilot and large-scale projects. Major global institutions have structured innovative finance instruments, like the Global Partnership for Education's [Multiplier Fund and Debt2Ed](#), Inter-American Development Bank's [Employment, Youth, Education Bond](#), the [Education Outcomes Fund](#) establishing large-scale outcomes funds in Africa, or the [International Finance Facility for Education](#) (IFFEd), promoting financial partnerships among philanthropies, multilateral banks, and private investors for education financing.

Yet, evidence on the contribution of innovative financing to bridge the education funding gap remains scarce, and many of the early limitations and cautions continue to be relevant. Our systematic review (Avelar, Terway, & Dreux Frotté, 2021) found that although IFE mechanisms have diversified, evidence of their effectiveness and cost-efficiency remains limited. Empirical support for the claim that they mobilise additional resources is weak. Moreover, these mechanisms often operate in a fragmented pilot form, limiting systemic influence. The review also questioned whether

and how challenges around equity in education are being addressed with the engagement of the profit-making motive of the private sector (Avelar, Terway, & Dreux Frotté, 2021). Since the publication of the systematic review, new research has been commissioned by many actors, such as the Education Outcomes Fund; the World Bank; the UK Foreign, Commonwealth & Development Office; and the Swiss Agency for Development Cooperation, to examine the value added and contribution of innovative financing mechanisms in the education sector. While the findings from these research projects are forthcoming, we invite the education community to engage in critical enquiry when they are considering various IFE approaches.

Conclusion: An Invitation to Interrogate the Frame

In examining the multitude of IFE initiatives and projects that have been implemented or are in development, it is crucial to ask whether they fulfil the aspirations of and pay attention to the warnings raised in the past two decades of discussion. As education policymakers, practitioners, researchers, and donors, we need to ask ourselves the following questions when assessing whether and which innovative financing approaches to adopt in addressing the critical challenges facing global education:

1. Does the IFE mechanism mobilise additional and sustained funding for education, or is it merely repackaging or substituting existing flows?
2. Does the IFE mechanism align with existing institutions, structures and education finance systems and prevent further fragmentation of either aid financing or domestic resource mobilisation?
3. Does the IFE mechanism improve the utilisation of education finance through more efficient service delivery, greater cost-effectiveness, and better results?
4. Does the IFE mechanism uphold accountability and equity, ensuring transparent implementation that does not weaken public oversight of education and does not leave behind marginalised learners?

These questions are not rhetorical; they represent fundamental conditions to be met by any innovative financing initiative. Policymakers, donors, investors, practitioners and researchers alike should assess these key questions to ensure that innovation in education financing is pursued not for its own sake, but rather to provide adequate, sustainable, effective, and equitable funding that complements existing efforts to deliver quality education for all.

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Innovative Financing According to Whom? Centering Sovereignty and Sustainability in IFE for the Global South

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Summary

This article critiques how we define Innovative Financing for Education (IFE) and argues for expanding the framing of Innovative Financing for Education (IFE). Instead of constantly looking outward for donor solutions, IFE approaches should focus on how developing countries can leverage and build internal and locally driven approaches that align with national sovereignty and sustainability.

Keywords

Innovative financing for education
Domestic resource mobilization
Education sovereignty
Global South
Fiscal autonomy

Introduction

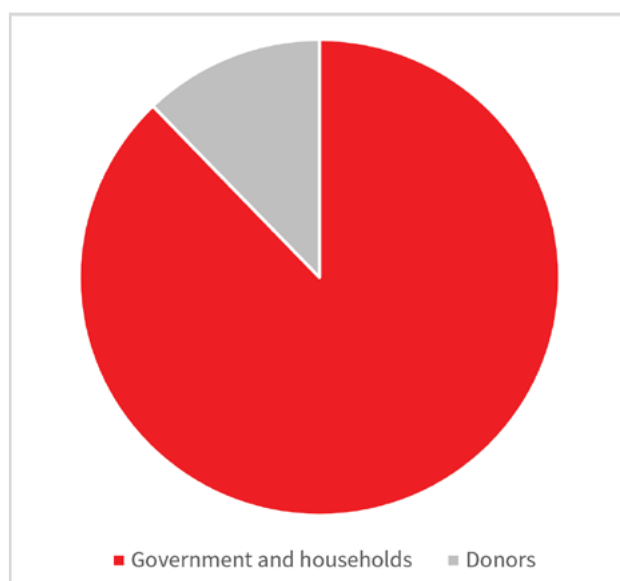
What if innovation in education financing did not always come from donor capitals or multilateral institutions but from the very communities and governments that have long been under pressure to make do with less? Flipping the script means asking not what external actors can do but how countries can mobilize domestic resources to strengthen sovereignty and sustainability in education financing. This article begins from the premise that developing countries have been innovating in education finance for decades, often out of necessity and with remarkable ingenuity. Yet, global discourse on Innovative Financing for Education (IFE) continues to reflect the patronizing assumption that innovation must originate from the Global North, and thus centers donor-led and market-based mechanisms (Faizi, 2020; Girishankar, 2009). This framing sidelines locally-driven resource mobilization approaches, reinforces financial dependency and undermines the autonomy of education systems in developing countries (Nguyen-Hoang, 2024). This article critiques the way that IFE is framed, and argues for a reorientation toward locally driven, sovereignty-respecting approaches. It draws on illustrative cases from Ghana and Kenya to show how domestic resource mobilization strategies like Ghana's GETFund and Kenya's Harambee system embody contextually grounded innovation with the potential for scale, resilience, and sustainability. Finally, the article introduces an assessment framework that centers six dimensions as key criteria for evaluating the effectiveness of IFE mechanisms.

Global Education Financing

The global [education financing](#) landscape faces an estimated annual funding gap of USD 97 billion needed to achieve Sustainable Development Goal 4 (SDG 4) by 2030. This gap is most pronounced in low-income countries, where domestic [government spending](#) on education averages only 3.9% of GDP, compared to the recommended 6%. This persistent shortfall has intensified the conversation on IFE, which has gained incredible momentum as countries strive to meet SDG 4 targets (Brissett, 2023).

IFE approaches, however, remain heavily centered on external actors, donor-driven mechanisms, and market-based approaches. Global education financing patterns tell us a different story, that [external donors are contributing](#) a relatively lower amount in financing education initiatives in comparison to domestic funding sources. These contributions are expected to decline even further, with [significant cuts projected in global education funding](#). According to the 2024 [Education Finance Watch](#) report from the World Bank and UNESCO, donors account for just 0.29% of global education spending while governments contribute over 74.6% and households contribute 25.1%. Even in low-income countries (LICs), where external support is presumed to be more significant, donor funding still covers only 12.2% of education spending (Figure 1). Yet, somehow, the conversation continues to revolve around what donors can do rather than recognizing and amplifying the domestic financing that already underpins most education systems (Archer, 2023).

Figure 1. Education Funding in Low-Income Countries – Domestic Versus External Sources



Source: Developed by the author using data from World Bank and UNESCO, Education Finance Watch (2023).

These financing patterns raise critical questions about how IFE is currently framed, often in ways that privilege external donor mechanisms over domestically rooted approaches. What happens when the priorities of external actors from which we pool additional funds change? Should innovation not instead be viewed through the lens of the hard, complex, but ultimately empowering work of mobilizing local resources? Should approaches that have centered this mobilization not be amplified in IFE discourse to build on the lessons learned for implementing them across other country contexts? This requires moving from “resource substitution,” where external funds fill gaps, to “resource augmentation,” which enhances countries’ capacities to meet education sector financing needs sustainably (Glennie, 2020).

The Ghana Education Trust Fund

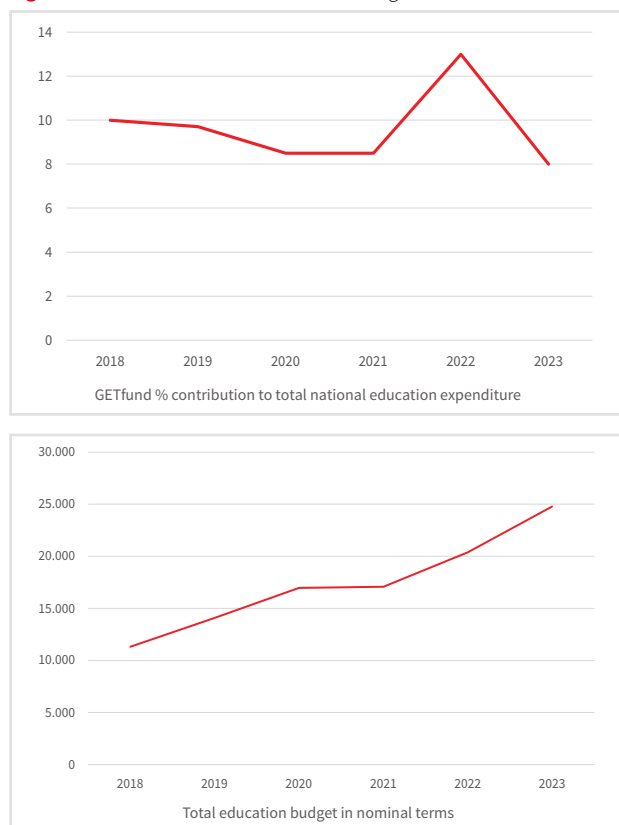
The GETfund was established by an Act of Parliament in 2000, with its implementation beginning the same year (Ghana Education Trust Fund Act, 2000). Its establishment was a landmark policy to address the persistent and severe financial challenges facing education in the country, particularly higher education. GETFund was set up during a period of broader decline in Ghana’s higher education system due to insufficient resources and political instability (Francis Atuahene, 2009; Oppong, 2013). The idea of a dedicated fund was initially proposed by student leaders and later adopted by the government as an alternative to cost-sharing policies that required students and their families to contribute to tuition and other university costs that had previously been covered by the government (Francis Atuahene, 2009).

The GETFund is primarily financed by a percentage of the prevailing rate of the national value added tax (VAT) levied on goods and services. Specifically, 20% of the existing VAT rate, which is 2.5%, is paid into the GETFund account. Funds support infrastructure development, scholarships, student loans, faculty development, and research programs across all education levels (Ghana Education Trust Fund Act, 2000).

In spite of implementation challenges, including significant funding delays from the Ministry of Finance, [GETFund serves as a consistent and significant supplementary source of finance](#) for the education sector across all levels of the system. Figure 2 shows that the fund has maintained a stable contribution of approximately 8%–12% of the national education budget between 2018 and 2023, with an average of 9.5% over this period. GETFund’s contribution has grown in tandem with, not instead of, the government’s core education budget. This trajectory provides empirical evidence against concerns that earmarked taxes enable reduced government allocations.

GETFund exemplifies how developing countries can leverage domestic tax mechanisms to finance education and also provides critical lessons on the importance of strong governance, transparency, and legal enforcement to protect the integrity and effectiveness of such mechanisms. Similar concepts of using innovative earmarked taxes for education have been implemented through Nigeria’s Tertiary Education Tax from corporate profits, Brazil’s royalties from oil and taxes, China’s Educational Surcharge on VAT taxpayers and India’s education cess on Union taxes. Learnings from the design, implementation, and governance of these approaches provide critical lessons that could be adapted by other countries looking to strengthen their domestic education financing. Earmarked taxes should, however, be supplementary to existing allocations and generate genuinely additional revenue for education, not merely replace other government funding (Archer, 2016).

Figure 2. GETFund and Total Education Budget Trends



Source: Developed by the author using data from the 2023 and 2024 United Nations Children's Fund (UNICEF) Education Budget Briefs.

Kenya's Harambee System

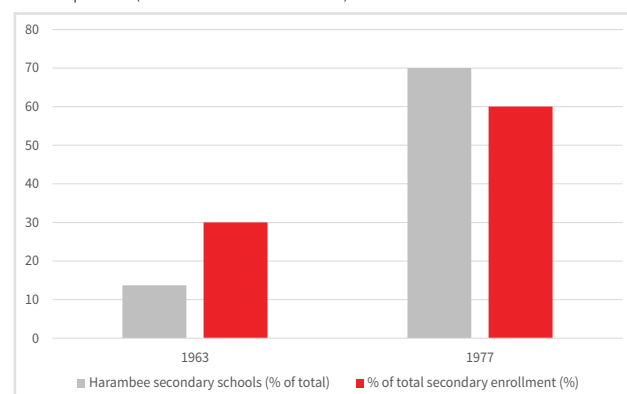
Kenya's Harambee system serves as a particularly significant example of how traditional community-based approaches can provide insights to mobilizing local resources to finance education. The term Harambee originated from the word "Halambee," meaning "Let us all pull together" used by Bantu speakers on the Kenyan Coast (Kefa, 2008). This philosophy reflects the longstanding tradition of mutual assistance, joint effort, mutual social responsibility and community self-reliance, which was formalized and expanded as an approach for resource mobilization to finance Kenya's education strategy. Harambee provides lessons on how traditional practices can become innovative when systematically applied to address financing challenges in current contexts.

Harambee operated through voluntary community contributions that extended beyond monetary donations to include materials, labor, and expertise (Keller, 1983). Funding came from within the community across various socioeconomic groups, with more affluent community members, private firms, cooperatives, and education trusts contributing through Harambee committees.

Although Harambee was originally a broader approach to financing social development projects in Kenya, it had a particularly significant impact on the education sector, contributing significantly to gains in expanding access across

Kenya's education system. Harambee complemented and expanded the government's formal education system by establishing additional schools; in fact, many current government-aided schools were set up through the Harambee system. It played a key role in the expansion of schools across the nursery, primary and secondary levels by mobilizing local resources to build schools and improve infrastructure where government provision was limited (Kefa, 2008). Literacy levels improved significantly due to accessibility and proximity to educational facilities. Harambee secondary schools increased from 13.7% of all secondary schools in 1963 to over 70% by 1977. Enrollment in Harambee schools rose from 30% of the total secondary school enrollment in 1963 to more than 60% in 1977 (Figure 3).

Figure 3. Kenya's Harambee System – Educational Infrastructure Development (Between 1963 and 1977)



Source: Developed by the author using data from Keller (1983).

Although hugely successful, the Harambee system, which had a largely decentralized expansion, presented significant challenges for maintaining quality, particularly regarding teacher qualifications, facilities, curriculum, and, ultimately, student attainment and graduate outcomes. Although the specific model may not be universally transferable, Kenya's experience offers relevant lessons as developing countries face pressures on national budgets and are exploring sustainable approaches to education financing. The Harambee system demonstrates that communities possess significant mobilization capacity when they have ownership over educational initiatives and can see the direct benefits of their contributions.

An Analysis of GETFund and Harambee Models

A comparative analysis of the GETFund and Kenya's Harambee system (see Table 1) shows that although the mechanisms differ significantly in their structure, context and background, with one being state legislated and tax-based and the other rooted in community-driven self-help, both mechanisms offer insights on the potential for domestic resource mobilization to expand access to education at scale. The table highlights that successful domestic financing models require key enablers, such as strong governance and oversight, a sustainable and predictable funding base, and deep local ownership. These lessons are essential for rethinking IFE models, with innovation measured also by its contextual relevance, sovereignty, and capacity building, not

just by novelty or scale. Beyond these two examples from Ghana and Kenya, there are several other examples of locally driven resource mobilization approaches for financing education which demonstrate that developing countries can mobilize significant resources for education through locally driven mechanisms that respect national sovereignty and build systemic resilience.

Table 1. Comparative Analysis of Domestic Resource Mobilization Models

	Ghana GETFund	Kenya Harambee	Key Lessons
Funding mechanism	20% of VAT (2.5% rate)	Voluntary community contributions	Multiple mobilization strategies are possible
Governance structure	Parliamentary oversight; board of trustees	Community-led committees	Local accountability mechanisms are essential
Scale of impact	10%–13% of the national education budget	70% of secondary schools by 1977	Significant scale is achievable domestically
Primary challenge	Fund release delays from the ministry	Quality control and standardization	Strong governance frameworks are critical
Sustainability factor	Stable tax base; legal framework	Community ownership and demand	Multiple sustainability pathways exist
Replicability	High (tax-based models globally)	Medium (context-specific community structures)	Principles are transferable; models are adaptable

The redefinition of IFE requires a fundamental epistemological shift from an outward-looking paradigm that views innovation as external intervention to an inward-focused framework that recognizes, analyzes, and amplifies existing domestic solutions. This inward lens necessitates a rigorous analytical approach – systematically documenting existing domestic mechanisms, conducting honest assessments of their strengths and limitations, understanding the contextual factors that enable their success or constrain their impact, and developing evidence-based strategies to strengthen and scale these approaches. Rather than viewing domestic innovations as insufficient, the global education community must invest in understanding why mechanisms like Ghana’s GETFund mobilize billions and why Kenya’s Harambee system built 70% of the country’s secondary schools.

Proposed IFE Assessment Framework

A reorientation requires us to fundamentally rethink how we assess the value and potential of IFE mechanisms. Traditional evaluation approaches focus primarily on the scale of the resources mobilized, but sovereignty-centered IFE demands a more comprehensive analytical framework. To move from resource substitution to resource augmentation, we need

assessment tools that can distinguish between mechanisms that strengthen domestic capacity and those that merely provide temporary relief. This means evaluating not just how much funding is generated but whether that funding enhances national autonomy (Wade, 2003), builds systemic resilience (North, 1990) and creates sustainable pathways for long-term education finance (Glennie, 2020).

The framework proposed here centers on six critical dimensions – these are sustainability, local ownership, scalability, innovation, sovereignty, and resilience. This draws from the literature on fiscal sovereignty (Moore, 2004), democratic accountability in aid (OECD, 2005) and adaptive innovation in development contexts (Ramalingam, 2013). Each of these is essential for determining whether a financing mechanism truly serves the interests of education systems in the Global South rather than perpetuating patterns of dependency that scholars like Easterly (2006) and Chang (2002) have long critiqued. Table 2 provides a breakdown of the six dimensions in the proposed assessment framework, including key evaluation questions and potential indicators of success.

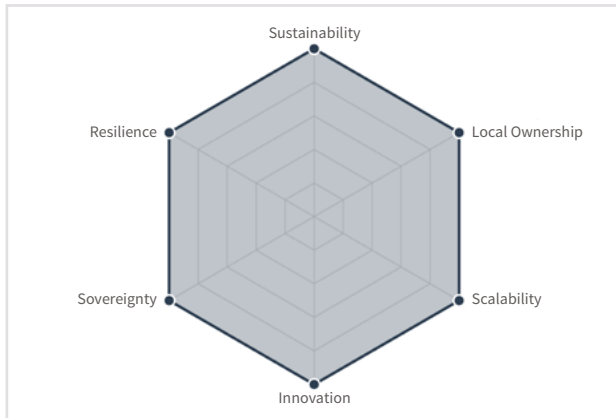
Table 2. Dimensions and Indicators for Assessing Innovative Financing for Education

Dimensions	Key Evaluation Questions	Indicators of Success
Sustainability	Can this mechanism operate independently of external funding cycles? Does it have a stable, predictable resource base?	Multi-year funding security; Domestic revenue sources; Reduced dependence on external actors
Local ownership	Do national/local actors control decision-making? Are communities invested in the mechanism’s success?	Democratic accountability; community participation; national priority alignment
Scalability	Can this approach be expanded or replicated within the national context? What are the growth constraints?	Demonstrated expansion capacity; institutional strengthening; policy integration
Innovation	Does this represent genuine advancement in domestic resource mobilization? Is it contextually appropriate?	Novel approaches to local challenges; improved efficiency; creative problem-solving
Sovereignty	Does this strengthen or weaken national control over education policy? Are there external conditions attached?	Policy autonomy; reduced conditionalities; strengthened national capacity
Systemic resilience	Can this mechanism withstand external shocks? Does it build systemic strength?	Shock resistance; diversified funding; institutional robustness

Source: Developed by the author.

To operationalize this redefinition of IFE, the author proposes a six-dimensional assessment framework (Figure 4). This framework helps evaluate whether an IFE mechanism aligns with principles of sustainability, sovereignty and resilience. The framework serves as a practical tool to design and assess IFE models that truly serve the interests of education systems.

Figure 4. Assessment Framework



Source: Developed by the author.

Conclusion

A reorientation of IFE requires that we measure innovation not by its novelty per se, but by its effectiveness in mobilizing sustainable resources, strengthening national sovereignty over education policy, and building resilient systems that can withstand external shocks.

The future of education finance does not lie in exotic financial instruments designed in foreign capitals but in the painstaking, politically complex, but ultimately transformative work of building robust domestic resource mobilization systems that reflect national priorities and democratic accountability. This is the innovation that education truly needs, not because it is new, but because it works because it lasts and because it belongs to the people it serves.

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Innovative Financing in Education and Development: A Helpful Tool or a Harmful Neoliberal Distraction?

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Summary

Innovative finance is touted as an efficient and effective way to fill the gap left by inadequate public resources devoted to the SDGs. To the contrary, I argue that innovative finance is a distraction from the real education and international development problems the world faces. Moreover, much innovative finance, especially impact investment, is a misguided approach to improving education and development outcomes.

Keywords

Innovative finance
Impact investment
Results-based finance
New public management
Privatization

For the last few decades, there has been attention to, a call for and experimentation with innovative finance (IF) in international development. This attention has been very strong in our field of education, hence, this timely NORRAG Special Issue. As an economist concerned with education and international development finance, I have been following this discussion since its inception. Is innovative finance a badly needed set of mechanisms to fill the gap in public resources for attaining Sustainable Development Goal 4 (SDG 4) and the other Sustainable Development Goals (SDGs) as well as to improve the efficiency and effectiveness of education and development efforts? Or is innovative finance the result of neoliberal market fundamentalism that takes attention away from the need to fulfill international and national public sector responsibilities for achieving the SDGs and offers a paltry stopgap that encourages privatization and narrow and wrongheaded approaches to improving efficiency and effectiveness?

For me, there are clear answers to these two questions. The former, positive view is based on faulty assumptions and reasoning, and the latter critique only scratches the surface of what is wrong with IF. Of course, many disagree. In this short essay, I want to explain my view. To me, this is not an empirical question. It is a question of beliefs—of politics, philosophy, epistemology, ideology, whatever you prefer to call it.

To me, to assess IF requires us to address some of the biggest issues of our times. Its use does not center on narrow technical empirical questions of “what works best?” To assess the value and use of IF, we have to confront bigger questions: What is development? How to get there? How to make the SDGs a reality? What is the proper role for the government in doing so? For international aid? I, of course, cannot answer these questions in this short essay, but I do intend to discuss some of them as part of thinking about the big picture that surrounds the use of IF.

Definitions of what innovative financing is vary. For the purpose of my critique, I want to focus on what are usually called impact investments ([chiefly social impact bonds and development impact bonds](#)). Much of my critique is about IF

and impact investment in general, but I will also refer to IF and impact investment uses in education.

Results-Based Finance and New Public Management

The idea that impact investment improves the effectiveness and efficiency of education or other development investments is tied to the frequent use of results-based finance (RBF) to ascertain impact. RBF pays back investors if their investment reaches some pre-specified quantitative targets; in education, these are often things like score on a test or increase in enrollment. While attaining these outcomes may be worthwhile, education outcomes are never one- or two-dimensional. Choosing to measure one or two target outcomes ignores other valued outcomes and leads to misevaluating programs. A program that increases reading scores could have a negative impact, for example, on other subjects or on socioemotional learning.

RBF is one of the approaches that have come out of the (not-so-) new public management (NPM), which argues that the effectiveness and efficiency of public services can be improved by applying business know-how and tools. NPM has been soundly critiqued since its [inception](#).¹ Business knowhow and tools may be useful when there is a clear bottom line and hierarchical management control. They don't apply well to the complexities of education (or many other public service) outcomes nor to the needs for democratic accountability. Applying NPM and RBF is an ideological choice, not one of "efficiency."² Even the application of tools more comprehensive than RBF, like cost-effectiveness and [cost-benefit analysis, lead to conflicting results](#) depending on the political ideology of the analyst. In its extreme form, as practiced by Elon Musk and Donald Trump, NPM's application of a "business model" led to the Department of Government Efficiency (DOGE), where efficiency is an excuse for drastically cutting government services based on political ideology.

Privatization

IF and impact investment are tools of a neoliberal NPM ideology that minimizes or circumscribes the role of government and argues to rely more on the private sector. Impact investing in education not only encourages the privatization of education, it "is" privatization (if the investor is not a government organization). Such impact investing cedes major decision-making control to the private sector and legitimizes doing so elsewhere. For education and many other public services, impact investment gets around public accountability and participatory, democratic oversight, turning what should be a political activity in the best sense of that word into a narrow, technical one.

The critique of government and the privatization of many public services have been increasingly promoted since the

onset of a global neoliberal ideology in the 1980s. However, there has been pushback.³ There is an "Our Future is Public" movement. In December 2022, their conference was attended by 1,000 representatives from over 100 countries fighting for public services in education, health, water, energy, housing, food, transportation, social protection, and care sectors. [The Global Manifesto](#) produced prior to the meeting and the [Santiago Declaration](#) produced after are marvelous documents with excellent analyses of the problem and with principles for universal quality public services. The argument that there is not enough money to fund needed public services is simply a refusal to change priorities (e.g. from military and defense spending) and to tax those who are well off.

The Big Picture

Proponents may argue that IF and impact investment have little to do with these broad issues, but to me, they are intricately entangled with how we approach international progress and development. However we define progress and development, we have been doing a lousy job. None of the MDGs were met,⁴ and none of the SDGs will be met by 2030. [UNESCO estimates](#) that an additional \$97 billion/year is needed to achieve SDG4, and the [UN estimates](#) that at least an additional \$5 trillion/year is needed to achieve all the SDGs. Impact investment, and IF more generally, have no potential to make even a small dent in these shortfalls.⁵

Attention to IF and impact investment are a distraction from what needs to be done, taking up energy, effort, and time in the global policy arena.⁶ But they are more than a distraction, they are wrongheaded. This is especially true if you see the world as I do, dominated by neocolonial patriarchal racial capitalism. From this perspective, development is about so much more than GDP and economic growth. It is about the well-being of all the people on this planet. And development is not only about results or outcomes; it is equally about the process by which we get there.

That process must involve widespread participation in designing, managing, and evaluating education and other public service programs and systems. Impact investment and other forms of IF are based on the wrong model: a technicist, technocratic, results-focused model of running development programs. "Results" of development programs and their processes need to be seen in their complexity, in their quantitative and qualitative dimensions. From this perspective, impact investment, and much other IF, are badly conceived, not oriented to the broad well-being of people and planet.⁷

Attention to innovative finance is a distraction from the many other important changes needed, such as: revisiting the roles of the World Bank and the IMF; placing the UN at the forefront of global tax reform; abandoning the hope that the private sector will be a substantial contributor to development

efforts;⁸ making a commitment to the flourishing of public services; and changing from a charity approach to international aid to one of reparations for the many decades of colonial and neocolonial relations.

Systemic changes are needed. Many recognize that patriarchy and racism need to be challenged, but so does our capitalist world system. There is considerable effort being made to do just that (Klees, 2020, 2024; Korten, 2021; Kothari 2021). I have been fortunate enough to work in many countries, and everywhere, there are people who believe in the slogan of the World Social Forum and are working for it: “Another World is Possible!” In that world, innovative finance will not be needed and, in today’s world, it is a hindrance to the progressive changes needed.

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Endnotes

1. RBF is often theoretically justified by economists’ principal/agent theory, which argues that you need RBF-type contracts to make sure agents (like frontline educators) strictly implement the objectives of the principal (the public or private investor). This is a technocratic, top-down idea that subverts the need for democratic participation in defining and reaching objectives by all parties concerned.
2. Efficiency is, at best, an ill-defined concept; [in my view](#), the idea of economic efficiency is actually meaningless.
3. In education; see the long-term efforts of [PEHRC, the Public Education and Human Rights Coalition](#).
4. It has been claimed that the goal to cut extreme poverty in half was met, but this assertion [relies on a poor measure of extreme poverty](#).
5. In education, there has been much discussion of another IF mechanism: debt/equity swaps. But these are also relatively small efforts that will put neither a dent in the education (or other SDG) funding shortfall nor in the serious problem of the debt crisis facing so many countries (Archer, this volume).
6. This distraction is obvious as IF claims attention in innumerable venues, such as in the just-concluded Fourth International Conference on Financing for Development in Sevilla; in organizations like the Global Impact Investment Network supported by multiple Foundations like Ford, Rockefeller, Soros, Omidyar, Visa, and MacArthur; and in the intellectual attention given by organizations like NORRAG.
7. Examples of much more sensible approaches can be seen in the work of the [Wellbeing Economy Alliance](#) and the [Doughnut Economics Action Lab](#).
8. The “billions to trillions” framework of the World Bank that was supposed to catalyze private investment to achieve the SDGs has been a [failure](#) and was wrongheaded from its inception. More to the point, in a sensible future we cannot expect the private sector, with its focus on wrongheaded NPM, to do what is needed to improve education and development efforts. Dutch journalist and historian [Rutger Bregman](#), at the World Economic Forum in 2019, dismissed “stupid philanthropy schemes,” saying the real issue that needs tackling is tax avoidance. “We can invite Bono once more but come on, we’ve got to be talking about taxes... all the rest is bullshit.” He goes on that what is needed is for business to pay their fair share: “taxes, taxes, taxes!” While [this was not a message that was well received](#) by the World Economic Forum, to me, it is right on the money, as they say. I would add that while tax reform is essential, what is really needed is to challenge our world capitalist system which abhors taxes and deforms development efforts, as this concluding section and its references briefly indicate.

Part 2

Public Sector Resource Mobilisation and Management

The Role of Action on Tax and Debt in Innovative Financing for Education

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Summary

The term “innovative financing” tends to be associated with special mechanisms to mobilise resources for education based on either aid grants or loans. But 97% of financing for education comes from domestic rather than external sources so the bigger challenge is to work in innovative ways to mobilise more domestic resources—through action on tax, debt or macroeconomic policies.

Keywords

Tax
Debt
Austerity
Domestic
IMF

The [Education Finance Commission](#), led by Gordon Brown, made a crucial observation—that 97% of education financing comes from domestic resources. Even in low-income countries, the sum total of aid and loans for education rarely exceeds 10% of total education spending, with the vast majority of funding for education coming from domestic tax revenues. In part, this is because the biggest costs in the education budget (usually over 75% and often over 90%) are teacher salaries – which require a long-term sustainable source of funding (not the short-term and unpredictable funding that tends to come from aid and loans). In recent years, the pursuit of ‘innovative finance’ for education has become very popular – most notably amongst international actors who see growing constraints to the existing models of aid and loans but still believe [externally mobilised finance](#) is the solution. Most innovative finance models have a strong preference for engaging new actors in the private sector or for mobilising finance markets. But these all come with potentially problematic power relations, with external actors shaping and tracking conditions and accountability to donors overriding local accountabilities. Even if successful, the sums mobilised by such initiatives would be peanuts compared to the resources needed for education. Most of the discourse and effort on innovative financing misses the biggest opportunity, which surely lies in strengthening the mobilisation of predictable domestic resources in innovative ways.

The UN Heads of State [Transforming Education Summit](#) (TES) in 2022 laid out a bold [Call to Action on Financing Education](#), urging everyone to focus on the big picture of education financing around the world, looking at the share domestic budgets spent on education and the wider forces that impact public spending overall, in particular relating to tax, debt and austerity policies. In each case, the call to action urged both national action by governments and international action to change the global rules, norms and policies. This TES agenda is the truly innovative financing agenda for education – but because it addresses bigger systemic issues around tax, debt and austerity rather than focusing on opportunities for external actors to save the day through mobilising little pots of money, it has been a constant struggle to keep

international actors focused on it. It is not such a comfortable role for international actors concerned with education to be told that they need to play an active role in changing the unfair global architecture, challenging unfair global tax policies or transforming the mindset of the IMF. Many people are much more comfortable to be positioned as a white saviour – though, of course, they really shouldn't be (and most people are in denial)!

It has become clearer than ever that the education community needs to get out of its education bubble if it is to make a breakthrough on financing – and that real breakthroughs require engaging in an [innovative dialogue](#) with ministries of finance and the IMF. In a global climate where there are deep silences on debt, tax and austerity, especially within the education sector, actions in these areas must surely constitute the most transformative and sustainable innovative financing for education?

Firstly, we need urgent action on debt. At least [54 countries are in a debt crisis](#), and the numbers are rising. Over 50% of all low- and lower-middle-income countries are [spending more on debt servicing than on education](#). In many cases, these debt crises are deeply rooted in unfair trade policies, irresponsible lending and borrowing or global forces that impact interest rates. The last people who should be paying for such debt crises are children from low-income households in low-income countries who are forced out of school or forced to stay in overcrowded and understaffed classrooms where they cannot learn. We need the education community to urgently add its voice to calls for radical debt renegotiation and for a new global debt architecture so that individual countries are not blamed for what are largely issues in a broken global order. The moral weight that comes from the education community standing up together on issues around debt could be a game changer. Yet, at the [4th UN International Conference on Financing for Development \(FFD4\)](#) that took place in June 2025 in Seville, the education community organised largely self-absorbed side events rather than adding their powerful voice to the best prospects for systemic change – which would have come, for example, from the creation of a [UN Framework Convention on Sovereign Debt](#). If the global debt architecture was fairer, with clear binding guidelines on responsible lending and borrowing, the regulation of private credit rating agencies and a process for cancelling unpayable debts through a new debt workout mechanism, then education (as one of the largest spending items) would probably be the biggest single beneficiary in most countries. Taking action on debt feels like a highly innovative financing solution to a chronic problem!

Secondly, there is scope for urgent innovative action on tax. Many countries are close to or exceeding the recommended 20% share of their national budget going to education,

but they still fall short of having sufficient finance for guaranteeing quality public education. It is hard to argue for an ever-higher percentage share of budget for education without alienating those seeking funds for health, water, energy, transport, care or a host of other public services that are equally deprived of funding. The answer, in fact, is to find common cause with all those other sectors and to work together to increase the size of the government budgets overall – and that is largely determined by tax revenues. The average low-income country has a tax-to-GDP ratio of 16% compared to an OECD average of 34%. In assessing how countries could finance the SDGs, [IMF staff argued](#) the key would be to increase tax-to-GDP ratios by five percentage points, which is feasible in the medium term (increasing the average from 16% to 21% tax to GDP ratio). Doing this across low-income countries would raise US \$455 billion every year; if 20% of that went to education that would be, US \$93 billion in extra revenue every year for education ([US\\$ 29 billion a year in Africa alone](#)) – a truly transformative sum. This should surely be at the centre of every discussion about innovative financing of education. It is, of course, important though to add some other elements, not least lessons from the recent protests in Kenya – which show that these increases in tax revenues must be achieved through progressive tax reforms that target the wealthiest individuals and companies.

It is worth adding that TES laid out this innovative financing agenda on tax for education, [calling for](#) “international action to reduce illicit financial flows, close tax havens and support a representative and inclusive UN process for setting global tax rules.” There is now huge hope for breakthroughs through the new [UN Framework Convention on Tax](#), which is being negotiated now to come into force in 2027, shifting the power over global tax rules away from the OECD. Thankfully, civil society campaigners on education in the Tax Ed Alliance and Global Campaign for Education have championed this cause – but there is little or no engagement from bilateral or multilateral actors on education and to date, we have seen almost no strategic discussions on tax between Ministries of Education and Finance in low- and middle-income countries. Let's invest in some innovative capacity development to make this happen!

Thirdly, TES also called for urgent action on austerity and, in particular, on the use of public sector wage bill constraints that undermine the teaching profession. ActionAid's research has shown how the IMF has consistently provided coercive policy advice to ministries of finance in low- and lower-middle-income countries – pressurising them to cut or freeze public sector wage bills in [93% of the countries studied](#) – in every case driving spending below the regional and global average. Teachers are usually the largest group on the wage bill, so it is hard to achieve overall cuts without cutting spending on teachers. This creates a downward spiral and

means that countries cannot recruit more teachers even where there are well-documented shortages and cannot pay teachers more even where their salaries are shockingly low. It is shocking that the same advice is given to Zimbabwe, which spends 17.1% of its GDP on the wage bill, and Ghana, which spends 8.7%, Senegal at 6.5%, Brazil at 4.6%, Nepal at 3.7% and even Nigeria, which spends just 1.9%. [ActionAid's research](#) showed that a one-point rise in the percentage of GDP spent on the public sector wage bill would allow for the recruitment of eight million new teachers.

TES urged the IMF to remove existing obstacles such as public sector wage constraints. But the IMF has refused to come to the table to discuss this at a senior level since TES. Their policies profoundly shape the financing available for education, so why are they not willing to engage in an honest dialogue with the education sector? Surely one of the most innovative financing actions we could take would be to make a global breakthrough in a dialogue with the IMF – to shift their policy advice – and to echo this through national dialogues with ministries of finance. In the context of declining aid and a continuing debt crisis, surely this should be the top priority for actors like the Global Partnership for Education who are well positioned to support such strategic dialogues.

There is an incredible opportunity to act on the strategic finance agenda from TES, but we need to push back against those who recede into their comfort zones, fearing that finance issues are too complicated or technical. We cannot make breakthroughs on teachers, on gender-responsive and inclusive education, on early childhood or higher education, if we don't act together on finance. If we are truly educators, let us educate ourselves on the critical finance issues from TES – nationally, regionally and internationally – and let us recognise that this is the truly transformative and innovative financing agenda!

Innovative Financing for Education in Côte d'Ivoire: A Lever for a Better Performing System

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Summary

Côte d'Ivoire, a leading economy in the West African Economic and Monetary Union (UEMOA), is betting on education in its effort to become an upper-middle-income country. Despite the progress it has made, challenges remain. The country's General States on Education have launched reforms supported by innovative financing focusing on an inclusive, equitable and sustainable education system and supporting national development.

Keywords

Sustainable education
Public finance
Debt-swap
Domestic resource mobilisation

Situated in Western Africa, Côte d'Ivoire covers an area of 322,462 km² and has a population of around 31.2 million. A member of the African Union and a leading economy in the West African Economic and Monetary Union (UEMOA), it accounts for around 40% of the zone's GDP. Following the economic impacts of COVID-19, the country has returned to sustained growth, reaching 6.5% in 2024. However, despite these advances, social inequality persists. To address this, the [National Development Plan](#) (PND 2021-2025) aims to transform the economy, reinforce social inclusion and ensure Côte d'Ivoire is an upper-middle-income country by 2030.

Education occupies a strategic position among national priorities as a fundamental right and a key lever in human and economic development. In 2021, the education sector represented 18% of the country's budget and 3.8% of its GDP. Yet, the government allocated nearly 75% of these resources to teacher salaries and 21% to transfers¹, leaving little margin to finance school facilities, educational materials or direct assistance to students. Households therefore bear a significant portion of education costs (e.g. enrolment fees, supplies or uniforms), representing 26%–49% of education-related spending. This situation directly affects the system's accessibility and equity, especially for the most vulnerable families.

Between 2014 and 2021, investment expenditure on education grew by an average of 10.4% annually, representing about 13% of total public investment. Nevertheless, there were significant declines in 2017 and 2018, with the share falling to between 9% and 10% (UNESCO, 2024).

These structural challenges require a profound overhaul of the education sector.

Launched in 2021, the General States of National Education and Literacy (de l'Éducation et de l'Alphabétisation [EGENA]) initiative marked a major turning point in reflections about the future of education in Côte d'Ivoire. "États Généraux" are inclusive national dialogue involving Côte d'Ivoire's government, teachers, students, parents, civil society and technical and financial partners.

The EGENA studies (Côte d'Ivoire, 2023) have identified the education system's strengths and weaknesses and highlighted 42 transformative levers grouped around four strategic areas:

1. Improvements in basic learning and the quality of teaching
2. Reforms of the teaching profession
3. Expansion and supervision of non-formal education opportunities
4. Digital development in the education sector

While these reforms are ambitious, their success rests on the continuity of financing. This is why the EGENA has recommended a diversified strategy for resource mobilisation combining public financing, alternative mechanisms and innovative partnerships, notably with the private sector. In terms of financing these measures, a combination of mechanisms from diverse financial initiatives for education, managed by the government, is underway.

Alternative and Varied Finance Mechanisms

1. Reducing Pressure on the State Budget

These mechanisms aim to free up financial resources for national priorities while reducing the burden of public debt, thereby enabling the government to devote more funds to sectors such as education.

The Debt Reduction and Development Contract ([Contrat de Désendettement et de Développement \[C2D\]](#)): This debt-conversion mechanism between Côte d'Ivoire and France has been in force since 2012. For each loan repayment, France returns an equivalent amount to Côte d'Ivoire in the form of a subsidy to finance development projects. Since 2012, the countries have signed three consecutive C2Ds, for a total amount of FCFA 1.9 trillion. The last C2D, signed in 2021, is worth a total of FCFA 751 billion (for 2021–2025).

The C2D drives the priorities of the country's National Development Plan (2021–2025) and intervenes in seven key sectors: education, health, agriculture, urban development, infrastructure, justice/security and governance/cultural industries. The French Development Agency (Agence Française de Développement [AFD]) is leading technical and financial monitoring efforts in conjunction with national partners.

In the education sector, between 2012 and 2021, C2D resources allowed for the construction of 116 primary schools in six Ivorian regions, with the objective of enhancing the learning conditions of children in rural zones. In secondary education, 240 local secondary schools have been built, which has had a positive impact on school enrolment rates, particularly for girls.

Debt-for-Development Swap: With support from the World Bank (2024), this mechanism has enabled the conversion of €400 million of commercial debt into financing for development projects. This has freed up €330 million in resources over five years, €60 million of which will be invested in education, particularly for the construction and equipping of local secondary schools. This initiative responds to the high demand for school infrastructure following the introduction of compulsory schooling in 2015.

These mechanisms aim to reduce budget pressure while ensuring targeted financing for education. However, their being dependent on debt reduction mechanisms implies the prudent gestion of resources to avoid future financial risks. This means guaranteeing equilibrium between debt reductions and investment in a durable education system.

2. Innovation In and Diversification of Sources of Financing

Such mechanisms allow for the mobilisation of resources in a diversified manner, combining public, private and multilateral sectors while engaging different actors in education financing.

[The Child Learning and Education Facility \(CLEF\)](#): This mechanism builds on the achievements of the Transforming Education in Cocoa Communities (Transformer l'Éducation dans les Communautés de Cacao [TRECC]). The Jacobs Foundation launched the TRECC programme in 2016 in partnership with the government of Côte d'Ivoire and 12 companies in the cocoa and chocolate sector.

With a capitalisation objective of CHF 110 million, CLEF is a joint financing mechanism cofinanced by the state. Its design aims to support human capital development and the fight against child labour in line with national frameworks such as the National Development Plan (2021–2025), the Education/Training Sector Plan (2016–2025) and the National Sustainable Cocoa Strategy. CLEF has three key levers:

1. Improving access to education, notably through the construction of school infrastructure
2. Strengthening teaching skills through evidence-based teacher training
3. Mobilising parents to boost children's motivation and academic performance

The scheme is based on multi-stakeholder governance involving the government, philanthropic foundations and the cocoa–chocolate industry. The Steering Committee, chaired by the Prime Minister, sets strategic guidelines and approves the annual work plan. The Technical Committee oversees implementation by the relevant ministries. A Partner Agent acts as an interface between public- and private-sector partners, providing fiduciary management, programmatic oversight, resource mobilisation and communication.

Sectoral ministries and implementing partners carry out these actions under the coordination of a Project Management Unit (PMU). The Ministries of National Education and Family, Women and Children are the main government actors. By involving the private sector, this initiative creates a sustainable and innovative financing model that attracts other donors interested in contributing to its expansion.

The Global Partnership for Education's GPE Multiplier: This multiplier allows Côte d'Ivoire to mobilise additional financing through co-financing. In June 2023, Côte d'Ivoire obtained \$40 million from the GPE after successfully raising more than \$188 million from partners such as the following:

1. AFD: €72 million (\$77.57 million)
2. World Bank: \$100 million
3. World Food Program (WFP): \$6 million
4. AVSI, in partnership with ENI Group and the San Zeno Foundation: \$5 million

This fund makes it possible to grow the impact of existing financing and reinforce the commitment of international partners in the education sector.

The diversification of financial resources boosts the resilience of education financing but requires coherent management and efficient coordination between the various actors to guarantee an integrated, long-term approach in implementing a common reform agenda.

3. Efficient Resource Use for Sustainable Impact

These mechanisms guarantee the transparent and effective use of the funds allocated, with rigorous monitoring of the results to ensure that the mobilised resources generate a tangible and measurable impact in the education sector.

Results-based financing: This model, in partnership with the World Bank, is built on the Programme for Strengthening the Basic Education System (Programme de Renforcement du Système Éducatif de Base [PRSEB]). Funding is conditional on achieving measurable results, thereby ensuring transparent and efficient resource use. The programme receives financial support of \$425.35 million (in the form of loans and grants), with specific targets to meet for funds to be released.

The Millenium Challenge Corporation (MCC): The design of this competitive funding model, in which eligible countries must demonstrate substantial improvements in governance, transparency and resource management to access funding. In 2017, Côte d'Ivoire signed a Compact worth \$536.74 million, of which \$157.2 million is specifically allocated to education. This

funding supports improvements in access to and the quality of education in the Bouaké and San Pedro regions as well as the development of technical and vocational training in Abidjan, Bouaké and San Pedro.

Resource-use efficiency rests on robust monitoring systems and rigorous management. It is also essential to ensure the orientation of financing towards projects that have a real and measurable impact, thus avoiding the fragmentation of initiatives and assuring their alignment with national priorities. Taking these elements into account is a key lever in building mutual trust between donors and implementing organisations.

Conclusion

Côte d'Ivoire is at a pivotal moment in its educational development. Thanks to reforms undertaken as part of the EGENA, the PND and multiple financing mechanisms, the country is laying the foundations for a sustainable and inclusive education system.

The key to success lies in the sustainability of funding, transparency in resource management and the capacity to bring together all stakeholders—the state, the private sector, international partners and local communities—on a common agenda for transformation.

By consolidating these achievements, Côte d'Ivoire can guarantee equitable access to quality education for every child and young person—an essential driver of its economic and social development.

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Endnote

1. In the Ivorian finance law, transfers correspond to the amounts that the State pays to other legal or natural persons (local authorities, public institutions, households, national or international organizations, public companies, etc.) to finance their operations, activities, or public interest missions, without directly receiving a good or service in return.

Improving the Efficiency of Basic Education Spending in Nigeria Through Results-based Financing

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Summary

The public financing of basic education in Nigeria is constrained by inefficient resource deployment and weak accountability for results. A results-based financing pilot has been developed and allocates domestic funds, based on a payment for results mechanism, to improve performance across states. The pilot applies lessons from previous interventions, with potential to transform how national funds are disbursed to enhance educational outcomes for millions of children.

Keywords

Nigeria
Basic education
Results-based financing

Basic Education Financing in Nigeria and the Universal Basic Education (UBE) Intervention Fund

Nigeria is a lower-middle-income country (LMIC) with the highest number of out-of-school children globally, an estimated 12.8 million aged 6–14 (UNICEF Nigeria, 2023), and struggles to finance an education system serving over 40 million children of primary-school age (UBEC, 2020). Basic education is a “concurrent” responsibility under Nigeria’s 1979 Constitution: The federal government formulates policy and disburses funds through the Universal Basic Education Commission (UBEC), while the states and the local government authorities handle implementation, staffing and infrastructure. The Universal Basic Education (UBE) Act of 2004 legally established free, compulsory education for children aged 6–15 and empowered UBEC to coordinate, monitor and finance the sector.

UBEC’s Intervention Fund (IF), sourced from 2% of the Federal Consolidated Revenue Fund, distributes funds on a 50:50 matching basis between the federal and state governments. Disbursement follows an annual cycle of proposals, fund releases, execution and compliance review (UBEC, 2024a). By December 2024, federal allocations reached nearly \$530 million. Despite its promise, the IF has faced challenges, including delays in state counterpart funding, weak monitoring systems and procurement irregularities, and an input-focused approach that overlooks measurable learning outcomes. Between 2015 and 2022, only 12 of 36 states consistently met the matching requirement due to tight budgets and competing priorities, leading to deficits in the infrastructure and resources available to schools (UBEC, 2024a).

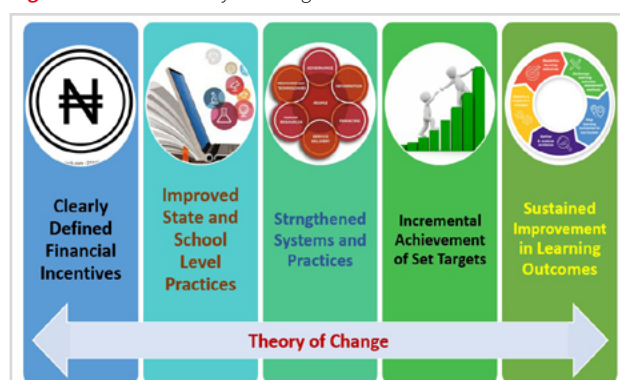
To address these issues, results-based financing (RBF) is being tested as an alternative mechanism, linking funding directly to verified service delivery and improved learning outcomes rather than focusing solely on infrastructure completion.

Rationale for a UBEC RBF Pilot

Education financing in Nigeria has historically suffered from underinvestment, misaligned incentives and low accountability for results. RBF aims to shift this dynamic by linking disbursements to verifiable outcomes (e.g. improvements in reading proficiency, thus correlating the use of resources with the results achieved. It promotes transparency, rewards initiative, builds capacity for adaptation and captures and reports results data in states and at local government levels.

The theory of change behind UBEC's pilot is simple but powerful: If states receive funding tied to achieving clear, incremental targets, they will improve planning, resource use and service delivery, leading to sustained improvements in education quality.

Figure 1. The RBF Theory of Change



Source: Created by the authors using data from the UBEC RBF technical working group.

The RBF pilot was initiated with technical assistance funded by USAID and implemented by Cambridge Education working with Creative on a three-year project (2022–2025). It is specifically scoped around the implementation of the recently approved National Reading Framework (NRF) in states. By incentivising states to address payment disbursement linked indicators (DLIs) derived from the NRF policy, UBEC aimed to improve reading proficiency in early grades. The NRF policy (NERDC, 2023) is founded on 10 commitments, four of which were selected for the pilot. 13 states were competitively selected to participate in the pilot.

Table 1. NRF Commitments to Improve Reading

1	Revise early grade curricula
2	Allocate reading time in the weekly timetable in schools (for RBF pilot)
3	Increase time for pupils to read independently
4	Increase access to adequate, high quality reading materials (for RBF pilot)
5	Train teachers then support and monitor them to implement their trainings (for RBF pilot)
6	Establish grade specific performance standards for reading shared with teachers, parents, and students
7	Monitor and report on pupils' progress
8	Introduce outreach programs for parents to support reading (for RBF pilot)
9	Support head teachers and education officers to support learning
10	Introduce initiatives to report and reduce pupil absenteeism

Source: Created by the authors using data from the National Reading Framework (2023).

Incentive Structure and Performance Indicators

UBEC allocated just over \$500,000 from its central Good Performance Fund, which does not require states to match funds, to finance the pilot. The Good Performance Fund is a relatively small discretionary fund compared to mainstream annual budgets that continue to be available for states to run schools, pay teacher salaries, provide facilities, etc. The prospect of additional resources was an incentive for states to buy into the RBF from the onset. Three tranches of performance payments to states over an 18-month cycle have been established. Each tranche is conditional on achievement of specific DLIs covering foundational, scalable and outcome domains. Payment rates escalate across tranches to reward sustained performance (UBEC, 2024b).

The RBF pilot is in its first year of implementation. First-tranche payments are currently being disbursed based on the achievement of foundational DLIs. These are easy-to-hit baseline targets that all states expect to achieve by the end of the school year. This will build morale, ensure that weak states are not disadvantaged from the onset and set up states to meet more challenging DLIs in the future with assurance. Foundational DLIs are the bare minimum that all states, disadvantaged or otherwise, are required to have in place. A more differentiated approach to assessing scalable and outcome DLIs will be considered as the pilot progresses to ensure that disadvantaged schools and states do not lag behind.

UBEC anticipates implementation challenges that may include gaming risks (e.g. inflated stated records), verification lags due to logistics and political pushback from officials accustomed to unconditional grants. These are already being mitigated through randomized spot checks, peer-review mechanisms and regular reminders of key deadlines.

Selected indicators for the RBF pilot were identified by a multi-stakeholder Task Team comprising federal, state and Local Government Authority officers, civil society groups and development partners.

Table 2. Sample of RBF Disbursement-Linked Indicators

NRF Commitment addressed: “Allocation of reading time in school weekly timetable”		
Foundational DLIs	Scalable DLIs	Outcome DLIs
(Baseline targets, easy to achieve)	(Progressive targets with annual increase expected)	(Results of impact)
Allocation: 20% of funding	Allocation: 50% of funding	Allocation: 30% of funding
Examples:	Examples:	Examples:
• Baseline % of schools with early grade teaching & learning materials; • Baseline % of early grade teachers trained using state funds	• % increase in schools conducting lesson observations; • % increase in schools allocating reading time in weekly timetable	• % increase in schools implementing coaching and mentoring of early grade teachers; • % increase in learners achieving minimum reading proficiency

Source: Created by the authors from RBF technical working group planning data.

Capacity Building and Technical Assistance

UBEC has introduced relevant tools and procedures and improved its staff capacity to give the pilot every chance of success. It has invested in developing performance indicator reference sheets (PIRS) to clearly define each DLI and provide calculation methodologies, training leadership teams from participating states, establishing dedicated implementation teams to manage project delivery, formalizing governance arrangements through MoUs with states, creating dedicated bank accounts for RBF funds, and establishing peer learning workshops to share experiences and troubleshoot challenges.

Each state was encouraged to be proactive and leverage its involvement in RBF to explore other innovative interventions for improving early-grade instruction in schools. This included peer learning on approaches to innovative financing (e.g., building partnerships with the private sector).

UBEC has developed a verification protocol to monitor states’ performance on DLIs. This protocol ensures uniform assessment by indicating data sources based on existing mechanisms, such as the Basic Attendance Monitoring Information System, the Teacher Professional Development (TPD) Platform, Directorate of Academic Services records, an Early Grade Reading Assessment (EGRA) toolkit, and the States’ Action Plans for TPD. Data management officers are identified to facilitate monitoring, with set frequencies and timelines for verification and assessment. Close monitoring and verification is essential in a public sector context marked by a perennial culture of wastage.

A crucial insight from the pilot is that RBF is not merely a funding mechanism—it is also a change management process. States are encouraged to innovate beyond RBF commitments by exploring partnerships and new interventions to strengthen early-grade literacy.

Early Lessons and Challenges

Although still in its early phases, UBEC’s RBF pilot has generated important insights for Nigeria and other LMICs considering similar reforms:

Benefits Observed

- Subnational governments, when incentivized, are able to mobilize complementary domestic resources and implement actions to improve learning with renewed vigor.
- Orientation towards results can boost accountability and performance across multiple levels of the system. At the state level, where resources are often scarce, the injection of additional funding explicitly tied to results has the potential to strengthen internal efficiency as states work to stretch what is available.
- Grassroots actors—teachers, administrators, local officials—show strong commitment and ownership when trusted with responsibility and supported with tools and data.
- The RBF approach promotes inter-agency collaboration by building connections between federal bodies, state education boards, LGAs, schools and development partners.

Trade-Offs and Challenges

- Gaming risks are real, especially where political stakes are high. Systems must balance trust against rigorous verification.
- Capacity constraints mean that not all states are equally prepared to implement complex RBF processes. Ongoing capacity support must be a change management objective for RBF.

- Political economy factors can undermine reform if key stakeholders perceive RBF as a threat to both the flow and control of finance, and to autonomy.
- Data quality remains a significant hurdle. Even with existing EMIS tools, data consistency and timeliness vary, requiring intensive support and supervision.

Implications for Nigeria and Other LMICs

The UBEC RBF pilot offers valuable lessons for embedding results-based approaches in decentralized systems:

- Aligning incentives with outcomes: Shifting from input compliance to performance rewards can transform subnational actors into drivers of results; however, the transition must be managed carefully.
- Balancing flexibility and rigor: Hybrid verification systems, which combine digital tools, field spot checks and independent reviews and audits, help ensure credibility without stifling innovation.
- Investing in data systems: RBF cannot succeed without foundational investments in EMIS, training and data governance.
- Managing political economy dynamics: No two states are identical; therefore, adaptive implementation and constant stakeholder engagement are crucial.
- RBF as a lever for policy implementation: RBF can bridge national policies and local action, making abstract commitments real on the ground and enhancing ownership and more focused use of resources.

For other LMICs, Nigeria's experience underscores that RBF is not a silver bullet but a potentially transformative tool if designed with sensitivity to local contexts and with robust safeguards for data integrity and sustainability.

Some Conditions for Successful RBF

Based on Nigeria's RBF experience and implementation lessons in similar environments, some key conditions are required for RBF to be successful.

1. RBF objectives should complement sectoral priorities and goals. In Nigeria, the RBF worked well as a tool for rolling out the implementation of the National Reading Framework.
2. Robust incentive structures are key. Planning and clearly communicating how financial incentives will be implemented helps manage political sensitivities and carry along states that could be disadvantaged.

3. Getting funding release indicators right is fundamental to success. Selected DLIs must align with sectoral priorities and their implementation integrated into institutional mandates and roles at different levels of government.
4. Indicators must seek a careful balance between triggering funds based on achievement of foundational objectives and incentivizing system-level changes through stretched and sustained outcomes.
5. Indicator measurement must not be limited to absolute performance but recognize incremental improvement. This is essential to retain and support states and schools that are lagging behind.
6. The non-availability of reliable and timely data is a major systemic weakness in many LMICs. Strengthening capacity for data collection, reporting and disaggregation to enable indicator measurement must be an ongoing system strengthening objective.
7. The number of DLIs should not be too high. This makes the cost of measurement and verification more affordable.
8. Ownership and clarity among stakeholders can be achieved through strong communication of the programme design during the planning stage.

UBEC's planned evaluation of the pilot in 2026 will be critical in assessing how far these early lessons translate into measurable improvements in learning outcomes, whether the model can scale effectively to other education domains and states and whether it can influence how UBEC disburses funds more widely.

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Debt Relief as a Feminist Form of Innovative Financing for Education

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Summary

This article argues that blended finance delivers little additionality and can commodify learners. It proposes feminist financing centred on large-scale debt relief and debt-for-education swaps embedded in gender-responsive public-financial-management (PFM), participatory governance, intersectional targeting, additionality audits and long-term public stewardship. Evidence from conditional cash transfers (CCTs) and earmarked taxes shows on-budget, scalable gains for girls' education. This work outlines a practical blueprint for feminist forms of innovative financing for education and includes safeguards against profit extraction and investor exit, anchored in additionality audits and long-term public stewardship.

Keywords

Feminist financing
Debt relief
Debt-for-education swaps
Gender-responsive budgeting
Girls' education

Why Revisit “Innovation” Through a Feminist Lens?

“Innovative” mechanisms such as impact bonds and other blended vehicles promise “win-win” results, yet there is no systematic evidence that they outperform grant-financed programmes on learning or equity; instead, they commodify citizens, monetise easily measured outputs and crowd out holistic, rights-based services (Avelar et al., 2020; Sinclair et al., 2019). Short-term private engagement allows investors to exit just as education systems enter the long haul of teacher training, curriculum reform and safe-school infrastructure. From a feminist standpoint, any scheme that prices a girl's attendance or test score as a revenue-generating asset—and lets investors walk away—clashes with the continuous, rights-based public provision that girls and all learners need (Sinclair et al., 2019).

By contrast, large-scale debt relief and gender-responsive public-financial-management (PFM) systems expand domestic fiscal space and keep it on-ledger—that is, recorded in official accounts, publicly reported, debated in parliament and audited—so that parliaments, teachers' unions and girls' rights movements can fight for its equitable use. As discussed in Section 2 of this article, real-world examples such as Brazil's ability to scale Bolsa Família after early International Monetary Fund (IMF) repayments and India's education cess all show that when governments pair fiscal headroom with earmarked budget lines and open-data oversight, resources flow to girl-centred programmes at volumes no pilot-size impact bond can match (Fonseca, 2005; International Monetary Fund, 2005; Inter-American Development Bank, 2013; Sarva Shiksha Abhiyan, 2014).

The adoption of a feminist lens shifts the centre of gravity. We call this approach feminist financing because every flow of money is also a flow of power; viewing finance through a feminist lens foregrounds the gendered hierarchies that determine who pays, who decides and who ultimately benefits. In the context of debt and development, a genuinely feminist definition of innovation therefore begins with cancelling or restructuring debt to free resources, embedding those resources in PFM systems that mandate gender-responsive budgeting, and hard-wiring participation by women and girls. Only after these public

foundations are secure should complementary private capital—if any—be sought, and only under rules that prevent profit seeking.

Drawing on Bosire and Kachambwa's (2024) "Debt2Health4-Gender Equality" framework, we define feminist financing as an approach that:

1. Redistributes power and resources toward those most affected by discrimination;
2. Practises intersectionality, recognising that gender intersects with poverty, disability, race and rurality;
3. Guarantees participation by women, girls and grassroots movements;
4. Mandates gender-responsive budgeting, earmarking savings for the social sectors the most marginalised rely on; and
5. Prioritises long-term public stewardship over short-term investor exits (Bosire & Kachambwa, 2024).

What Innovative-Financing Mechanisms Actually Work for Girls?

A feminist reading of the evidence shows that when governments raise or re-allocate money inside the public budget and then design entitlements around women's agency, they reach marginalised girls far more reliably than market-driven "innovations." Two broad families of instruments illustrate the point and, crucially, operate at national scale rather than pilot size.

We highlight these examples because they embody the five feminist principles: they redistribute resources, practise intersectionality, centre participation, embed gender-responsive budgeting and lock in long-term public stewardship.

Conditional Cash Transfers That Centre Women

Conditional cash transfers (CCTs) are an innovative financing tool that give low-income households cash on certain conditions, for example, that children attend school or health clinics, offsetting direct and opportunity costs while boosting long-term human capital outcomes (summarised in Table 1). Some examples include:

- Brazil's *Bolsa Família* illustrates how macro-level debt policy can unlock micro-level gender gains. After Brazil negotiated a series of debt buy-backs and an early IMF repayment in 2005, the ensuing fiscal space financed the rapid expansion of the programme (Fonseca, 2005; International Monetary Fund, 2005). Because stipends are paid to *mothers*, they directly strengthen women's bargaining power: longitudinal data show girls' rural grade attainment rose by 1.1 years and overall school participation by 7.4 percentage points (de Brauw et al., 2015).
- Mexico's *Prospera* (formerly *Progresa*) employs the same logic. Annual federal appropriations channel predictable transfers to mothers, and randomised evaluations find lower-secondary attendance increases of roughly 10 percent for girls—compared with 6 percent for boys—while also reducing adolescent pregnancy (Schultz, 2004).
- Uruguay's 2008 reform of *Asignaciones Familiares*, financed from a progressive payroll levy, pushed teenage attendance up by 6–8 percentage points, with the largest gains among girls in the poorest quintile (Amarante et al., 2010).

Table 1. Alignment of Selected CCTs with Feminist Funding Principles

Programme	Participatory governance	Gender-responsive budgeting	Intersectional targeting	Additionality/no private profit	Long-term public stewardship
Brazil – Bolsa Família	Municipal Social-Assistance Councils with civil society majority; stipends paid to mothers (Bartholo, 2018)	Own federal budget line "Programa Bolsa Família"	Proxy-means test channels 70% of transfers to North/Northeast, where poverty and Afro-Brazilian populations overlap (de Brauw et al., 2015)	100% treasury-financed after debt-service savings (Fonseca, 2005)	Continuous since 2003; benefits indexed to minimum wage (IDB, 2013)
Mexico – Prospera / Progresa	All-female community vocales verify compliance (Schultz, 2004)	Dedicated poverty-alleviation budget code	Geographic and proxy targeting of indigenous and rural girls (Barber et al., 2008)	Fully treasury-funded; no investor repayment	Survived three administrations (1997–2018)
Uruguay – Asignaciones Familiares	Tripartite board incl. labour unions & CSOs (Amarante et al., 2010)	Payroll-tax receipts ring-fenced for allowances	Extra top-ups for lowest income quintile	No private leverage	Made permanent by Law 18.227 (2007)

Source: Author

Progressive Earmarks and Solidarity Funds

Governments also mobilise large sums through earmarked taxes and subsidy swaps (summarised in table 2):

- India's education cess – a two-percent surcharge on virtually all central government taxes – has channelled more than US \$30 billion since 2004 into girl-friendly hostels, bicycle schemes and menstrual-hygiene facilities (Sarva Shiksha Abhiyan). [As a result](#), girls' gross enrolment at the primary level has exceeded that of boys every year since 2012–2013.
- Ghana's GETFund, financed by 2.5 percent of value-added tax (VAT), awarded 5,026 scholarships in 2023/24, a quarter of them to female science, technology, engineering and mathematics (STEM) students (Amponsah, 2024).
- Haiti's "sin tax" for education levied alcohol, tobacco and gambling to fund school construction in the earthquake-affected communes where girls lagged behind boys by 14 percentage points (Associated Press, 2012). It also finances the Education for All programme, which brought more than one million children aged 6–12 into school tuition-free during the [2011–12 year](#).

- Indonesia's Bantuan Operasional Sekolah (BOS) grants, funded by redirecting fuel-subsidy savings, abolished fees for 43 million learners. A difference-in-difference study using Indonesian Family Life Survey data found that BOS significantly boosts the transition from primary to junior secondary with larger gains for girls and rural pupils (Kharisma et al., 2021).

These mechanisms are written into tax or budget law, making them harder to unwind than private public–private partnership (PPP) pilots. They convert fiscal space into girl-centred entitlements without commodifying learners or extracting profit.

Table 2. Alignment of Selected Progressive Taxation Earmarks with Feminist Funding Principles

Programme	Participatory governance	Gender-responsive budgeting	Intersectional targeting	Additionality / no private profit	Long-term public stewardship	Documented outcomes
India – Education cess	Parliamentary Standing Committee scrutinises allocations (Aserf, 2014)	2% surcharge legally restricted to Sarva Shiksha Abhiyan & Mid-Day Meals	Funds girls' hostels, bicycles, WASH blocks targeting rural girls	Pure tax revenue; zero private return on investment (ROI)	In force since 2004	Girls' gross enrolment outpaced boys' every year since 2012–13; primary gender parity index (GPI) = 1.02 by 2021–22
Ghana – GETFund	Board seats for teacher unions, students & CSOs (GhanaWeb, 2025)	2.5% VAT automatically credited to GETFund account	Scholarship window reserves slots for female STEM students (Amponsah, 2024)	VAT receipts; no private investors	Operating under GETFund Act 2000; audited annually	5,026 scholarships in 2023/24, 25% to female STEM; >11,000 school projects since 2000 (Amponsah, 2024)
Haiti – "Sin tax" for education	MoE consults local reps on school sites (AP, 2012)	Excise duty earmarked for Education for All Fund	Targets earthquake communes where girls lagged behind boys by 14 percentage points (AP, 2012)	Domestic revenue; no PPP	Tax dedicated for 10 years, renewable	>1 million children (ages 6–12) entered tuition-free school in 2011/12 (AP, 2012)
Indonesia – BOS grants	School committees (≥50% parents) monitor use; 70%–80% active (World Bank, 2015)	Fuel-subsidy savings transferred to MoE BOS line	Higher per-pupil weight for remote districts; bigger gains for girls (Kharisma et al., 2021)	Budget reallocation; no private finance	Running since 2005; funding rises with enrolment	Transition to junior secondary ↑ significantly; effect size larger for girls and rural pupils (Kharisma et al., 2021)

Source: Author

Feminist Debt Relief for Education

Across low-income countries, interest payments now outstrip social-sector budgets; an estimated 3.4 billion people live in states that spend more on debt services than on health or education (UNCTAD, 2025). Conventional relief initiatives often impose austerity ceilings—cuts to public wages, subsidies or social spending—that squeeze girls’ schooling (Oxfam International, 2022).

Expanding on the work of Bosire and Kachambwa (2024), I set out a blueprint for feminist debt relief in education that involves the following:

1. Cancellation at scale, not mere rescheduling, tied to gender-responsive social sector floors;
 2. Debt-for-education swaps under five mutually reinforcing principles: A debt-swap (also called a debt-conversion) is an agreement in which a creditor forgives, discounts or restructures a portion of a country’s external debt in exchange for the debtor government committing an equivalent local-currency amount to pre-agreed public programs—such as education, health, or climate projects—over a set timeline. They trade external debt service for domestically managed social or developmental spending.
- Participatory governance: Women must be represented in swap oversight committees, supported by teachers’ unions and feminist CSOs, with full open-data transparency.
 - Gender-responsive budgeting: At least 50% of relief proceeds should be legally earmarked for gender-equity programmes.
 - Intersectionality: Targets must track rural girls, minority-language groups and girls with disabilities.
 - Additionality over profitability: An independent audit must show new fiscal space; investor returns, if any, must not exceed the social-discount rate – or risk socialising losses and privatising gains.
 - Long-term public stewardship: Funds should flow into statutory education or CCT windows that outlast electoral cycles and prohibit early investor exit.

Together, these elements turn debt relief from a technocratic fix into a rights-based, gender-transformative mechanism. The stakes are gendered: during the pandemic, Egyptian women — who held 64% of education jobs and 90% of health jobs — endured a 712% rise in cooking-gas prices and an additional 512 billion hours of unpaid childcare (Oxfam International, 2022). Yet Egypt’s 2024 Germany–Egypt school-meals swap, while demonstrating political will, lacks these feminist safeguards: public documents do not disclose the steering committee’s composition, gender allocation or additionality audits (School Meals Coalition, 2025). Had the five principles been embedded — women leading oversight, half of proceeds earmarked for gender equity, intersectional targeting, audited additionality and long-term public stewardship — the swap could have channelled relief toward the very burdens those figures describe. Embedding them would ensure future swaps achieve systemic redistribution rather than piecemeal gains.

Conclusion

As described earlier, “cutting-edge” blended-finance products draw disproportionate attention from donors and policymakers, yet evidence shows that they seldom mobilise new money and often commodify learners (Avelar et al., 2020; Sinclair et al., 2019). A feminist appraisal flips the script: True innovation lies in large-scale debt cancellation and rigorously designed debt-for-education swaps that redistribute power and resources to girls. By following the five principles above, governments and creditors can transform debt relief into a scalable, rights-aligned and gender-transformative financing mechanism.

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Part 3

Private Capital and Market-based Approaches

Blended Finance as a Transformative Model for Addressing Inequitable Education Funding Gaps in the Global South

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Summary

This article examines blended finance's potential to serve as a transformative model for addressing education funding gaps in the Global South. By combining public and private capital, blended finance mobilizes additional resources, mitigates investor risk and enhances equity. Case examples highlight its potential to expand access, improve outcomes and support sustainable, inclusive education systems.

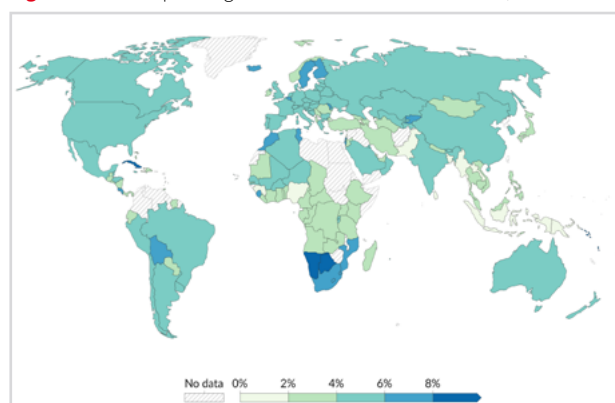
Keywords

Blended finance
 Innovative financing for education (IFE)
 Global South
 Inclusive education
 Sustainable development

Introduction

Education is widely recognized as a fundamental driver of economic growth and poverty reduction, yet many countries in the Global South continue to face chronic underfunding in this sector (World Bank, 2024). As depicted in Figure 1, in 2023 on average, governments in these regions allocate only 3%–5% of their gross domestic product (GDP) to education. This represented 10%–20% of total public expenditures, which was insufficient to meet the growing demand for quality education (UNESCO, 2023; World Bank & UNESCO, 2023). The COVID-19 pandemic has further exacerbated learning gaps, with recent estimates indicating that 70% of 10-year-olds in low- and middle-income countries are unable to read and comprehend a simple text (World Bank, UNESCO, UNICEF, & FCDO, 2022).

Figure 1. Public Spending on Education as a Share of GDP, 2023



Note: Total general government expenditure on education (all levels of government and all levels of education), given as a share of GDP.

Source: Infographic created using data from World Bank (2024) and Tanzi and Schuknecht (2000).

The consequences of inequitable funding are profound. In many low- and lower-middle-income countries, households contribute roughly one-third of all education expenditures, disproportionately burdening the poorest families and deepening existing inequalities (UNICEF, 2023). Meanwhile, international aid for education has declined by 7% from US \$19.3 billion in 2020 to US \$17.8 billion in 2021 (World Bank

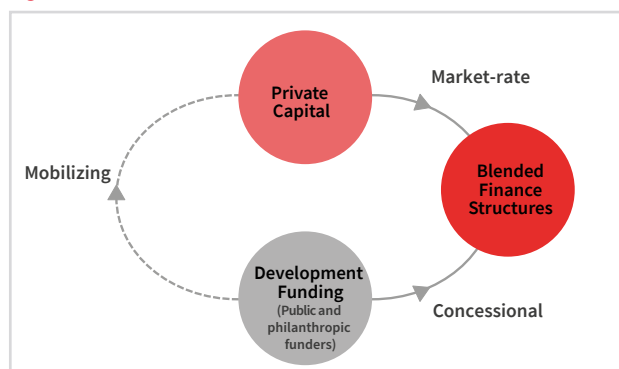
& UNESCO, 2023). In light of constrained public budgets and declining aid, there is a growing interest in more innovative and sustainable approaches to education financing, especially those that can mobilize new resources while ensuring equity. One such approach is blended finance.

Blended Finance in Education

Building on the need for innovative solutions to persistent education underfunding in the Global South, blended finance emerges as a promising mechanism for mobilizing additional resources and mitigating investment risks while addressing the gaps. Blended finance involves the strategic use of concessional public or philanthropic capital¹ to attract private investment in development sectors like education (Convergence, 2022; OECD & UNCDF, 2020). By adjusting the risk–return profile for stakeholders and investors, this approach makes it feasible for private actors to engage in areas that have traditionally relied solely on public investment.

Figure 2 illustrates how blended finance brings together concessional and commercial capital in a layered approach. This framework enables various parties to contribute based on risk tolerance and expected returns, leading to an equilibrium and a more efficient financing structure. Blended finance differs from other approaches in that it prioritizes outcomes and accountability. Instruments such as impact bonds² tie funding to results, which can improve efficiency and ensure that resources are directed towards effective programs (Brookings Institution, 2022). Additionally, private-sector expertise often helps scale up successful education initiatives, particularly in underserved communities (British International Investment & Boston Consulting Group, 2025; International Finance Corporation [IFC], 2023). Traditional financing methods dependent on public budgets and aid have fallen short in terms of addressing these gaps. By contrast, blended finance introduces a collaborative model with the potential to achieve greater reach and impact. This potential becomes even clearer when we examine real-world applications of blended finance in education.

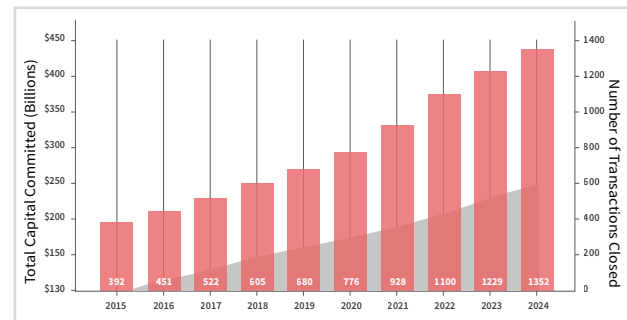
Figure 2. Mechanics of Blended Finance



Source: Illustration adapted from Convergence (2023).

As depicted in Figure 3, blended finance has mobilized approximately US \$249 billion in capital towards sustainable development in developing countries to date, with around 6,800 financial commitments identified across sectors (Convergence, 2023).

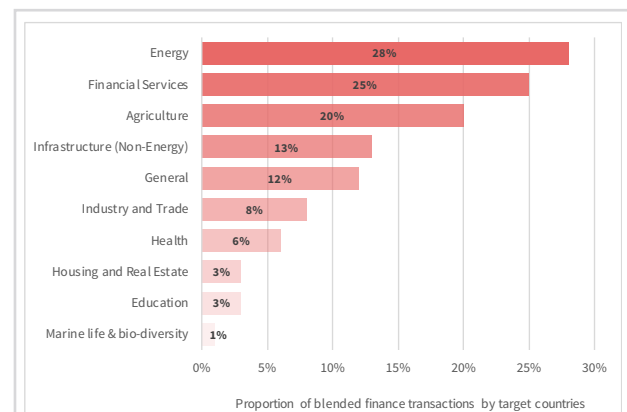
Figure 3. Growth of Blended Finance Activities



Source: Convergence (2023).

While blended finance has gained traction in sectors like energy and financial services, its application in education remains relatively limited. As shown in Figure 4, only about 3% of all blended finance deals closed by the year 2024 had targeted the education sector far behind energy (28%) and financial services (22%). However, investment in education through this model is gradually beginning to grow.

Figure 4. Blended Finance Sector Frequency



Source: Illustration adapted from Convergence (2023).

Case Examples of Blended Finance in the Education Sector

Real-world applications of blended finance illustrate how this model is beginning to transform education financing across different regions. Not only are such initiatives showing technical viability of blending approaches, but also their capacity to be applied in different socioeconomic and policy environments. When strategically conceptualized and leveraged upon, the blending of public, philanthropic, as well as private resources, can facilitate more inclusive and outcomes-driven education financing, especially in middle- and low-income countries (UNICEF, 2022).

In Africa, the Regional Education Finance Fund for Africa (REFFA) stands out as the continent's first dedicated blended finance vehicle for education. Established by the German Development Bank (KfW) and BMZ, REFFA provides local-currency loans and technical assistance through regional financial intermediaries, with a focus on secondary, vocational and higher education institutions. By September 2023, the fund had mobilized over US \$172 million and supported 173,000 learners (Convergence, 2022). Similarly, USAID's CATALYZE EduFinance project operates in 14 countries across Latin America, Sub-Saharan Africa, Asia and the Middle East. It engages public and private actors to strengthen local education ecosystems from early childhood through vocational training, thereby expanding access for vulnerable groups (Arcia, Holloway, & Mulcahy-Dunn, 2023).

Additional innovative models further underscore the promise of blended finance. For example, the Future of Work Fund (FWF), led by Chancen International in Rwanda, Kenya and South Africa, combines philanthropic and commercial capital to offer tertiary education financing through Income Share Agreements (ISAs). This model has supported over 4,100 students, 65% of whom are women, with a 98% post-graduation employment rate and average earnings five times the national average (Chancen International, 2023). In Sierra Leone, the Education Innovation Challenge used outcomes-based financing, including randomized controlled trials, to improve literacy and numeracy outcomes for over 130,000 children (Elsby et al., 2022).

Moreover, as a new entrant in Africa's education financing landscape, Prodigy Finance, a United Kingdom (UK) based FinTech launched a US\$30 million Africa Boost Blended Finance Programme in partnership with Standard Bank of South Africa and Allan & Gill Gray Philanthropies. This innovative model leverages philanthropic capital to unlock four times more commercial loan capital, significantly expanding access to international postgraduate education for African students (FSDA & Intellectap, 2020). Prodigy Finance offers collateral-free loans without requiring co-signers, removing the traditional financial barriers faced by many students, particularly women and those from lower-income backgrounds (Ryatt & Thorne, 2022). The programme is designed to be sustainable, with repayments recycled to fund future cohorts, enabling scalable impact (Prodigy Finance, 2021). Since its inception, Prodigy Finance has funded over 22,500 students globally, with 86% coming from emerging markets, including a large share from low- and lower-middle-income countries in Africa (Prodigy Finance, 2022). The fund aims to grow to \$200 million over the next three years, fostering a new generation of African leaders and addressing critical education financing gaps on the continent.

These diverse examples not only reflect the capacity of blended finance models to accommodate varied objectives, stakeholders, risk tolerances, and delivery mechanisms across sectors ranging from tertiary education to foundational learning. This

adaptability ensures that resources are effectively directed to the most marginalized learners while also achieving measurable educational outcomes. (IFC, 2023; Patrinos & Tanaka, 2024).

Equity and Efficiency

The greatest advantage of blended finance is that it is capable of both increasing equity and efficiency in financing schooling. In significant regions of the Global South, conventional funding schemes tend to excessively burden poor households, perpetuating exclusions and inequality. By mixing resources from both public and private sources, blended finance is able to redistribute that burden more evenly, particularly if it channels funds to underprivileged populations and ties these funds to outcomes. The Kenya Higher Education Loans Board (HELB) is an example of this potential; by blending public money and private capital, HELB has issued income-contingent loans to more than one million students, many of whom were from poor households, increasing tertiary school accessibility and equity (APHRC, 2025; PASGR, 2025). Likewise, the Future of Work Fund has intentionally focused on women and rural learners, resulting in strong employment outcomes for historically marginalized groups (Chancen International, 2023).

Moreover, efficiency gains are expected when financing is tied to measurable results. For example, the Sierra Leone Education Innovation Challenge (SLEIC), launched in 2022, allocates resources based on improvements in student learning, with payments contingent on independently verified outcomes. While early evaluations are ongoing, this results-based financing approach is designed to incentivize meaningful, evidence-based improvements in education (Elsby et al., 2022). At a broader level, initiatives like the REFFA have supported education providers through local-currency loans, enhancing both affordability and financial stability by reducing foreign exchange risks. Collectively, these examples illustrate how well-structured blended modality initiatives can fill systemic gaps, compensate for market failures and provide high-impact education investments. To achieve this potential, however, stakeholders also need to address the practical and structural impediments that still restrict scale, sustainability, and inclusive reach.

Challenges and Limitations of Blended Finance

Although blended finance has increased in popularity, it is no silver bullet. Blended finance schemes pose various challenges, especially in contexts with weak institutional capacity, underdeveloped regulatory frameworks, limited financial infrastructure, governance constraints or where resources are scarce, which generally suffer from insufficient scalability and effectiveness. Additionally, deal structuring, which is complicated in its very nature, is a significant impediment to implementing these schemes. Such arrangements require significant legal, financial and policy expertise, which drives higher transactional expenses as well as increased time to market (OECD, 2019).

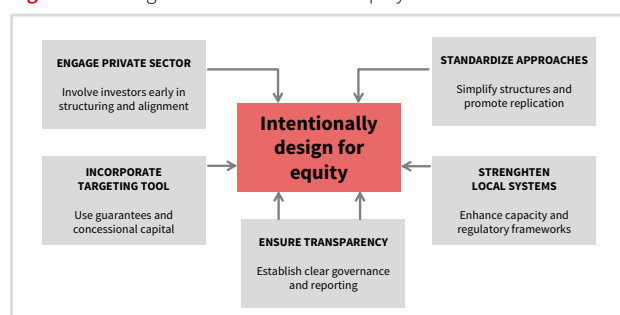
Consequently, this complexity can discourage private investors, especially in unpredictable or lower-income settings. Additionally, the sector suffers from fragmentation, with a lack of standardized instruments, limited market data and weak impact reporting frameworks, which impair the ability of stakeholders to assess risk, measure outcomes or replicate successful models (Network for Greening the Financial System, 2023). Many countries still operate in regulatory environments that are not yet conducive to innovative financing structures, thus compounding these issues and posing further barriers to both domestic implementation and foreign investment (OECD, 2019).

In contrast, at the level of institutions, multilateral banks and development finance institutions that normally play an important role in blending financial resources also have constraints of their own kind. Their need to hold strong credit ratings hinders them from taking risks, especially on pilot or pioneer ventures in poor regions (Overseas Development Institute, 2022). And, issues of equity remain at the forefront as well. Blended finance initiatives risk reinforcing inequalities if they predominantly favour commercially attractive sectors over marginalized communities, especially in cases where concessional capital is scarce or poorly directed (NGFS, 2023). Without sturdy safeguards, public institutions can assume disproportionate risk, while private interests gain uneven benefits, violating principles of equality and burden-sharing. Hence, overcoming these constraints requires more conscious design, more robust risk-sharing mechanisms and continued investment in capacity building of institutions.

Recommendations for Scaling Blended Finance with Equity

Scaling blended finance in an impactful and equitable way has to be based on deliberate, structured strategies that address structural gaps and coordinate various stakeholder incentives. As shown in Figure 5, success depends on five key pillars: early private-sector engagement, standardized approaches, targeted financial tools, strong local ecosystems and transparency.

Figure 5. Scaling Blended Finance with Equity



Note: Author's own drawing based on the content presented in this article.

Engaging the private sector early is critical to the success of blended finance. Involving investors at the design stage helps align expectations around risk, performance metrics and timelines, ensuring that financing structures are not only financially viable but also socially impactful (PwC, 2025). The

standardization of instruments and processes like using uniform templates, metrics and deal structure also goes a long way to cut transaction costs and to make transactions replicable. This predictability fosters broader participation from institutional and impact-driven investors who might otherwise hesitate to enter complex or opaque markets (British International Investment & BCG, 2025).

In addition to market alignment, advancing equity requires deliberate inclusion strategies. Blended finance must integrate targeted risk-mitigation tools such as first-loss guarantees³ and concessional capital to steer private investment towards underserved communities and neglected sectors without compromising returns (Convergence, 2024). An equally critical role is enhancing local systems: investing in domestic financial intermediaries, regulation and data systems increases long-term institutional capacity and maintains financing models that remain attuned to what is needed locally. Finally, strengthening transparency and accountability by instituting strong governance and uniform reporting systems fosters investor confidence and safeguards public interest. All these complementing strategies create a firm foundation for scaling up blended finance that is both financially sound and socially inclusive.

Conclusion

As the examples and evidence illustrate, blended finance is not simply a technical solution. It is instead a strategic realignment of financing for education to deliver equity, efficiency and scale. When designed carefully, it mobilizes capital, encourages innovation and reaches marginalized learners that traditional approaches could not. Nevertheless, this promise can only be realized if blended finance is designed with intention and equity at its core. To realize blended finance's full potential, it is critical to address complexity, build local capacity and enhance governance. Blended finance is an important instrument for creating resilient and inclusive systems that benefit everyone as global education stands at an important crossroads. Collective action is needed more than ever to grasp this opportunity.

Endnotes

1. Concessional public or philanthropic capital in education is defined as "financial resources extended by public or philanthropic entities under terms more generous than prevailing market conditions, such as lower interest rates or longer repayment periods, to facilitate access to funding for socially impactful educational project
2. Impact bonds in education are "financing mechanisms in which private investors provide upfront capital for educational services and receive repayment only upon verified achievement of specified outcomes" (World Bank Group, Ecorys, & Government Outcomes Lab, 2022).
3. First-loss guarantees are financial instruments in which a guarantor agrees to absorb initial losses up to a predetermined amount or percentage in a loan or investment portfolio. This arrangement reduces the risk exposure for lenders or investors by covering the "first loss" portion, thereby encouraging increased lending or investment in higher-risk markets or projects that might otherwise lack sufficient financing (Convergence, 2024; OECD (2022).

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The Social Impact Contract (SIC) in a Market-Oriented Education System: The Case of the Primero Lee Program in Chile

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Summary

This article examines Chile's first social impact contract (SIC) in education, which funded a literacy intervention in vulnerable schools. Despite its disruption, this private-sector initiative represents a shift towards reconciling financial and social objectives while transferring strategic education policy decisions from the state to the private sector. The analysis raises concerns about the definition of educational priorities, the impact on school actors, and the implementation of the right to education.

Keywords

Philanthrocapitalism
Social impact contract
Educational policy
Right to education

Introduction

Chile is recognized worldwide as a country with a highly market-oriented education system, characterized by a practically universal voucher scheme, a substantial private supply of private schools and a high-stakes accountability system (Bellei & Muñoz, 2021). While efforts have been made in recent decades to reduce the impact of market logic on the education system (Villalobos et al., 2025) multiple private actors—corporations, philanthropic foundations, EdTech companies, investors, and non-governmental organizations—have assumed fundamental roles in the organization and functioning of the system through the development of robust public–private partnerships, the creation of financial support mechanisms for schools and the promotion of a flourishing education industry (Parcerisa et al., 2020).

International research has shown that there are multiple ways in which these non-state actors impact education policy. Thus, strategies such as participation in “policy conversations” with public authorities (Brent Edwards et al., 2025), the dissemination of discourses at events and in the media (Adrião & da Silva, 2024), training authorities (Avelar, 2023) or the direct provision of funds to schools (Rowe & Di Gregorio, 2024) have been documented as forms of relevant influence of private actors on education policy. Along this line, a growing body of literature has shown the recent efforts of private actors to strengthen new forms of action, which not only seek to financially support schools or promote certain public debates but also transform the logic of the public sector, introducing the logic of venture philanthropy into the very heart of education systems. Within these efforts, the introduction and development of social impact contracts (SICs), considered tools for improving outcomes related to social problems,

can be seen as one of the clearest, most organized, and most powerful ways of reconciling financial logic with the social logic of schools. In this context, this article aims to analyze (through a documentary review technique) the rationality, characteristics, and risks of the first SIC in education implemented in Chile, which was developed to finance deprived schools within the *Programa Primero Lee* (PPL).

Social Impact Contracts: Growth, Development and Rationality

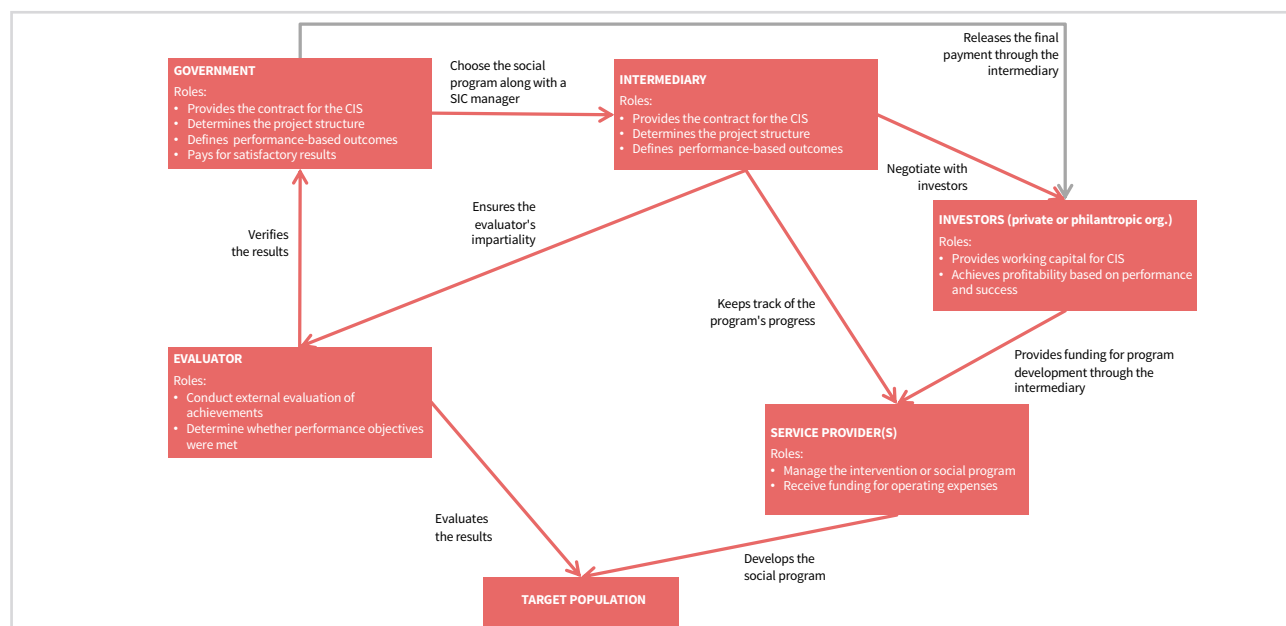
Understood as financial mechanisms that seek to promote private investment in social interventions through a payment-by-results scheme, SICs are public policy tools increasingly used to improve the outcomes of several social problems (Davies, 2014). According to Guter-Sandu (2021), SICs are an expression of a particular form of governance of social problems that, at least in their rationale, integrate three essential characteristics that shape them within the efforts of philanthrocapitalism (Bishop & Green, 2010), seeking to reconcile the financial and social worlds. First, these instruments are marketed as a social risk discounting mechanism, thus operating in a pre-emptive manner. In this way, SICs are positioned in opposition to reactive state intervention, seeking to prevent future problems and reduce public spending. Second, SICs are conceived as a system in which the interests of all parties involved (i.e. the state, investors, implementers and beneficiaries) automatically converge around the achievement of pre-established objectives, thereby seeking to achieve results more efficiently than bureaucratic state structures (see Figure 1). Third, SICs involve a shift of risk from the public to the private sector. Under this scheme, retribution to investors is triggered

Table 1. Standard SIC Model and SIC-PPL Case

Actor (standard SIC model)	SIC-PPL configuration	Roles
Government	Ministry of Education	Ensures alignment with curricular requirements; no financial participation
Outcome payer (typically government)	Philanthropic foundations (Mustakis, Colunga, Larraín Vial and Viento Sur) and individual donor (C. Schiess)	Define priorities aligned with state goals; provide outcome-based payments to investors
Intermediary	SIC managers and advisors (Fundación San Carlos de Maipo, Social Finance, Carey Abogados)	Structure and manage the SIC; advise on reporting and evaluation; coordinate stakeholders
Investors	Private investors	Provide upfront capital; assume financial risk
Service provider	Fundación Crecer con Todos	Implements the Programa Primero Lee; delivers pedagogical intervention.
Independent evaluator	Focus (a consulting firm)	Applies the DIALECT assessment to measure literacy outcomes; determines whether performance targets for outcome-based payments are met
Target population	Eleven schools in Estación Central (approximately 700 students)	Beneficiaries of the intervention

Source: Authors' own elaboration.

Figure 1. Organizational logic and principal actors of SIC



Source: TBD

only when the implemented program proves, through independent evaluations, to have achieved the previously defined goals, thereby shifting the risk from the state to private investors (Guter-Sandu, 2021).

Since their introduction in England in 2010, SICs have spread internationally. By 2022, an estimated 251 impact bonds had been launched across more than 35 countries, [mobilizing capital in excess of \\$700 million](#). In Chile, the emergence of SICs was part of the electoral commitments and governmental objectives of the second right-wing government of Sebastián Piñera (2018–2022), which explicitly sought to modernize the state by, among other actions, generating multiple SICs in areas such as community development, health and education programs. Consequently, [specialized areas were established within the Ministry of Economy and the Ministry of Social Development and Family](#) to implement these efforts. This governmental effort was supported by international organizations (such as the [BID Lab](#) or the UNDP) and civil society actors (such as the San Carlos de Maipo Foundation) [that provided advice to the government for the feasibility analysis of three SIC](#) focused on childhood, youth social reintegration, and poverty reduction. Despite these efforts, none of the planned SIC initiatives involving state participation have materialized, although their seeds had already been planted in the country.

The SIC in Education in Chile: The Case of Programa Primero Lee

In 2018, the private foundation *Fundación Crecer con Todos* (FCCT) diversified the PPL funding model by accrediting a SIC for implementation in the municipality of Estación Central. This initiative marked the country's first educational SIC established within an existing program,¹ aiming to create an innovative experience in the articulation of private investment with measurable educational outcomes. As shown in Table 1, the SIC-PPL departs from conventional arrangements, in which the state acts as the outcome payer, through its implementation [without central state funding](#). This represents a significant structural variation: In contrast to international cases, in Chile, private philanthropic foundations (Mustakis, Colunga, LarraínVial, and Viento Sur) and an individual philanthropist (Cristoph Schiess) assumed the role of final outcome payers to investors, displacing the government's traditional position in the financing structure. This configuration brings the instrument closer to a Development Impact Bond rather than a traditional Social Impact Bond. Consequently, the state's participation was reduced to a secondary, non-financial role, focusing solely on ensuring the program's adaptation to curricular requirements, while management was spearheaded by private Fundación San Carlos de Maipo and legal advisory firms involved in the structuring of the SIC.

In terms of its target population, the SIC-PPL was implemented in 11 vulnerable schools in the municipality of Estación Central, located in the southwest of Santiago, with a lower-middle-class population and high levels of immigration. This initiative benefited 700 students through an innovative methodology. [The project](#) included the installation of libraries in each classroom as well as the provision of teaching materials, daily lesson plans and work guides. It also provided teaching support through tutorials, training, specialized teaching resources and the monitoring of results. Regarding the evaluation of results, document analysis revealed two main measurement strategies: internal monitoring conducted by the PPL itself, and, in terms of impact measurement, the SIC-PPL established that final payments would be conditional on the results of a specific literacy assessment instrument (DIALECT), to be applied by an independent evaluator (the consulting firm Focus). For its part, the Ministry of Education was only referenced to note that the PPL met the government's curricular requirements for implementation.

In practice, however, this outcome-based evaluation could not be implemented. Due to the interruption of the project—first by the social uprising in Chile and later by the COVID-19 pandemic—the DIALECT assessment was not applied. As a result, the SIC-PPL coordination board agreed to base payments on the partial results obtained through ongoing monitoring, which reached approximately 82% of the expected targets. Consequently, final payers implemented a proportional payment scheme, disbursing 82% of the total contracted amount to investors. While the remaining 18% represented a financial loss (of approximately USD 80,000), sponsors of the SIC argued that the flexibility of the model allowed them to mitigate greater losses by closing the program early. This outcome illustrates how, in practice, the payment-by-results logic was adapted under conditions of uncertainty, softening the original risk structure of the instrument.

Beyond its mode of operation, the SIC-PPL sought to transform the logic of the education system from four key perspectives. First, the program set itself a clear goal—to enhance access to literacy learning—responding to a diagnosis that pointed to an increase in reading comprehension deficits in impoverished areas of the country, contributing to the definition of educational policy priorities and fostering a national discussion on literacy in Chile, actively participating in the campaign [Por un Chile que Lee](#). Second, in terms of intervention, the strategy combined the direct intervention of FCCT specialists in classrooms with the development of capacities in teachers and school directors, exemplifying public-private collaboration in action. Third, the program aimed to implement a logic of evaluation based on outcomes rather than outputs (i.e. the final payment was only made if results were demonstrated). The untimely closure of the project, interrupted by the social uprising and then by the pandemic, which led to the suspension of these PPL interventions, did not allow for the development of this last

aspect, although the foundations sponsoring the SIC claimed that this did not invalidate the promises of the financial model. Thus, flexibility regarding payment decisions made it possible to accelerate the completion of the intervention, thus avoiding a significant portion of the investors' capital loss. Finally, although the SIC-PPL aligned with literacy as a state-defined priority, the decision-making process was predominantly led by private actors. Philanthropic foundations and legal firms not only acted as financial supporters but as policy entrepreneurs, determining the technical criteria and management of the intervention, and the central state took a secondary role. This arrangement facilitated a governance transfer, where private actors reconfigured the implementation of the program. By advising the FCCT to adjust its reporting and communication of results, the private coordinators established a practical precedent for how educational outcomes should be measured and managed.

Conclusions: SICs as a New Educational Model?

Although the SIC-PPL did not complete its planned three-year implementation (and only part of its achievements could be demonstrated), it laid the groundwork for fostering an alternative model for managing educational issues. As shown in the previous section, this model is characterized by the active involvement of private actors not only in financing but also in defining key aspects of the intervention, including the selection of beneficiary schools, the design of success indicators and the management of evaluation processes. Its main promise is to (re)reconcile financial and social objectives while also reducing public spending and overcoming state bureaucracy, incorporating the innovative and versatile spirit of private-business actors and the transformation of the financing system from fee-for-service to payment-by-results. While the implementation of SICs in the education system holds the promise of improved results, at least two concerns remain.

First, the SIC-PPL illustrates a model in which private actors do not merely fund interventions but actively shape how social and educational problems are defined and addressed. In the analyzed case, philanthropic foundations and associated organizations were directly involved in selecting participating schools, negotiating success indicators with investors and structuring the evaluation framework, thereby assuming roles traditionally reserved for public educational policy (Avelar, 2023). In the case of the SIC-PPL, this shift in the role of the state is evident in four aspects: the management of pedagogical innovations, the identification of beneficiary populations, the relationship between actors to implement the programs and the evaluation of the initiative. Thus, although not entirely successful, the implementation of the SIC-PPL managed to cement the idea that policy priorities and pedagogical innovations can come primarily from financial actors and philanthropic organizations, positioning these actors not only as funders but also as policy developers (Rowe & Di Gregorio, 2024).

Secondly, it is worth considering that the development and exercise of the right to education is, to a certain extent, conditioned to the fulfillment of the economic objectives of the SIC model. In this scheme, access to education for children in impoverished contexts is subordinate to the perception of financial profitability on the part of investors, transforming a right into a variable dependent on the return of capital. This is particularly sensitive in the studied case, considering the national problems of literacy in the country and, at the same time, the structural problems of public financing that exist in the Chilean school system (Treviño et al., 2023).

Although limited to a single case, the analysis demonstrates that SICs are tools that conceptually and operationally transform the work of contemporary education systems. Discussing their impact, implementation and growth is, therefore, an unavoidable task.

Endnotes

1. The PPL program is a literacy intervention for children aged 4–9 implemented since 2009 in schools in impoverished areas of Chile. The program offers a set of educational resources designed to develop reading comprehension, improve writing skills, enrich vocabulary and foster interest in reading. The PPL program is present in 430 schools and covers 3,500 teachers and more than 60,000 students, although only 2% are included in the SIC scheme.

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Unlocking Aspirational Pathways: Transforming Skilling Finance for India's Youth

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Summary

The Aspirational Pathways for Youth Readiness and Employability (ASPYRE) platform is a blended finance platform transforming India's skilling loan ecosystem by shifting the basis of underwriting from parental income to students' future earning potential and designing student-friendly loans. By aligning student aspirations, sector talent demand, and financial innovation, ASPYRE aims to position low-income youth as a credit-worthy asset class, thereby unlocking scalable skilling finance and enabling dignified employment.

Keywords

Blended finance
Skilling loans
Youth employment
Inclusive credit
Low-income youth

The Challenge: Financing is Failing India's Skilling Aspirants

High-quality skill training remains out of reach for most low-income youth in India. Government-led skilling programs have substantially increased the reach of vocational training. However, ensuring that training translates into industry-relevant skills and sustainable employment remains an ongoing challenge. (Verma, 2026) Persistent gaps between training quality and industry demands continue to limit pathways to higher wages and long-term career growth

Alongside these efforts, private training providers offer industry-relevant courses and strong employment outcomes, claiming placement rates of 70% to 90% in roles paying at least INR 15,000 per month, yet these are often unaffordable for individuals who need them most.

Nearly half of all eligible students are unable to enroll due to a lack of financing. Most are rejected by lending institutions like banks and non-banking financial companies (NBFCs) due to underwriting norms that decide who can get a loan—usually based on formal parental income, credit scores, and official documentation. These norms systematically exclude 90% of India's workforce—individuals who earn informally without pay slips or tax records, have low household earnings and/or are new-to-credit (NTC) youth lacking formal credit histories (Raveendran & Vanek, 2020). Additionally, most current skill loan products require students to start repaying full equated monthly installments (EMIs) immediately, often before completing their training, because the loan tenure is tied to course duration. As a result, repayments cannot be based on the student's future earnings and instead rely on family income or savings. While traditional education loans

in India offer more flexible terms, this rigid underwriting is common for vocational training loans, given the high-risk perception and the sector's low outcomes. This places an unfair burden on families, often pushing many talented youth into lower-quality, free programs with poor job prospects or forcing them to drop out altogether.

This is not a minor issue and reflects a significant market failure, with an estimated \$350 million addressable market for skill loans targeting excluded youth (The Blended Finance Company [TBFC] estimate) remains largely untapped. The problem is not students' ability to repay but rather that existing lending models do not reflect these students' realities.

To change this, we must reimagine underwriting norms, design student-friendly loans, and reduce lender risk. Blended finance, where philanthropic and private capital work together, can play a catalytic role in making high-quality skill training accessible and affordable, unlocking opportunities for youth and strengthening the skilling ecosystem.

The Solution: Reimagining Skilling Finance through ASPYRE

TBFC, in collaboration with early supporters, including domestic corporate social responsibility (CSR) funding from pioneers such as 360 ONE Foundation (CSR refers to funding provided by companies within India to support social and development initiatives) and global philanthropies, has launched the Aspirational Pathways for Youth Readiness and Employability (ASPYRE) platform. This is a pioneering

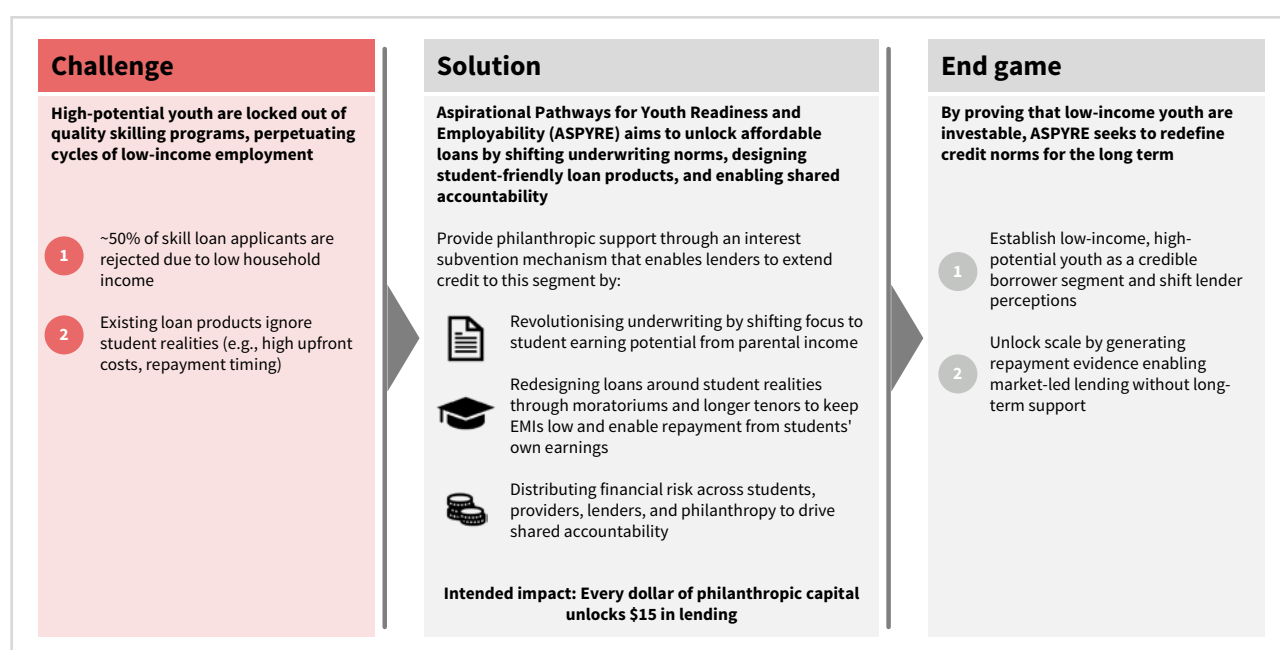
blended finance platform that reimagines financing for India's skilling ecosystem. ASPYRE is partnering with NBFCs to provide loans to motivated, low-income youth who are excluded from traditional lending systems, with the goal of unlocking long-term, aspirational employment opportunities and shifting how skill loans are underwritten. Specifically, the aim is to move away from relying on parental income and toward assessing the quality of the training provider (TP) a student is enrolled with and, by extension, the student's future earning potential.

To reduce the risk borne by lending institutions that comes with adopting a new underwriting method, ASPYRE, supported by philanthropic capital, provides risk cushioning on loan portfolios extended to this underserved segment. This support is structured as an upfront interest subvention (i.e. it lowers the effective interest rate for students while providing risk cover). This enables lenders to:

- Expand access to credit: By making it viable to lend to segments that would otherwise fall outside conventional underwriting frameworks.
- Unlock student uptake through affordability: By enabling lower interest rates for this highly price-sensitive, underserved segment that would otherwise be higher due to lenders' perceived risk and the segment's limited track record.

This blended finance approach enables lenders to build evidence of the segment's creditworthiness, proving low-

Figure 1. ASPYRE's Theory of Change: Unlocking Skilling Finance for Underserved Youth



income, high-potential youth as a viable borrower segment. Over a few cycles of lending, it also helps build evidence and data on student repayment behavior that supports price-risk discovery. Strong cohort performance then unlocks evidence for scale, enabling lenders to expand sustainably with reduced reliance on philanthropic support.

ASPYPE aims to enable flexible, student-friendly loans for over 7,000 students to begin with, promoting financial inclusion and contributing to the development of a more robust, future-ready workforce.

The ASPYPE model hence, focuses on three foundational shifts:

1. Shift the underwriting paradigm: A cornerstone of ASPYPE's model is its shift in underwriting norms for skill loans from relying on parental income or credit history to focusing on a student's future earning potential.

To make this possible, ASPYPE onboards TPs that offer real pathways to dignified, long-term employment for underserved youth. Lending partners, along with TBFC, rigorously vet these providers to ensure they deliver high-quality, outcome-focused programs with strong placement

records (over 80%) and robust employer linkages. These courses can enable a monthly salary of INR 25,000 or more within two years of completion, without requiring additional external training.

All students enrolling in these approved programs are eligible for loans, except in cases where there is clear evidence of an intent not to repay.

ASPYPE leverages labor market research ([Sodhi, 2022](#)) in selecting TPs that target sectors with strong job demand, upward mobility, and above-average starting salaries (above INR 15,000). Six priority sectors viz. banking, financial services and insurance (BFSI), advanced manufacturing, information technology (IT), healthcare, aviation & hospitality, and green jobs, have been identified to maximize employment outcomes and improve loan repayment prospects.

While ASPYPE adopts innovative underwriting practices, it retains certain operational elements, such as having parents remain co-applicants on the loans, to align with existing practices that facilitate effective collections. This balanced approach supports both adoption and scalability within the broader financial ecosystem.

Figure 2. Illustrative Examples of Skilling Courses for Aspirational Jobs*

	Bank sales course	Medical lab technician	Cabin crew training
Target	College grads	High school grads	High school grads
Program cost	-INR 50k	INR 1.5-3.5L	INR 1.5L
Duration	1 month	24/ 36 months	12 months
Starting salary	INR 15-20k+ p.m.	INR 15-18k+ p.m.	INR 30k - 40k or higher p.m.
Salary growth**	50% growth in 2 years	25-30k within 2 years	60-70k p.m. after 2 years in job
Career prospects	• Scope for lateral movement across departments • Scope for promotions to branch/regional manager	• Scope for lateral movement across collection, processing, biochemistry departments • Scope to secure supervisory roles incl. full lab mgmt along with continued salary growth (to 60k+) with experience	• Can get promoted to senior flight attendant within 1-2 years with good performance • Scope for further growth to an in-flight manager role with continued salary growth

Sources: TBFC research. (*) Non-exhaustive list; (**) not including any additional bonuses.

2. Redesign loans to reflect student realities: Traditional education loans often fail to account for the financial realities of low-income students, as they require immediate and full EMI payments, placing a significant burden on families. With loan sizes typically ranging from INR 40,000 to INR 4,00,000, servicing these obligations during the course duration adds considerable financial strain rather than easing it.

ASPYPE takes a student-centric approach by redesigning loans to be affordable and better matched to students' future earning potential.

- Interest subvention lowers the effective cost of borrowing by subsidising a portion of the interest, making loans more affordable and accessible for students.
- What further sets these loans apart is that, although repayments start from month one to encourage financial discipline, the initial EMI burden is kept minimal—comparable to the co-pay amount or the downpayment (usually 5-10% of course fees or 15% for higher-cost courses)—reflecting what the family can reasonably afford. EMI increases or “steps up” only once the student starts earning, ensuring that repayments grow in line with income.

To make this possible, loan disbursements are made in tranches, and a principal moratorium (if needed), full or partial, a grace period where the borrower does not have to repay the loan principal, is provided, especially when students aren’t earning. This allows for longer loan terms (up to 60 months including the moratorium), so most repayments come from the student’s post-placement income. Monthly EMIs are kept within a manageable portion of expected earnings (up to 50%), giving students flexibility and reducing repayment pressure.

These features show ASPYRE’s commitment to making loans both accessible and affordable, especially for first-generation earners starting their careers, helping them move from training into stable, dignified employment.

3. Align incentives to create shared accountability:

ASPYRE is a blended finance platform grounded in shared accountability, where every stakeholder has a role to play in the student’s journey from enrollment to employment.

- Students pay a small part of the course fee up front, 5-10% (or 15% for more expensive courses), as a downpayment.
- TPs offer “dropout protection”¹ by refunding 100% of outstanding course fees if a student drops out within the first two months* and also provide a risk cushion on the loan portfolio. This further incentivizes TPs to focus on student outcomes such as placement and retention.
- Philanthropic capital improves the affordability of loans by lowering interest rates while also providing risk cover.
- Lenders continue to bear the majority of the risk, ensuring that they remain focused on responsible lending.

These layers of protection make it much safer for lenders to support students who might otherwise be left out while encouraging everyone involved to help students succeed.

The End Game: Changing the Skilling Finance Landscape

The program aims to mobilize TPs, NBFCs, philanthropists, and CSR capital to transform skilling finance for low-income students. By shifting underwriting norms and cocreating student-centric loan products enables loans to be provided to underserved students. The program also actively tracks student progress, placement outcomes, and loan repayments through a robust monitoring, evaluation and learning (MEL) framework.

Through designing the platform, some key learnings have emerged:

First, it’s important to understand key requirements from the end borrower i.e. students and their families. For example, their comfort with taking a loan, ability to pay an upfront downpayment, understanding of ‘step-up’ payments etc. Hence simplicity in loan structure is critical. While step-up EMI models can reduce the immediate financial burden placed on students, loan increments must be straightforward and rounded amounts, with a variability that is easy to understand and accepted by students. In some cases, having a flat payment structure may also be preferred by students for ease of understanding. ASPYRE works with training providers to design loan product structures that are most suitable to the students’ requirements.

Second, the success of any loan offering depends on how well TP sales teams understand and communicate the product. In many cases, sales staff are unfamiliar with the loan’s structure, making the loan difficult to promote to students. ASPYRE has identified the need for standardized sales pitches and targeted capacity-building efforts by training partners to improve the way in which loans are communicated to students.

Third, ASPYRE has also recognized that expanding outreach requires strong partnerships with mobilization partners, such as state governments and civil society organizations. By linking TPs and mobilization partners, we aim to reach more students and ensure that deserving low-income youths are guided towards skills and employment opportunities.

Lastly, strong due diligence in selecting TPs is essential. Since ASPYRE’s underwriting approach relies on the quality of the TP a student is enrolled in, it is critical to identify and partner with providers that demonstrate strong historical outcomes. In addition to upfront selection, ASPYRE requires TPs to consistently track and report key student outcomes such as placement and retention, which form the basis for ongoing credit assessment. However, many smaller TPs lack the systems and capacity for such monitoring, thus limiting their students’ access to financing. By setting clear expectations around both TP selection and outcome reporting, ASPYRE aims to establish a higher standard across the ecosystem,

enabling more students to qualify for skilling loans and enroll in high-quality programs.

That said, the ASPYRE platform, which is now live but yet in its early days, is pioneering a new precedent across the ecosystem. Through this model, it has been possible to provide previously excluded youth access to both quality skilling opportunities and affordable finance—enabling them to build formal credit histories and unlock future access to financial services. ASPYRE has not only developed loans that are affordable for students but also commercially viable for lenders, thereby setting a new standard for sustainable lending in skill financing. Additionally, the platform enables philanthropic donors to achieve up to 15x leverage per \$1 deployed. This means that for each dollar of philanthropic or catalytic capital invested, ASPYRE can attract and deploy \$15 from commercial lenders, significantly amplifying the impact of initial funding.

Looking ahead, ASPYRE aims to build strong evidence showing that low-income youth are reliable borrowers. By reducing risk for investors now, the goal is to eventually enable commercial lenders to participate independently in shifting underwriting to assess students based on their potential future outcomes,

without the need for ongoing philanthropic support. Finally, ASPYRE’s legally and operationally sound platform offers a replicable model for blended finance in skilling ecosystems both in India and globally.

ASPYRE demonstrates that potential, not privilege, should determine access to opportunity. By reimagining how we finance the future of our youth, we pave the way for a more inclusive and future-ready workforce.

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Endnote

1. Dropout protection period is expected to be two months on average, but may vary from course to course.

Exploring Development Impact Bonds for Higher Education in Sub-Saharan Africa: Lessons from Palestine's Finance for Jobs

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Summary

This article explores how Development Impact Bonds (DIB) can enhance access to higher education for marginalised groups in Sub-Saharan Africa (SSA). Drawing on theories of human capital, social justice and financial risk-reward trade-off, the work presents the Finance for Jobs DIB in Palestine as a conceptual springboard. Moreover, the article analyses the DIB's implementation, outcomes and design logic and proposes how context-specific adaptations can be made for countries in SSA.

Keywords

Development impact bonds
Higher education
Youth employment
Sub-Saharan Africa
Replicable financial innovation

Introduction

Access to tertiary education in Sub-Saharan Africa (SSA) remains a deeply contested and uneven frontier. Despite rising secondary completion rates and youth aspirations, structural financing gaps and weak institutional capacity constrain both enrolment and postgraduate employability. This article explores how Development Impact Bonds (DIBs), specifically the Finance for Jobs (F4J) case in Palestine, provide actionable design logic for addressing these challenges. Although F4J was not developed for tertiary education, its core features - employer engagement, outcomes-based payment structures and equity safeguards—offer transferable lessons for SSA. Drawing on human capital, social justice and risk-reward theories, the article proposes a context-sensitive DIB model to expand access, enhance student persistence, and align graduate outcomes with labour market demands.

Financing Gaps and Rising Demand in SSA

With a gross enrolment ratio of only 9.48% in 2021, the SSA region lags far behind the global average of 40% (UNESCO, 2023). While foundational education programmes and donor-supported interventions have improved secondary school completion, higher education systems have not kept pace. This is primarily due to limited domestic investment, which typically accounts for less than 1% of GDP in most countries, and the failure of conventional student loan schemes to support meaningful expansion or equitable access.

This financing shortfall has systemic consequences. Higher education institutions (HEIs) are often under-resourced, with outdated facilities and limited research capacity. In SSA, tertiary graduate numbers have increased significantly over the past decade, outpacing job creation and resulting in persistently high levels of unemployment among degree-holders (International Labour Organisation [ILO], 2023). This pattern reflects a continuing disconnect between higher education outcomes and labour market needs. Traditional funding models, such as public subsidies and tuition-based

financing, often reproduce—rather than correct—inequalities. Students from wealthier urban households are more likely to access loans and scholarships, while learners from rural, low-income, or marginalised backgrounds remain excluded (Ilie & Rose, 2018).

Moreover, existing student financing mechanisms face structural limitations. Public loan schemes in countries such as Uganda, South Africa and Lesotho have been criticised for poor repayment rates, limited coverage and heavy reliance on public subsidies (Pillay, 2012). Even where income-contingent models exist, they are frequently hampered by weak repayment enforcement and the absence of labour market integration strategies (Johnstone, 2006).

Theoretical Underpinnings

To ground the case analysis and proposed model, this article draws on three intersecting theoretical frameworks:

- i. Human capital theory (Becker, 1964): Posits that education investment enhances individual productivity and national economic growth. A DIB for tertiary access would embody this theory by tying financing to long-term employment outcomes, thereby ensuring that human capital gains are translated into economic returns.
- ii. Social justice theory (Rawls, 1971), particularly the concept of “justice as fairness”: Provides normative guidance for targeting disadvantaged groups and structuring financing mechanisms to redress educational inequities. In this sense, DIBs can operationalise these social justice principles when equity goals are explicitly built into their outcome metrics, target structures and pay out conditions.
- iii. Financial risk-reward theory (Markowitz, 1991): Suggests that higher returns are associated with higher risks. DIBs operationalise this by shifting capital risk to private investors and rewarding them only if predefined goals are met, thus aligning stakeholder interests across public and private spheres.

Together, these frameworks offer both a rationale for shifting away from input-based models and a foundation for designing incentive-aligned structures that reflect SSA's financing and equity realities.

Global Design Precedents and Literature Context

While the application of DIBs in tertiary education remains nascent globally, a growing body of evidence across adjacent sectors, such as foundational learning, vocational training and youth employment, demonstrates the versatility of results-based financing. Initiatives like LiftEd in India, the Sierra Leone Education Innovation Fund (SLEIC) and numerous others

catalogued in the NORRAG (2025) Impact Bond Database offer instructive insights into equity targeting, outcome verification and multi-stakeholder design. These examples, although sectorally distinct, share structural similarities with the F4J DIB and provide precedents for adaptable, impact-driven financing models in constrained education contexts. This article draws on such cross-sectoral lessons to propose a DIB model that responds to the unique challenges of tertiary education access and employability in SSA.

The Promise of DIBs

DIBs offer an alternative paradigm for education financing, one that is outcomes-based, risk-sharing and potentially more responsive to both market and social realities. DIBs are a form of results-based financing in which private investors provide upfront capital to fund service delivery and are repaid by an outcome funder, typically a donor or government, only if pre-agreed results are achieved and independently verified (Gustafsson-Wright et al., 2015). In doing so, DIBs shift financial risk away from governments and service providers to private investors, who are only repaid if outcomes are achieved and are independently verified by third parties, thereby creating incentives for measurable impact.

While most DIBs to date have focused on basic education or employment training, their application to higher education remains limited but conceptually sound. Several education-related DIBs, such as the Educate Girls DIB (India), the Workforce DIB (Colombia) and South Africa's Impact Bond Innovation Fund, have exhibited positive results by linking payments to learning gains, job placements and retention metrics (GoLab, 2023).. These successes suggest that similar models could be adapted for higher education by focusing on enrolment, graduation and employment of marginalised learners.

The rationale for DIBs in higher education is twofold. First, they can mobilise additional financing by attracting private investment vehicles targeting both social and financial returns, such as foundations, impact-aligned or diaspora investors (Ketkar & Ratha, 2008). Second, they incentivise quality and persistence by linking financial returns to long-term outcomes, such as employment or sustained retention, rather than short-term inputs or enrolment numbers. This results-oriented logic could address both the underperformance of current systems and the misalignment between education provision and economic opportunity.

The Finance for Jobs DIB in Palestine: An Empirical Case

Launched in 2019, the F4J Youth Employment DIB in Palestine offers one of the most practical illustrations of how outcomes-based financing can be adapted to support skills development and employability in constrained labour markets (World Bank, 2020). The F4J DIB mobilised a coalition of actors, including the

Palestine Investment Fund (as the investor), local training and placement providers and outcome funders such as the World Bank (through the Trust Fund for Gaza and the West Bank), supported by the state and the Peacebuilding Fund. Third-party evaluators were engaged to verify all outcomes independently, ensuring transparency and contractual credibility. Results-based payments were structured to reward not just placement but sustained employment. Service providers received compensation once a participant had completed three months of work, with bonus payments activated at the six-month mark. Notably, the DIB included a minimum threshold for female participation, requiring at least 30% of beneficiaries to be women. This was operationalised through service providers partnering with women's groups for outreach, and compliance was verified using disaggregated enrolment data by independent evaluators. Service providers were also required to consult with prospective employers before delivering the curriculum, tailoring the content and sequencing to meet their needs. This reversed the traditional sequencing of training first followed by placement later, marking a critical shift towards an employment-first logic, which ensured that skills provision was directly aligned with market demand even in the absence of guaranteed job placements.

By 2022, the F4J DIB had trained more than 1,500 young people. Among these people, 70% were successfully placed into formal employment, with 60% remaining employed for at least six months (Zileviciute & Hazboun, 2022).

What Makes the F4J DIB Relevant to SSA?

The F4J DIB demonstrates how outcome-linked financing can catalyse labour market integration in constrained environments. While the initiative targets vocational training rather than tertiary education, its emphasis on employer engagement, blended metrics, equity safeguards and rigorous verification structures provides essential design logic for higher education reform. Given the structural parallels between Palestine and many SSA contexts, such as youth unemployment, fiscal constraints and fragile public systems, this article draws on the F4J experience to propose a replicable but context-sensitive DIB model tailored for tertiary access in SSA. Key aspects of the F4J DIB that could be adapted include:

- i. Aligning HEI outcomes with labour market demands.
- ii. Using blended capital and outcome-linked returns.
- iii. Embedding gender and equity requirements.

While the article focuses on higher education-and employment-linked DIBs, Table 1 presents a comparative summary of selected education-focused DIBs that offer transferable design features. Though not all DIBs are directly linked to tertiary education, these cases provide instructive lessons, such as multi-actor governance, equity mechanisms and verification practices, that can inform the structuring of future DIBs for higher education in SSA.

Table 1. Key Features, Outcomes and Equity Mechanisms in Selected DIBs

Features	Finance for Jobs (Palestine)	LiftEd (India)	Sierra Leone Education Innovation Fund
Primary objective	Youth employment via demand-driven training	Improve foundational literacy and numeracy (FLN) outcomes for marginalised children	Improve literacy/numeracy outcomes post-Ebola
Outcome metrics	Verified employment at three and six months	Learning gains; attendance; FLN tests	Literacy/numeracy improvements; teacher motivation
Investor(s)	Palestine Investment Fund; EBRD	UBS Optimus Foundation	FCDO; philanthropic co-investors
Outcome funder	World Bank via Trust Funds	Michael & Susan Dell Foundation; UBS Optimus Foundation	UK Government (FCDO)
Equity mechanism(s)	30% youth participation by women; no training fees	Disability inclusion and community engagement	Service in rural/underserved areas
Stakeholder engagement	Co-design with employers; consortium implementation	Multi-NGO coalition and government partnerships	Implementers involved in early-stage target setting
Verification approach	Independent third party (Big Four audit firm)	IDInsight and Gray Matters	Oxford Policy Management
Contextual relevance	High youth unemployment; political instability	Pandemic recovery in education	Fragile recovery after Ebola; weak education infrastructure

Source: Adapted from Musarurwa (2024).

Assessing Transferability: From Palestine to SSA

Replicating the F4J model in SSA contexts requires more than simply borrowing the model's design logic. It demands an enabling ecosystem that depends on the following promising conditions:

- i. **Policy alignment:** Several SSA governments are signalling their readiness for outcome-linked education financing. Rwanda's Technical and Vocational Education and Training (TVET) strategy, Ethiopia's Youth Employment programmes and Kenya's Education Sector Plan reflect a growing appetite for outcomes-driven reform.
- ii. **Investor appetite:** Diaspora communities, impact-aligned pension funds and regional development finance institutions (DFIs) have shown interest in blended social investment, thereby creating a viable capital base.
- iii. **Regulatory readiness:** Guidelines on performance contracting and social investment pilots imposed by South Africa's Treasury Department suggest the presence of a conducive legal environment.

However, SSA-specific constraints, such as fragmented labour markets, the prevalence of informal employment and weak education-labour data systems, must be actively addressed. This requires the following:

- i. **Adaptive outcome definitions** that capture not only formal employment but also validated self-employment, apprenticeships and entrepreneurship.
- ii. **Targeted capacity building** for HEIs and implementing partners, including digital tracking of graduate outcomes and regulatory support for cross-sector consortium models.
- iii. **Stakeholder coordination platforms** that include ministries of education, labour, finance, diaspora councils and youth federations to drive legitimacy and uptake.

Taken together, these conditions shape the feasibility of replicating F4J's logic in SSA. The goal is not replication but intelligent adaptation rooted in local dynamics.

Structuring a DIB for Higher Education Access

Designing a DIB for higher education access in SSA requires careful adaptation of proven financing logics to local realities. Inspired by the F4J model, this section proposes a hybrid structure tailored to improve enrolment, persistence and graduate employability. Drawing on lessons from other global DIBs, the proposed model balances inclusion with measurable impact. This proposal focuses on widening access to tertiary education through an outcomes-based model that embeds employment alignment where feasible.

1. **Targeting marginalised groups:** Beneficiary inclusion criteria should be defined and verified to avoid perverse incentives or superficial compliance. This includes students from rural areas, low-income households, or those facing structural exclusion based on their gender, disability or legal status.
2. **Blended outcome metrics:** Payment structures should be linked to a composite of outcomes rather than a single target. For higher education, payments could be structured as 30% upon verified enrolment, 30% upon graduation and 40% upon confirmed employment or validated self-employment. Such blended metrics ensure that no single metric dominates and that service providers remain accountable across the student lifecycle. This, in turn, reduces the risk of gaming and reflects the multiple goals of higher education reform.
3. **Consortium-led delivery models:** DIBs in higher education are unlikely to succeed if implemented by universities acting in isolation. Instead, consortia involving HEIs, employers, non-profit training providers and wraparound service organisations should be encouraged.
4. **Independent outcome verification:** An independent evaluator must be appointed to ensure rigorous third-party outcome monitoring.
5. **Phased payment structures:** To support HEI cash flow and alleviate short-term pressure, phased payments should be introduced – for example, 25% upon enrolment, 25% upon graduation and 50% upon verification of employment at 6 or 12 months. These payments should be disbursed to service providers (HEIs/NGOs) to cover delivery phase costs, while investors' returns should remain contingent on outcome verification.

Conclusion

DIBs offer a new grammar of education financing, one that ties capital to results, equity to incentives and institutional resilience to measurable outcomes. As illustrated by Palestine's Finance for Jobs initiative, such models can unlock innovative pathways even within constrained policy environments. For SSA, where youth unemployment, tertiary exclusion and financing fragility converge, adapting the F4J logic could catalyse scalable change. However, success will depend on careful design that involves robust equity targeting, consortium implementation, phased payment structures and rigorous verification. More than a replication, this calls for strategic adaptation rooted in SSA's realities but fuelled by global precedents. Realising this potential will require sustained investment in data infrastructure, ecosystem coordination and HEI capacity, potentially supported by DFIs and philanthropic partners. The architecture is within reach, and the urgency is undeniable.

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Learning the Loopholes: How Private Equity Navigates India's Schooling Sector

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Summary

This article examines the emergence of private equity (PE) as a financing modality in India's formal schooling sector. Despite a regulatory framework that mandates schools operate as non-profit entities, PE firms have developed innovative legal and financial structures to invest in and generate returns from private school chains. Drawing on the case of Lighthouse Learning, the article traces how the schooling segment is being gradually reshaped as a market-driven sector attractive to private capital.

Keywords

Private equity
Education
School
Innovative financing
Lighthouse Learning (EuroKids)

Introduction

Private Equity (PE) firms have increasingly turned their attention towards India's education sector. Particularly, they're buying into the formal K-12 schooling segment, which has emerged as a promising space for investment. Investors who are more commonly associated with tech startups and corporate takeovers have taken a keen interest in India's schooling market.

PE refers to capital invested by specialized firms into privately held businesses with high growth potential. In exchange, PE firms acquire equity stakes – partial ownership of the business – and actively shape the company's strategy, operations, and profitability. These investments are typically held for three to seven years, after which the PE firm exits through a sale, merger, or public offering, seeking high financial returns (Assomull et al., 2015).

For instance, in September 2023, Kedaara Capital – a Mumbai-based PE firm – acquired a significant minority stake in K12 Techno Services (the parent company of the Orchids International Schools chain), a deal estimated at US\$156–180 million (Shrivastava, 2023). K12 Techno Services was founded as a technology and services platform for private schools, eventually launching its own chain of schools – Orchids International. It has attracted institutional backing since inception: Sequoia Capital (Now, Peak XV Partners), Navneet Learning, Sofina Ventures and Kedaara Capital (ICRA Limited, 2025).

However, a fundamental legal constraint complicates PE investment in schools: All schools in India, whether public or private, are required to operate as non-profit entities and are prohibited from distributing profits to investors. This raises a key question: How are PE firms able to invest in the schooling sector given these legal restrictions?

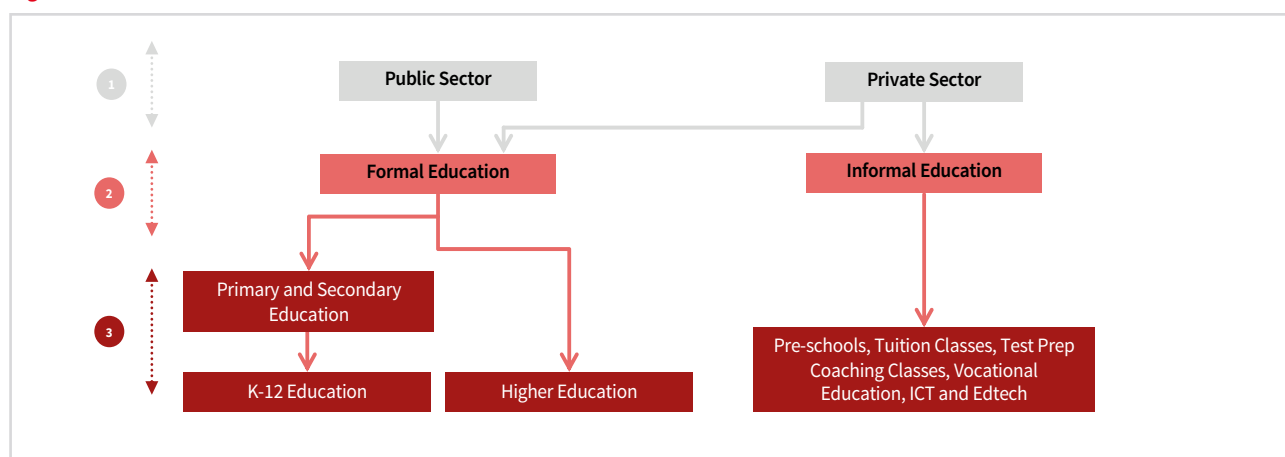
This article explores PE investment in the Indian school sector as an emerging phenomenon in education financing. It traces the structures and strategies through which such investments are made possible despite a legal framework that formally prohibits profit-making in schools.

India's Schooling Landscape

The Indian education system is broadly categorized across three dimensions: 1) public and private schools, referring to whether the government or private institutions provide education; 2) formal versus non-formal education, wherein the former includes K–12 schools and higher education institutes under the purview of the Ministry of Education, whereas the latter includes preschools (1.5–3 years), coaching classes, EdTech, multimedia/IT to schools and colleges, vocational training and the books market, falling outside direct government regulation; and 3) education levels; namely, K–12, which is kindergarten plus 12 years of schooling or primary and secondary school, and higher education institutions (HEI) which includes undergraduate-, graduate- and vocational-level university education (Zeisberger et al., 2009). The formal K–12 sector, mainly the schooling segment, is where the Indian state retains the strongest regulatory control.

longer seen as sufficient. This rising demand has increasingly been met by the private sector. In recent years, there has been a marked expansion and increasing student enrolment in private schooling across Indian states, particularly in urban areas. This trend is led by the growing perception that private schools offer better infrastructure, English-medium instruction and superior learning outcomes compared to their government counterparts. Over time, this demand has given rise to a category of fee-paying elite and international private schools that primarily serve upper-middle-class and affluent families. These institutions typically offer global curricula, employ internationally trained educators and provide value-added services such as integrated after-school programs, global exposure trips, and digital learning tools (see Figure 2) (Jha, 2024).

Figure 1. Overview of India's Education Sector



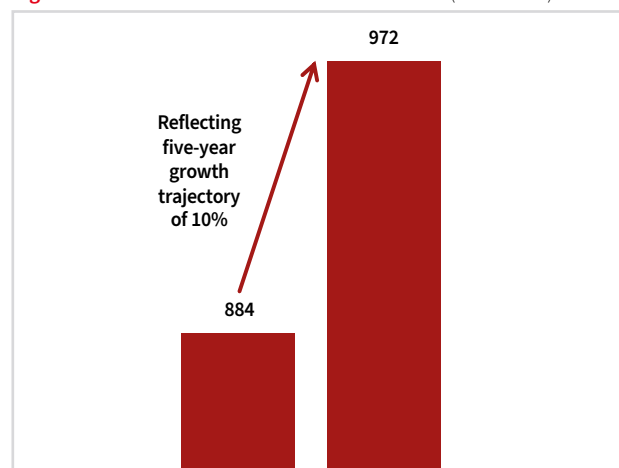
Source: Created by the author using data from Zeisberger et al. (2009).

Context of the Schooling Segment in India

India's rapid economic growth and expanding middle class have significantly reshaped the country's educational landscape. Rising household incomes and parental aspirations, particularly among urban middle-class families, have fueled a growing demand for better schooling opportunities, seen as key pathways to social mobility, economic advancement and even as a symbol of respect within society. Education in India is often viewed not just as a public good but as a vital investment in a child's future. This belief underpins the willingness of parents to spend heavily on schooling, even in economic uncertainty.

India already operates one of the largest school systems in the world. As of 2023–24, the country had 1.47 million schools serving 248 million students — 69% of these schools were government-run, enrolling 50% of all students (UDISE+, 2023–24). The reach of government schools is vast. However, for a growing segment of urban families, state schooling is no

Figure 2. Number of International Schools in India (2019–2025)



Source: Created by the author using data from Chhapi (2025).

The sector is also characterized by high levels of private household expenditure. Parents routinely incur costs not just for tuition but also for uniforms, transportation, textbooks and supplementary tutoring. Given this combination of scale, rising demand and willingness to pay, the Indian schooling sector presents an attractive and steadily growing market. For PE firms, this creates a compelling opportunity to invest in a sector that is aspirational, resilient and financially viable.

Emergence of Private Capital in Education

While government schools in India remain publicly funded and state-run, the private school sector has increasingly come to be financed and managed by a diverse range of non-state actors – including non-profit trusts, societies, individuals and corporate groups. As household spending on education rises, private schools rely heavily on fees and related expenditures from families, creating space for private capital to play a growing role in the sector. What was once primarily the domain of philanthropic giving has now become a dynamic market for mainstream investors (Assomull et al., 2015).

This article focuses specifically on one type of private capital – PE – a form of investment capital that targets high-growth private companies in exchange for equity ownership. PE firms are typically driven by return-maximization, most often investing in established, elite schools with scalable models and network of schools instead of a single standalone ones (Mittal, 2026). Their entry into the education sector marks a significant turn towards commercial strategies in what remains a legally non-profit space.

Understanding the Regulatory Landscape in India

India's private school sector is regulated across multiple dimensions – governance, finance, infrastructure, operations and learning outcomes— by a layered mix of central, state and board-level authorities. This fragmented regulatory landscape has created significant entry barriers for new schools and external investors. At the heart of the issue is the requirement that all formal private schools operate as non-profit entities, irrespective of who owns, funds or manages them.

According to national laws, all formal private schools must be registered as non-profit entities. This can take one of three forms: a trust,¹ a society,² or a Section 8 company³, each of which is governed by laws that prohibit the distribution of profits. The Supreme Court of India has upheld that education is not a commercial enterprise and that schools may only generate a “reasonable surplus,” which must be reinvested in the school. Schools are not permitted to issue equity or pay dividends to shareholders, unlike for-profit companies (Kabra et al., 2021).

In addition to non-profit restrictions, regulatory barriers around school approvals and infrastructure requirements

Figure 3. Private School Regulation Landscape in India

Dimension of Regulation	Relevant Acts		
Governance / Ownership	Societies Registration Act, 1860 or the Indian Trusts Act, 1882	Right to Education Act (RTE), 2009	State Education Acts*
	Central Legislation	Central Legislation	State Legislation
Finance	Societies Registration Act, 1860 or the Indian Trusts Act, 1882	Fee Regulation Acts/Bills	Multiple Court Judgements
	Central Legislation	State Legislation	Courts
Infrastructure	Right to Education Act (RTE), 2009	State Education Acts*	CBSE, ICSE, State Boards, NIOS
	Central Legislation	State Legislation	Boards
Operations	Right to Education Act (RTE), 2009	State Education Acts*	
	Central Legislation	State Legislation	
Learning Outcomes	CBSE, ICSE, State Boards, NIOS		
	Boards		

Note: *State Education Acts include State Acts, Rules, State RTE Rules and Government Orders on RTE norms.

Source: Adapted from Central Square Foundation (2020).

further complicate operations. Opening a private school involves securing multiple state-level licenses and clearances. However, Indian law allows non-profit educational entities to undertake “incidental commercial activities,” such as running canteens or selling books, so long as the resulting income is fully applied to their charitable objectives (IDR Online, 2020). This provision has become a key legal foothold for private capital. By setting up for-profit subsidiaries to deliver services (e.g. infrastructure, operations or digital learning) to non-profit schools, investors have found indirect ways to participate in the schooling sector despite formal restrictions on profit-making (Kabra et al., 2021).

How Do PE Firms Invest in Schools?

School entrepreneurs and investors develop legal and financial structures that allow PE firms to invest in schools while remaining compliant with regulatory constraints. These structures typically involve the creation of multiple entities or subsidiaries⁴ – one non-profit and one or more for-profit entities – that separate regulatory compliance from revenue generation.

Early literature, such as Zeisberger et al.'s (2009) study, highlights the concept of “innovative structures”⁵ developed by PE firms and school operators to bypass non-profit regulations in India's education sector. These structures aim to resolve what is commonly known as the “trust” issue⁶ by creating a multi-tiered organizational setup.

Let's say there is Company A. At the first level, Company A establishes a trust (A1), a not-for-profit entity that would handle school operations. This trust is created through a trust deed, which outlines the school's purpose, its beneficiaries (students), and its governance structure. The trust is responsible for managing the school's property,

finances and day-to-day activities, with trustees overseeing the use of assets. At the same time, Company A forms a subsidiary company that provides land (A2), infrastructure (A3), and services (A4, A5...)—such as content, management, canteen, transport, textbooks or even intellectual property—to the trust in exchange for rental or service fees. In this arrangement, the for-profit subsidiary technically offers services to the trust, thereby indirectly participating in school operations and earning revenue while remaining legally compliant (Zeisberger et al., 2009, p. 29).

In such models, PE firms do not invest directly in school trusts. Instead, they invest in the for-profit companies that provide services to these trusts. These companies generate stable income through fees or long-term leases paid by the trust, forming a financial foothold for investors. Infrastructures such as land and buildings—is often held by the for-profit company and leased to the school trust. This allows the school to remain a non-profit entity on paper as revenues are redirected to the for-profit entity.

These funds can then be used to expand infrastructure, add new services or scale school operations through the non-profit trust. This structure enables parent companies and their investors to extract returns, including potential dividends, while complying with the non-profit diktat. The PE-backed parent company often sets up separate subsidiaries to provide services to school trusts. One set of subsidiaries owns and leases school infrastructure such as land and buildings, generating steady rental income. Others offer operational services, including curriculum design, digital platforms, IT systems, teacher training, human resources and transport. These arrangements enable the group to earn revenue while supporting the school's day-to-day functions (Ghosh, 2010; Zeisberger et al., 2009).

Well-known examples funded by PE in the last two decades include Lighthouse Learning Group (preschools and K–12 schools), Educational Initiatives (an ed-assessment company), CL Educate (test prep and schools), Kidzee (Zee Learn) and many more.

Case Study: Lighthouse Learning Group (Erstwhile Eurokids Group)⁷

Lighthouse Learning was founded as EuroKids International in 2001. It worked in the preschool segment and entered the K–12 segment in 2009 with its series of EuroSchools. The preschool segment used a franchise model⁸, generating income through franchise fees, royalties and educational kits (CRISIL, 2019; CRISIL, 2021). In 2009, EuroKids entered the K–12 space by partnering with non-profit trusts to operate schools. The schools were managed by the trusts, while EuroKids set up EuroSchool Properties & Infrastructure Pvt Ltd (ESPIPL) to own and lease the school infrastructure. This

structure enabled EuroKids to remain compliant with non-profit mandates while earning rental income.

The group's expanding scale soon attracted PE investments. In 2013, Gaja Capital and Partners Group acquired a 50% stake in EuroKids International. During their tenure, EuroKids International Pvt Ltd (EKIPL) was positioned as the group's main holding company. The company also acquired Kangaroo Kids Education Ltd (KKEL) in 2017, which operated both preschools and K–12 schools via the Lina Ashar Foundation, further expanding its portfolio.

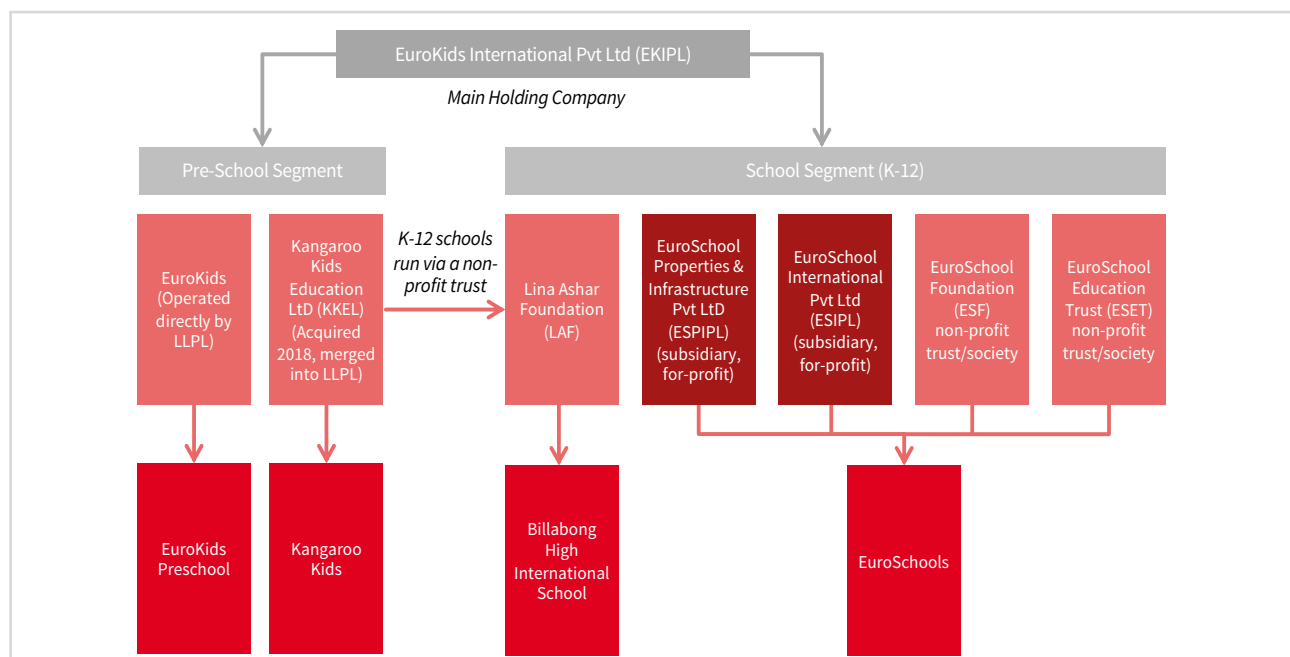
In 2013, Gaja Capital and Partners Group acquired a 50% stake in EuroKids. By 2017, EuroKids had acquired Kangaroo Kids and established partnerships with foundations such as the Lina Ashar Foundation. Its strategy involved collaborating with non-profit school trusts while using affiliated companies to provide infrastructure and services.

In 2019, global PE firm KKR and Co. acquired a 90% stake in EuroKids for US\$174 million— one of the largest PE transactions in the Indian schooling market. In 2021, the group rebranded as Lighthouse Learning Pvt Ltd (LHLPL), bringing together brands like EuroKids, Kangaroo Kids and Billabong High under a consolidated structure. By 2024–2025, six years after KKR's acquisition, Lighthouse Learning was valued at US\$700 million to US\$900 million, prompting an internal fund-to-fund transfer and the potential entry of new minority investors following advanced due diligence.

Conclusion

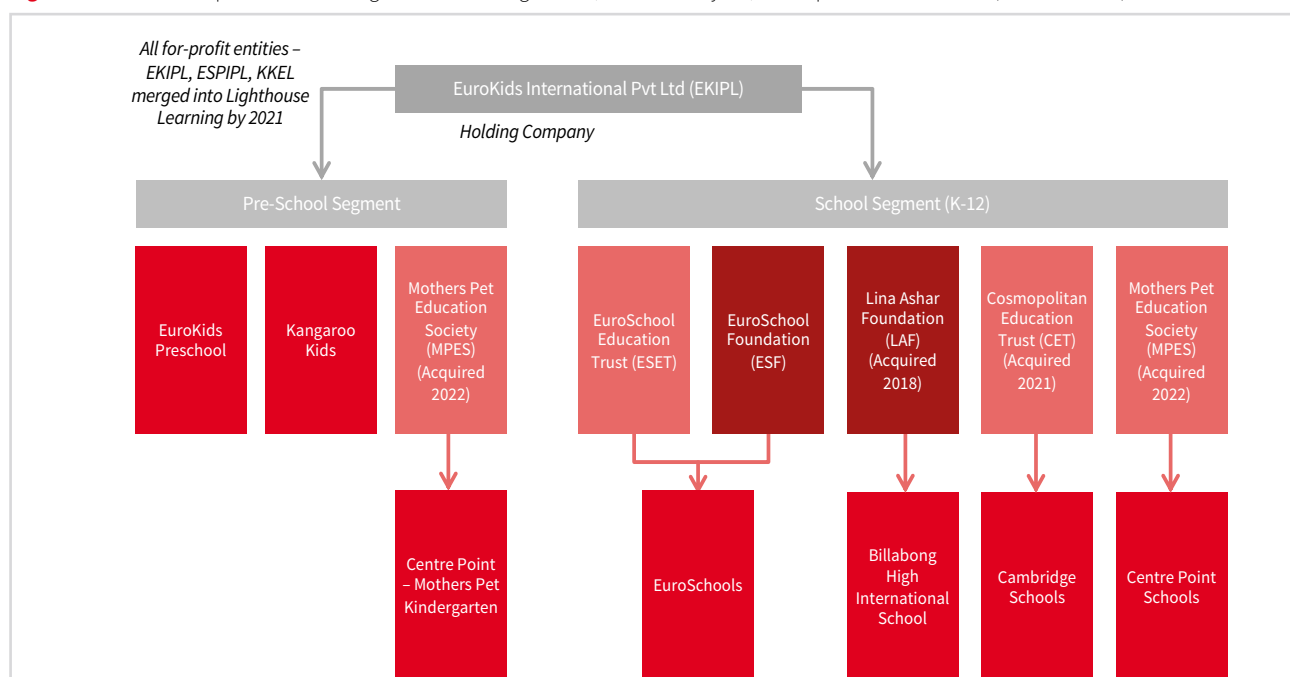
Private equity investment in Indian schools has grown rapidly, driven by the rising demand for high-quality education and the spending power of India's urban middle class. Although schools are legally required to operate as non-profit entities, they offer attractive investment characteristics such as stable enrolment, predictable fee income, and resilience across economic cycles. At the same time, schools require significant capital for infrastructure, expansion, technology, and teacher training, particularly under international curricula. This alignment of interests led private equity firms and school operators to develop innovative structures that comply with regulatory requirements while enabling returns on investment. The Lighthouse Learning case illustrates how layered corporate structures facilitate such investments. While the details of these structures remain largely undisclosed, the scale of investments indicates that schools are increasingly viewed as investable assets, with private equity playing a growing role in financing their expansion and operations.

Figure 4. Eurokids Group Operational Structure (2019)



Source: Created by the author using data from the CRISIL Report (2019).

Figure 5. Eurokids Group Rebranded as Lighthouse Learning in 2021, Post-KKR Buyout; New Operational Structure (2021 Onwards)



Source: Created by the author using data from the CRISIL Report (2021).

Endnotes

1. Trust is a legal arrangement in which assets (land, buildings, funds) are held by one or more trustees for a specific charitable purpose (Indian Trusts Act, 1882).
2. Society is a membership-based organization formed for promoting charitable, educational, scientific or literary purposes (Societies Registration Act, 1860).
3. A Section 8 company is a not-for-profit company registered under the Companies Act, 2013. It is formed for promoting commerce, art, science, education, research, or social welfare.
4. Subsidiary: A company that is owned or controlled by a parent or holding company
5. Zeisberger et al. (2009) define "innovative structures" as multi-tiered organisational arrangements in which a PE-backed company creates a non-profit trust to formally operate the school, while a separate subsidiary extracts surplus from the trust legally through rental fees and management charges – resolving what the authors term the "trust issue" between non-profit regulatory requirements and PE return expectations.
6. Zeisberger et al. (2009) define the "trust issue" as the fundamental incompatibility between the non-profit legal form that Indian schools are required to adopt and the return-seeking logic of private equity investment.
7. This information is derived from publicly available sources. Detailed internal information – such as capital infusion timelines, exact subsidiary ownership percentages, and specific financial flows between trusts and service companies – is not publicly disclosed. These details remain confidential to the company and to investor filings.
8. The franchisee model is a business arrangement wherein an established preschool brand (the franchisor) allows individual entrepreneurs or firms (the franchisees) to open and run preschools under its brand name and using its curriculum, training, and operational systems.

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Creating a Social Investment Market in Qatar

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Summary

There is a crisis in global education and employment. Innovative sources of financing can help to fill gaps. In Qatar, Education Above All (EAA) is nurturing a social investment market with local stakeholders who want a modest financial return while achieving a larger social purpose in lower-income countries. It is early days.

Keywords

Innovative financing
Social investment
Qatar

There is a crisis in global education and employment. A staggering quarter of a billion children and young people still do not have access to school – including an incredible 67 million primary-aged children (UNESCO, n.d.). Meanwhile, youth unemployment in the Arab States, East Asia, South-East Asia and the Pacific is higher than before the COVID-19 pandemic. Globally, there are 256 million youth not in employment, education or training (NEET), two-thirds of whom are female (ILO, 2024). Education and employment affect health and earning capacity, with knock-on effects for the next generation.

The challenge is urgent. With five years to the deadline for achieving the Sustainable Development Goals (SDGs), we are still far from reaching crucial targets. At the same time, the annual gap in financing for education for lower-income countries is US\$100 billion – yet Official Development Assistance (ODA) is reducing (Figure 1), and many countries face a debt crisis. The work is made harder by global financial difficulties, geopolitical tensions, regional conflicts and climate change.

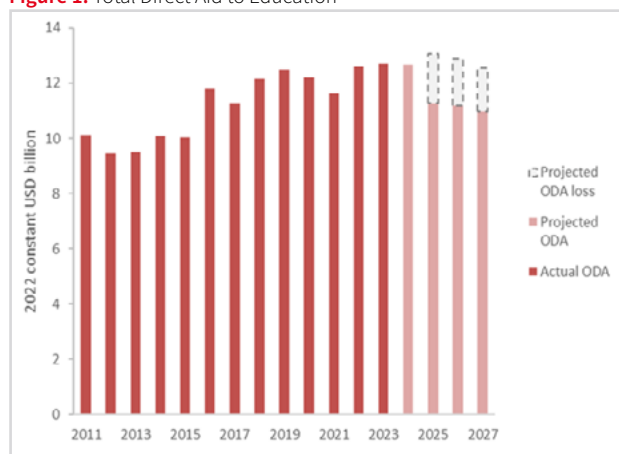
Innovative sources of financing can help to increase funding available and (as an example of outcome-based funding) can increase the effectiveness of existing funds. In July 2025, the UN Fourth Financing for Development conference called for innovative financing, which is adequate, affordable and scalable, including an enabling environment and the creation of capital markets (UN, 2024).

Qatar, Globally

In Qatar, Education Above All Foundation (EAA) is nurturing a social investment market with local stakeholders and planning an impact bond. “Social investors”¹ risk their capital in return for a modest² financial return while achieving a larger social purpose (also known as “double bottom line” investors).

Qatar is a distinctive entry point for new forms of education-focused social investment through its dynamism, financial heft and focus on education. Qatar has transformed since

Figure 1. Total Direct Aid to Education



Source: [What is the potential impact of recent cuts in aid to education? – World Education Blog](#) 2025.

the 1960s; it now has one of the highest GDP per capita in the world. Qatar's commitment to inclusive global education and employment is underpinned by the Qatar Fund for Development's focus areas, the National Vision 2030, 2030 Agenda for Sustainable Development and Financial Inclusion strategy. With a large financial services sector and a long tradition of philanthropy, Qatar is well placed to develop a domestic social investment market and offers a unique perspective as a bridge between the Global North and South as well as the East and West.

Qatar has a long and high-level commitment to global education. Sheikha Moza bint Nasser, previously a UNESCO Special Envoy, created EAA to bring together existing initiatives as a global foundation based in Qatar. EAA has become one of the largest supporters of education in lower-income countries globally. It transforms lives by championing lifelong education that fosters employment opportunities and empowers the most vulnerable and marginalised populations. EAA has always worked at scale and in collaboration to leverage resources in innovative ways. It has expertise in 55 countries, collaborating with governments and international and national partners. Some of its projects have:

- Enabled over 14 million primary-level out-of-school children to access quality education (Educate A Child programme),
- Connected over 3.3 million youth to economic opportunities (Silatech programme), and
- Awarded full scholarships to over 9,000 university students (Al Fakhoora programme).

EAA wants to increase funding for education by combining its expertise in education and Qatar's financial heft. A growing social investment market would complement philanthropy

and corporate donations by providing capital in support of a range of products that can grow in the future. This market could benefit other Qatari charitable organisations that want to explore innovative financing.

EAA is planning an impact bond to support projects in lower-income countries with significant education and/or employment needs. EAA would co-create the bond with an experienced bond manager, combining brand recognition and expertise in different sectors. The investors would be both Qatari and European. EAA is identifying lower-income countries with large education or employment needs that do not have a surfeit of other innovative financing products and have stable governments and supportive regulatory environments. After the pilot, bonds could expand in \$ size, number/range of projects and countries.

EAA is well placed to expand the range of social investors and the location of bonds. Only 10% of current impact bonds are in lower- or middle-income countries but these reach about 50% of bonds' service users globally (Elsby et al., 2022). Only three impact bonds are in the Middle East.

Galvanising a Qatari Market

Qatar has a strong financial sector and philanthropic tradition. Social value is celebrated through annual corporate social responsibility (CSR) awards and a strong emphasis on CSR/environmental social and governance (ESG) in many corporate reports. Green bond³ markets are also emerging, and the Qatar Stock Exchange introduced a Sustainability and ESG Dashboard in 2016 to improve transparency around "profit, planet and people" (Qatar Stock Exchange, n.d.). At the moment, these bonds tend to be marketed as for-profit; the social purpose is mentioned as a description rather than a mission.

Qatar is ripe for a social investment market. It would match the ambition in Qatar's National Development Strategy, which describes Qatar's plan for a financial services cluster and (separately) for solving global humanitarian, social, and development challenges by creating the right forums and connections (Qatar National Development Strategy, 2024).

Globally, there is a massive market for social investment, although it is hard to measure accurately due to varying definitions and segmentation. The global impact investing market is US \$1.16 trillion (Impact Investing Institute, n.d.).

EAA has spoken with a broad range of stakeholders in Europe and Qatar about nurturing a social market and creating a bond:

- Banks in Qatar and Europe with experience of green bonds and of social impact bonds: These banks have access to clients who are potential social investors and

the banks are often investors in their own right. The European banks have commercial interests in the Gulf, and some have philanthropic foundations.

- Potential outcome funders.
- Technical experts who have created and managed impact bonds and social investment funds: Most of these are non-profit and are interested in growing the ecosystem for social investment.
- These conversations will expand to other Qatari corporates and Qatari-based regulators.

Frameworks describing the conditions suitable for introducing outcome-based products⁴ are helpful in setting out areas to consider. Qatar has strong foundations, including engaged outcome funders and government and a supportive legal and regulatory system. However, these frameworks generally assume an existing interest or market in social investment within which to build outcome-based products. EAA is looking at what else needs to be in place (in addition to an attractive product and partners) in areas like:

- Customer awareness and demand: As the market is new, EAA will look at different groups of investors, with different profiles for social benefit versus financial return and for risk and reward. Crowdfunding may also attract smaller investments and can be linked to existing corporate partnerships.
- Regulatory incentives and conditions for ESG generally and social investment in particular: EAA is identifying what would need to be in place to make social investment attractive (e.g. recognition, incentives and duties to individual investors) and who controls that.
- Non-financial opportunities like international reputation.

Evolution

There is strong potential for a social investment market in Qatar—and other countries. There is an affinity of interest between stakeholders, although the motivations, definitions and processes may be different. It takes time to bring together disparate partners (this stage has taken a couple of years in Qatar), but the sum is greater than the parts.

There are a number of learnings and next steps when engaging with banks and social investors which EAA is adopting in Qatar and which organisations nurturing social markets in other countries may find useful:

- As with all commercial stakeholders, it is important to use their mission and language (both about ESG and about

commercial interests) and to bear in mind their separate personal and cultural relationships. The third sector tends to be more comfortable with intangibles than the other sectors.

- Consider the spectrum of investment (Bridges Fund Management, 2015). Some stakeholders may find it easier to see social investment as a development of philanthropy, such as recycling a grant. Other stakeholders will understand this as part of their investment portfolio, with a return on investment having both ESG and financial elements (albeit with a lower financial return than they could achieve in a for-profit investment).
- Conversations with all stakeholders are easier when based on a “straw man”: a hypothetical project to start the conversation. This conversation can then expose areas of convergence and divergence (e.g. the expectations of different parties about the size a pilot bond needs to be).

When nurturing a new market (as opposed to talking with new partners), EAA is finding that an “inside-out” approach works, comprising the following:

- High-level discussions, which can then be passed on to technical colleagues. This has the advantage of gaining in-principle agreement and engagement, but the process of discussion needs to be managed to ensure that momentum is maintained.
- One-to-one engagement with potential partners to build trust and a case for support based on shared language. EAA expects that as the market becomes established, it will be easier to have group discussions, creating a larger collaborative group of investors from Qatar and Europe.
- It is easier to approach social investors after securing outcomes funders.
- Seed funding is useful to create incentive and reduce commercial risk. This applies regardless of the product used (e.g. government aid agencies and foundations’ capital can kick-start an investment fund and anchor an impact bond with outcome funding).
- Long-term investors are needed so that different products and approaches can be trialled. In the UK, pension funds have long been a cornerstone of social investment.

Conclusion

The gap between need and funding is huge for education and employment. Bringing in private capital is a useful tool—but this needs to be done at scale. It will be important to create and expand social investment markets in multiple countries.

There are deep pockets of knowledge, but these can be time-consuming and expensive to access—perhaps a global non-profit whose sole mission is to accelerate new social investment markets is needed.

If successful, a Qatari social investment market would increase the size and diversity of the global social market. It would strengthen the bridges between financial and education sectors in different regions through new partnerships, ideas and legitimacy, which complement existing Western social investment markets. Most importantly, it would generate new impact for education and employment for the most marginalised and vulnerable children and young people around the world.

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Endnotes

1. This article was written in 2025. The project is temporarily on hold due to the tensions in the Strait of Hormuz during 2026.
2. This is lower than commercial returns, typically at 6%–8%.
3. These commercial bonds use assets like school buildings (“social”) or wind farms (“green”) to generate regular income for investors.
4. Such as: Social Finance (2022). Engaging in outcomes-based partnerships. https://www.socialfinance.org.uk/assets/documents/outcomes-based-partnerships_ecosystem_readiness_framework.pdf.

Leveraging Impact Investing to Close the Education Funding Gap in Africa

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Summary

The Generation Empowerment Fund, led by Save the Children Global Ventures, is the first child-lens investment fund in Africa. It seeks to demonstrate that community-based schools can be a viable investment, thereby crowding in private-sector capital and helping to close Africa's education funding gap. The Fund's impact thesis sees supporting schools as a holistic way to improve not only children's education but also health and nutrition.

Keywords

Impact investing
Education funding
Africa
Community-based schools
Child-lens investing

In Africa, one of the most urgent development challenges is the provision of education and employment opportunities for a rapidly growing population.

Africa has the world's youngest population, with more than 60% of its population under the age of 25. The youth demographic is projected to grow even further, reaching 2.5 billion by 2050 (up from 1.4 billion today). And by 2035, there will be more young Africans entering the workforce each year than in the rest of the world combined, according to the [World Economic Forum](#).

These young people can be a driver of sustainable development and transformative change across Africa, or a source of discontent leading to conflict and poverty. The outcome will, in large part, depend on the quality of education they are able to access.

Closing the Education Funding Gap

Across Africa, [over 30 million primary and 90 million secondary school-aged children](#) are out of school. Even for those enrolled, learning outcomes remain poor due to overcrowded classrooms, a shortage of qualified teachers, and inadequate infrastructure. Fewer than [one-third of primary schools in at least 19 sub-Saharan African countries](#) have electricity, and less than half have access to clean water. Schools are also unprepared for climate change; in April and May 2024 alone, [more than 210 million children](#) worldwide lost school days to extreme heat, with African students especially at risk.

The region faces a critical teacher shortage: At least [15 million new teachers](#) are needed by 2030, while a high proportion of current teachers remain unqualified—over 30% at primary and 50% at secondary level, with the problem most acute in Nigeria and Ghana. Meanwhile, the digital divide is widening, as most African students lack access to computers and reliable internet, limiting their ability to benefit from digital learning tools.

This persistent under-resourcing fuels a massive and growing education funding gap. Even before recent reductions in overseas aid, [UNESCO estimated](#) Sub-Saharan Africa's annual education

finance shortfall at US\$70 billion, a figure now likely even higher.

It is improbable that African governments themselves will meet this shortfall, at least until they grow their tax base. While there is significant variation between countries, governments in Sub-Saharan Africa already spend, on average, around 15% of their budgets on education.

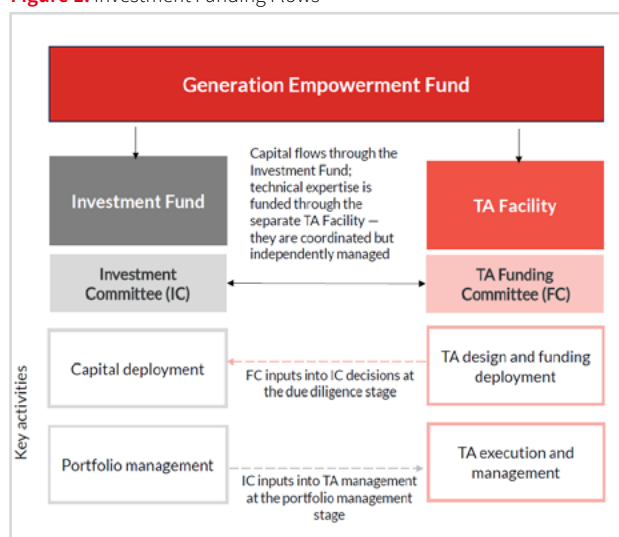
New sources of large-scale funding are therefore urgently needed.

Impact investing—where investors seek both social impact and financial returns—represents a promising avenue, yet only 6%–12% of global impact investment is directed to Africa and a small fraction of that to education. Most education investments remain small-scale, despite evidence that returns can be transformative: some estimates argue every dollar invested in pre-primary education could yield up to \$33 in long-term benefits.

This is why Save the Children Global Ventures (SCGV) has designed and launched the Generation Empowerment (GenEm) Fund. The Fund will pioneer child-lens investing in Sub-Saharan Africa with an investment strategy centred around community-based schools, given the multi-faceted impact they can drive for underserved children.

The Fund aims to raise at least US\$100 million from foundations, private investors and development finance institutions to support community-based schools and health facilities across six countries, deploying capital through African financial institutions and providing technical assistance to strengthen capacity, improve teacher quality and embed child-centered accountability.¹ This approach seeks to complement public education systems and catalyse broader, sustainable investment in Africa's next generation.

Figure 1. Investment Funding Flows



Source: Author

Funding will be allocated in line with SCGV's child-lens investing framework, ensuring all investments are centred on children's rights and wellbeing and ultimately positively impact underserved children and families.

The Fund will also establish a technical assistance facility (funded by grants) designed to enhance the quality of both the investments in (including by reducing risk) and outcomes for children. This facility will operate at three levels:

1. At the lender level, it will support financial institutions and intermediaries, such as banks, non-bank financial institutions (NBFIs), microfinance institutions (MFIs) and pay as you go (PAYG) providers, to strengthen their ability to finance social sectors. This includes designing climate-aligned loan products, improving underwriting skills and conducting technical due diligence. The child-lens investing approach will involve "ring-fencing" capital provided to financial intermediaries such that capital is deployed clearly and intentionally for children's impact. The Fund will apply a strong governance and monitoring framework. It will use financial covenants and impact reporting covenants in loan agreements for each investment to ensure the integrity of the child-lens investing approach.
2. At the school level, it will build the capacity of low-cost private schools and education-focused SMEs drawing on Save the Children's own significant expertise through teacher training, climate interventions, water and sanitation, nutrition and safeguarding options as well as support for business development.
3. Finally, at the child level, the facility will embed child-focused accountability into the Fund's delivery, using tools like Incentives for Learning (IfL) and lean data from children on safety, learning quality, and wellbeing.

The IfL program implements a first-of-its kind initiative that delivers outcomes-based grant payments to recipients of impact investments, such as community-based schools. Schools that demonstrate positive outcomes, such as improved learning performance, will have the cost of their loans subsidised. As such, for the GenEm Fund, impact measurement is not only an important basis for reporting but also fundamental to the underlying operations of the Fund. Leveraging nearly US\$2 million in grants, IfL is being piloted in Kenya, with plans to scale across the GenEm Fund. Coupled with the innovative impact measurement "voice of children" lean data approach, we also seek to empower children as active partners in impact evaluation.

Schools play a vital role beyond academics, supporting children's well-being through healthy habits, gender

equality, inclusion, protection and community engagement. The Fund's technical assistance facility will help ensure investments reflect and strengthen this broader impact.

Managing Risk to Encourage Greater Education Investment

Many investors perceive Africa as a high-risk destination. Concerns such as political instability, corruption, weak public institutions, security challenges, currency volatility, and difficulties with infrastructure and reliable data are often highlighted (The Economist, 2025; African Private Capital Association, 2025). These risks are amplified by negative headlines and a lack of familiarity with local dynamics, leading some international investors to avoid the continent altogether or to demand higher-risk premiums.

However, a growing number of experts and African business leaders argue that these risks are frequently exaggerated or misunderstood. Recent analyses, including data from Moody's Analytics [cited by the African Development Bank](#), show that the actual rate of investment loss in Africa is significantly lower than in regions like Latin America and Eastern Europe.

Nonetheless, the GenEm Fund has been structured to be attractive to risk-averse investors, especially development finance institutions (DFIs). While overseas development aid is falling rapidly, to date, DFIs have enjoyed significant growth. In 2023, 15 European DFIs funnelled €9.5 billion into private-sector projects in emerging economies—a 10% year-on-year increase. By 2024, those same 15 DFIs had lifted new commitments to [€12.35 billion](#)—up 29% in a single year—underscoring the speed at which concessional grant funding is being complemented by investment capital.

Although DFIs often express a willingness to take catalytic risks, they generally tend to be highly risk averse. This cautious approach is understandable. As long as their capital remains unimpaired, DFI funding stays on government balance sheets and does not affect annual budgets. This arrangement allows governments to maintain their geopolitical influence even as they reduce official development assistance while also sidestepping criticism from anti-aid populists as long as investments are repaid.

The GenEm Fund is also targeting foundations and donor advised funds (DAFs). In the US, DAFs held nearly US \$250 billion in assets by the end of 2023. They are accumulating assets at a rapid rate. DAFs are also growing rapidly in the UK, Germany, Australia and Canada (Mittendorf, 2024; National Philanthropic Trust, 2024). At the time of writing, few of the assets held in DAFs are invested for impact. If we can demonstrate ways to generate a strong impact without putting the corpus at risk, they could be a significant and growing source of funding over time.

To minimize credit risk, regulated and established financial institutions will be the primary recipients of the Fund's capital. The Fund will conduct rigorous due diligence, diversify investments across various countries and sectors and actively monitor the performance of its investment portfolio.

To mitigate currency risk, investments will be made in the base currency of the Fund (either US dollars or euros) or, where local-currency lending is necessary, supported with the use of hedging tools to mitigate foreign currency exposure.

The Fund will perform detailed country risk assessments and will diversify geographically to limit exposure to political instability.

Lastly, the Fund is expecting to secure a guarantee to attract an institutional investor.² The comprehensive risk management framework will ensure that the Fund will not only achieve impactful outcomes but also protect investors' capital.

Responding to Criticisms

There are both internal and external critiques of our approach.

The GenEm Fund will source investments that deliver capital to both private and public schools. However, critics of private investment in education in Africa argue that private and for-profit education providers often charge fees that are unaffordable for the poorest families, leading to exclusion and the deepening of existing inequalities.

There are also worries about variable quality. Some low-fee private schools operate with minimal oversight, employ unqualified teachers and have poor infrastructure, which can undermine educational standards and children's rights. These criticisms are particularly acute in contexts where regulatory frameworks are weak and where private providers may operate with little transparency or accountability.

Critics contend that the expansion of private provision diverts scarce resources and policy attention from public education systems, weakening governments' ability to fulfill their obligation to provide free, quality education for all. Save the Children's involvement could be perceived as legitimising the privatisation of education, potentially accelerating trends that undermine equity and public accountability.

However, these critics often overlook the vital role that low-cost private schools play in filling urgent gaps. For example, Affordable Private Education for the Poor (APBET) schools in Kenya frequently serve communities where public education is inaccessible or comes with hidden costs—such as “desk fees” and enrolment charges—that can make public schooling as costly as low-fee private alternatives.

In many cases, low-cost private schools offer greater accountability and improved quality, with fewer teacher absences and a stronger commitment from “edupreneurs” who are invested in their students’ success. Importantly, parents retain agency. If the quality of education declines, they can choose alternative schools and many private schools are flexible in supporting families who struggle to pay fees.

The GenEm Fund is committed to addressing these concerns through robust investment criteria. All schools and financial institutions receiving capital will be required to implement policies and processes that promote access for low-income families and uphold rigorous safeguarding standards. Compliance will be ensured through regular impact reporting, site visits and ongoing monitoring. We will also prioritise open communication and feedback from partners and local communities, allowing us to adapt and improve our approach as needed to maintain a balance between financial sustainability and positive educational outcomes.

We recognise that these measures may not resolve every concern. Even low-cost private schools may remain inaccessible to the very poorest families, and mechanisms like the GenEm Fund are only part of the broader solution needed to close Africa’s education funding gap. Our goal is to complement – not replace – public education systems – working collaboratively with governments and communities to ensure that every child has access to quality learning opportunities.

Conclusion

Despite these challenges, we believe the Generation Empowerment Fund can be a source of critical education funding for children in Sub-Saharan Africa. If successful, it is expected that Save the Children will seek to scale and replicate the model in other regions.

However, the scale of private, return-seeking capital required across the continent is well beyond Save the Children. To ensure that every young African person has access to the opportunities they deserve, billions more funding each year needs to flow to initiatives that expand Africa’s human capital.

This is why we hope that the Generation Empowerment Fund will be a catalyst for the financial sector to more deliberately consider children and young people in their investment strategies – an approach we call “child-lens investing.”

The challenges African young people face today are profound. But these challenges can be overcome if we give these youth the most powerful weapon to transform their lives and the continent: a quality education.

About Save the Children Global Ventures

Save the Children Global Ventures (SCGV) is Save the Children’s impact investing and innovative finance platform, established to mobilise high-impact capital to solve some of the most pressing problems facing children.

For more information, visit [Save the Children Global Ventures](#).

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Endnotes

1. The Generation Empowerment Fund provides wholesale debt to African banks. These banks then make smaller loans to schools across Africa. Even though these schools only charge students small fees, the fees are enough to allow the schools to pay back the banks for their loans plus reasonable interest.
2. Guarantees cover part or all of the principal and interest on loans and bonds protecting lenders and investors against borrower default.

Developing Blended Finance Mechanisms for Early Childhood Care and Education: Experiences from USAID CATALYZE

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Summary

This paper addresses the potential for blended finance mechanisms to increase investment in early childhood care and education (ECCE) initiatives in low- and middle-income countries. We use the core pillars of the Five-Point Framework for Education Finance to analyse two USAID CATALYZE sub-activities and discuss the strengths and challenges of developing blended finance activities for ECCE.

Keywords

ECCE
Blended finance
Social impact
Honduras
South Africa

Introduction

Is innovative financing the answer to the funding gap in early childhood care and education (ECCE)? Blended finance mechanisms are becoming increasingly popular in the development sector, with advocates arguing that cultivating new sources of financing for fields like ECCE is critical for achieving the Sustainable Development Goals and strengthening locally led funding sources. However, blended finance tools are not a one-size-fits-all solution. Identifying designs that are well suited to the context is critical to success. This paper uses the [Five-Point Framework for Education Finance](#) to analyze the strengths and weaknesses of [USAID CATALYZE](#) blended finance activities in Honduras and South Africa.

Background

Private Sector Involvement in ECCE

Despite the high economic and societal returns of ECCE programs, investment at the national and global levels remains low. The global median spending on pre-primary education from national education budgets is [0.4% of GDP](#), compared to the 10% benchmark that has been recommended by UNICEF and other global early childhood advocates. Similarly, foreign aid has also chronically underfunded ECCE compared to other levels of education, with an average of 1.2% of funding going to ECCE. Due in part to the lack of investment, ECCE systems tend to be weak in low- and middle-income countries (LMICs), with many lacking the policies, oversight, and even the physical infrastructure to provide services to all the young children who would benefit from them. Less than half of children living in LMICs have access to ECCE services and the quality of those services varies widely (Draper et al., 2024).

In contrast to the low supply, there is a [high demand for ECCE services](#). Parents want early education opportunities for their children to prepare them for primary school, and need childcare for their children while they work. To fill this gap, the private provision of ECCE services has expanded

around the globe. It is estimated that 41% of children who are enrolled in ECCE are attending private schools, a much higher rate of private provision than other levels of education (Baum, 2020). Non-state ECCE services are provided by a range of actors, such as individual entrepreneurs, home-based providers, NGOs, faith-based organizations, and private companies. While these organizations play an important role in providing ECCE services to children, especially those from marginalised communities, they tend to have drawbacks such as limited scale of services, variable and often unregulated quality standards, and limited sustainability.

Blended Finance for ECCE

Blended finance is becoming increasingly popular in the development sector since it has been identified that traditional sources of donor funding will not be sufficient to achieve global ambitions such as the Sustainable Development Goals. For USAID CATALYZE the definition of blended finance was, “the strategic use of public funds to increase private sector investment.” This definition is broader than some others, which specify that private investment should be related to return-seeking capital from investors, and represents USAID’s interest in investigating a wide range of approaches across diverse contexts and sectors.

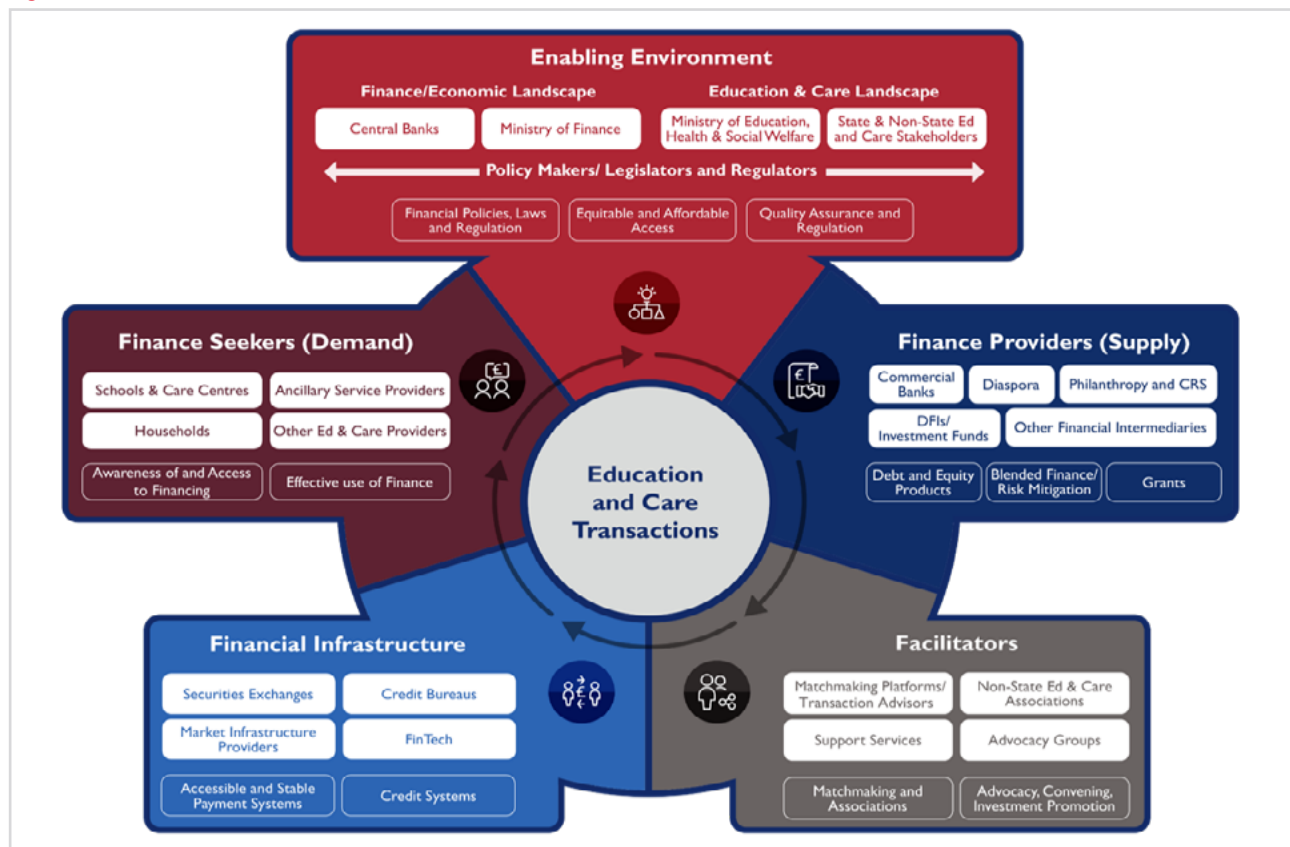
There is a broad spectrum of possibilities for how public and private financing can be combined to form blended finance

tools. Some blended finance activities use public funds to incentivize private investment in the form of donations or grants. These mechanisms operate similar to traditional development assistance because these are one-time investments that do not offer cost recovery for financiers. Other blended finance designs focus on mechanisms that de-risk high-impact transactions to attract participation from the private sector (e.g. seed funding, guarantees, or public-private matching). Blended finance solutions can also mobilize new capital through myriad mechanisms such as guarantees, technical assistance, or other incentives that may be provided by donors to incentivize private capital providers, such as by creating new affordable loan products for ECCE centers to expand.

USAID CATALYZE

USAID CATALYZE EduFinance (2019–2025) was an activity designed to develop private-sector partnerships to facilitate innovations in financing and service delivery that increase access to low-cost, high-quality education in LMICs. Through numerous sub-activities, CATALYZE tested different blended finance solutions across different education sectors, models of intervention, and country contexts. CATALYZE ECCE sub-activities were designed to expand equitable access to high-quality ECCE for 0–6-year-old children and to improve the livelihood outcomes for their female caregivers.

Figure 1. Five-Point Framework for Education Finance



Source: USAID (2024).

Five-Point Framework for Education Finance

The [Five-Point Framework for Education Finance](#) was developed within the USAID CATALYZE project and implemented by Palladium to assess challenges and opportunities related to mobilizing private-sector partnerships to support education in low- and middle-income countries. This framework provides a how-to guide for conducting market assessments of the non-state education and education finance landscape and identifying potential opportunities in a given market for mobilizing investment and improving educational outcomes. Within each of the five points, relevant questions and focus areas can be selected based on the geopolitical context, target population, level of education supported, and other contextual factors (Figure 1).

Case Studies

Honduras

The CATALYZE project began a sub-activity in Honduras focused on ECCE in early 2024. The activity was focused on serving highly vulnerable communities through two local partners: the [United Way](#) and the [International Rescue Committee](#). The Five-Point Framework highlights a number of challenges to developing blended finance activities for ECCE in Honduras:

- **Enabling environment:** There is limited provision of low-cost non-state ECCE and concerns about the rule of law. There was perceived low trust in institutions in Honduras and high levels of corruption across all divisions and levels of government. There is a law requiring large businesses in Honduras to provide childcare services for workers (e.g. maquilas or clothing factories), but it is not typically enforced.
- **Finance seekers:** ECCE services available to vulnerable children were predominantly publicly funded, where the municipality owned the building and paid salaries for teachers and caregivers. Fees charged to parents supported curriculum materials, toys, meals, etc. The affordable private centers that existed were predominantly run by philanthropic or religious groups. In rural areas, there was very limited provision of center-based ECCE, public or private. Scoping activities also identified that women were hesitant to send their children to center-based ECCE programs due to low trust in these services, cultural stigma against center-based childcare and perceived high cost. Women living in high-crime urban areas were especially wary about leaving their children at ECCE centers with caregivers they did not know. Women would often go to work with their children (e.g. selling food at a market) or would leave their children with family or neighbors when they needed to work as opposed to enrolling them in an ECCE center. Stigma against enrolling children in ECCE centers was less pronounced in rural

areas, where communities tended to be safer and more cohesive. However, in rural communities there was very limited access to ECCE services.

- **Finance providers:** CATALYZE scoping identified that the most prevalent form of private financing for ECCE services in Honduras is philanthropic donations or grants. Corporate social responsibility mechanisms were also identified by both the United Way and IRC as a potential pathway for this activity. While there were commercial banks offering loans for social development activities in the country, there were no existing loan products for ECCE services and scoping conversations identified that lenders tended to be more interested in youth employment activities than those focused on young children.
- **Financial infrastructure:** Due to the limited availability of non-state ECCE centers and the weak demand for these services, the CATALYZE team did not pursue scoping around financial infrastructure for this activity.

The conditions in Honduras were not conducive to seeking financing through commercial banks or microfinance institutions. As such, CATALYZE ECCE explored blended financing through non-debt-based mechanisms, specifically corporate social responsibility. The IRC engaged local businesses to provide entrepreneurship training for women seeking employment (e.g. resume sharing, interview preparation or internship opportunities). The United Way developed partnerships with private companies, where the companies provided volunteers to support the creation and packaging of kits that contain new toys and books for ECCE centers and community activities. These engagements raised funding and resources for marginalized children and families across Honduras. In addition, they raised awareness with the local private sector about the needs of ECCE centers in their area. These partnerships supported the United Way to reach over 1,500 families of young children across 11 municipalities with improved ECCE resources in under one year, far exceeding their targets.

Image 1. United Way Honduras



Source: United Way Honduras for USAID CATALYZE.

South Africa

CATALYZE also launched a [sub-activity in South Africa](#) focused on improving the quality of ECCE centers serving low- and middle-income families. In contrast to Honduras, the enabling environment in South Africa was much more conducive for developing a blended finance activity.

- **Enabling environment:** The [Department of Basic Education](#) (DBE) has strong policy frameworks for oversight and regulation of both public and private ECCE services in South Africa. There is also a clear accreditation process for private ECCE centers to become registered as part of the national system, making them eligible for financial subsidies and other assistance from the government.
- **Finance seekers:** ECCE provision in South Africa is heavily privatized, and these centers [serve children from all income levels](#). In addition, there are a number of ECCE networks in the country that provide technical assistance and other support to privately owned ECCE centers. CATALYZE scoping did not identify any common stigmas held by parents that would prevent them from enrolling their children in local ECCE services.
- **Financial providers:** At the time of the scoping, ECCE services in South Africa were supported by multiple types of financiers, including debt-based and non-debt-based financing.
- **Financial infrastructure:** There are multiple types of financiers operating across the country (e.g. commercial banks or philanthropies) and some financial infrastructure for loans to educational entities. Despite this infrastructure, most ECCE providers serving lower-income families struggle to access affordable financing to expand and improve their services, given that financial institutions consider them high risk due to the highly fragmented market and small, informal nature of many ECCE centers.
- **Facilitators:** Scoping for this activity did identify the need for more financial facilitators to make connections between financiers and ECCE centers, design loan products that were affordable and well suited to ECCE centers, and provide technical assistance to centers to help apply for and utilize financing.

In response to the need for more facilitators, the CATALYZE project prioritized developing strong local partnerships to support loan activities. CATALYZE partnered with [Kaizenvest](#), an asset manager specializing in social investing, to raise new sources of private capital and disburse it to financially excluded ECCE centers serving lower-income families.

Kaizenvest also pioneered an outcomes-based lending model known as “Rewards and Recognition,” which provided financial and non-financial incentives for measurable improvements in early childhood development (ECD) outcomes. In addition, CATALYZE partnered with groups like Grow ECD, a social enterprise that supports a network of ECCE centres. [Grow ECD](#) used investments from CATALYZE to fund their new business accelerator program which supports women-led, micro-ECCE centers to access financing and key training that improve their access to and quality of services. The existence of an ECCE network like Grow ECD was a very helpful facilitator in enabling lending to micro-businesses, which can be very difficult without the pipeline and support systems Grow has to facilitate financial transactions and capacity building for women running the ECD centers.

The activity in South Africa was successful in developing strong partnerships and generating new funds for ECCE in the country (see the work of Di Silvio & Pisani in this issue). At the time of the activity’s termination, US\$3.9M in private capital had been mobilized in South Africa, US \$1.8M of which was raised for Grow ECD centers specifically, with US \$3.5M in additional capital expected to be deployed in the coming year. Ninety-five schools and 7,400 learners had accessed financing prior to the activity’s termination, which will continue to reach more ECD owners post-project termination through Grow and other partners. In addition to funding, ECCE center leaders received training, technical support and resources to improve the quality of their education and care and qualify them for reduced interest loans. Given the success of the initial activities in South Africa, CATALYZE scoped the possibility of layering additional components, including loan products, to incentivize improvements to the environmental safety of ECCE centers like [removal of lead](#) from paint, cookware and toys.

Discussion

Experiences with the USAID CATALYZE activity demonstrate that blended finance mechanisms can be an effective strategy for increasing financing for ECCE, even for underserved communities. We find that private-sector engagement in ECCE programs is possible across diverse contexts but that the strategies that can be deployed depend on conditions within a given context. Conducting a detailed scoping exercise using the Five-Point Framework for Education Finance or a similar tool is critical to understanding the opportunities and challenges for a new activity. Specifically for ECCE, users must carefully narrow the focus of their scoping exercises to childcare, pre-primary education, or the relevant subsector related to their specific goals. A diversity of services are critical to children’s optimal development, but they often have different policy, regulatory, demand, and lending dynamics. In addition, our experience with CATALYZE demonstrated that providing technical assistance to ECCE

providers, in addition to financial support, is critical to maintaining a strong focus on quality as well as sustainability.

Finance alone doesn't fix inequality – but inclusive finance, combined with the right ecosystem of support, does. CATALYZE enabled us to extend opportunity to the informal education sector – where some of the most committed educators are found – helping them unlock both business success and educational excellence.

(Lyndsey Petro, Head of Partnerships, Grow ECD)

Contexts with strong enabling environments for blended finance – those with well-established non-state ECCE services, strong ECCE policies, demand from parents, and a reliable finance sector – can mobilize millions in new funding and jump start novel mechanisms for local, sustainable financial support for ECCE. In contexts with less favorable enabling environments, blended finance activities can leverage

different mechanisms like corporate volunteerism, pay-for-results agreements, and social impact bonds. Non-cost recovery options like these do not generate the magnitude of funding that is possible through debt-based financing, but they do increase and diversify funding for ECCE initiatives in ways that can expand reach, improve quality, and promote localization. Over time, relationships with new funders and private companies can be strengthened to create sustainable funding mechanisms for ECCE services.

Note

This article was written from the perspective of Palladium/USAID CATALYZE when Lauren Pisani and Joseph DiSilvio were both employed by Palladium, the main implementer of USAID CATALYZE. Lauren Pisani led the ECCE portfolio and Joseph DiSilvio led the Education Finance Africa portfolio.

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Part 4

Evidence and Reflections from Implementation

Critical Review of Education Impact Bonds as an Innovative Finance Instrument: Where and Why do they Emerge?

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Summary

Drawing on the IFE-2-Leave No One Behind: Education Impact Bonds Database, this article analyses the emergence of impact bonds in education. The primary aim of this exploratory research is to map countries where this instrument is considered an innovative financing mechanism, to discuss factors driving their utilisation, and to review literature regarding their effectiveness. The article concludes by addressing the implications of impact bonds on education and calling for future research addressing issues related to their costs and impact on governments' public spending on education.

Keywords

Education finance
Impact bonds
Public spending
Innovative financing

Introduction

Adequate and sustainable funding for education is needed to ensure inclusive and quality education, and “governments shall allocate at least 4%–6% of GDP and at least 15%–20% of total public expenditure to education” (United Nations, n.d.). While such benchmarks are needed to achieve SDG education targets, unfortunately, the desired progress was not as expected; hence, countries' economic level played a role in the extent to which education is financed by governments and how much households contribute to education spending (UNESCO, n.d.).

There are various factors (e.g. corruption, tax policies and income inequality) that may affect education spending, particularly in low- or middle-income countries (Brehm, 2018). The challenges education communities have faced led to calls for being disruptive and looking for more tools to finance education, and impact bonds (IBs) have emerged as an innovative finance instrument that can be utilised (UNESCO, 2025). IBs are known as a subset of outcome-based contracts, include both outcome payers and private actors and are used in the education sector (Elsby et al., 2022). IBs arguably introduce opportunities to raise additional funds but may also introduce further challenges regarding education financing, significantly in relation to the role and responsibility of governments. Therefore, there is a need to map the countries where this instrument is utilised. Drawing on NORRAG's Education Impact Bonds Database (hereafter “the database”), this article's aim is to carry out a descriptive analysis of education IB projects, understand contextual factors leading to their spread and raise further questions about their effectiveness.

What Are Impact Bonds?

Outcomes-based contracting (OBC) is defined as “a mechanism whereby service providers are contracted based on the achievement of outcomes” (Government Outcomes Lab, n.d.-a). IBs are known as a type of OBC in which private actors provide funding needed for interventions identified by outcome payers and are then repaid if service providers meet predetermined measurable outcomes (Government Outcomes Lab, n.d.-b). Various countries call IBs in which governments act as outcome payers differently; for example,

in the UK, they are called social impact bonds (SIBs), in Europe social impact partnerships, in the US pay-for-success (PFS) schemes and in Australia social benefit bonds (Elsby et al., 2022, p. 8). Low- and middle-income countries have another instrument called development IBs (DIBs), which are usually financed by external actors but may also include government involvement (Government Outcomes Lab, n.d.-c). According to Albertson et al. (2018), there are three possible explanations for the spread of outcomes-based commissioning: 1. They are adopted because the public sector is not seen as efficient enough, 2. because policymakers perceive them as helpful in overcoming complex social problems and 3. because they can be a useful tool for attracting more actors motivated by social purposes.

Analysis of NORRAG Education Impact Bonds Database

This section provides a descriptive analysis of education-related IBs, with a particular focus on countries in which these instruments are widely utilised. [The database](#) shows that the launch of SIBs dates back to 2012, with development impact bonds (DIBs) dating back to 2015. Over the past 13 years, the number of IB projects fluctuated; out of 140 IBs aligned with SDG4, 88.6% (124) of them were SIBs and 10% (14) were DIBs. The principal policy sectors in which IBs were used included but were not limited to education, employment and training, and homelessness. This article's analysis focused on projects in which education was listed as the principal sector.

The analysis shows that 66 IB projects fell under the education sector. Out of these projects, four were not launched, one was cancelled and six are in-design. Because the aim is to present diverse contexts in which education-related IBs initially emerged, projects that are not launched, cancelled or in-design were also included in the analysis, which analysis shows that Portugal is ranked number one (17 projects), followed by the UK (7), the US (5) and India (4). Following [World Bank's current classification by income](#), education-related IBs emerged in 29 countries, including high-income (15), upper-middle-income (3), lower-middle-income (9) and low-income countries (2). Regarding the education subsector, IBs are used for funding projects in secondary (20) and primary (16) levels, followed by pre-primary (13). Figures 1 and 2 present the contexts and education subsectors where IBs are considered.

Critical Review and Future Implications

IBs are widely utilised within the contexts of Portugal, the UK and the US. To some extent, this is not surprising, particularly for the UK and the US, which have institutional structures and government support available that made the spread of IBs possible (Gustafsson-Wright, 2020). For example, in 2010, the UK became the first country to introduce SIBs (Albertson et al., 2018). The UK government has taken a proactive stance towards

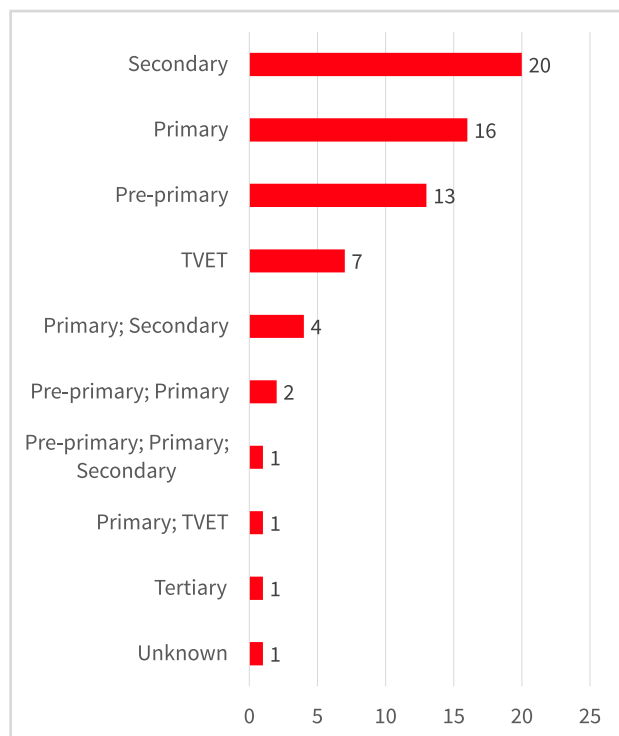
Figure 1. Number of Impact Bonds in Education per Country



Source: Data are from the IFE-2-Leave No One Behind: Education Impact Bonds Database (NORRAG, 2025).

the IB instrument, setting the groundwork for the development of the IB sector through commissioning government entities as well as building partnerships with the Blavatnik School of Government at the University of Oxford, which led to the formation of the Government Outcomes Lab (Gustafsson-Wright, 2020; also see UK Government, 2026). Albertson et al. (2018) argued that one possible explanation for the spread of outcomes-based commissioning in the UK is related to the way in which the government dealt with the 2008 economic crisis. They also argued that the 2010-15 Coalition Government's approach towards governance was instrumental in adopting outcome-based commissioning because "both parties [the Conservative Party and the Liberal Democrats] shared an enthusiasm for a 'mixed economy' of public service provision with a bigger role for the voluntary and private sectors" (p. 32).

Figure 2. Education Sub-Sectors



Source: Data are from the IFE-2-Leave No One Behind: Education Impact Bonds Database (NORRAG, 2025).

In the US, the actions taken by the government, including legislation-related ones, programmes like the Social Innovation Fund (SIF), and the support provided by the Government Performance Lab at the Harvard Kennedy School of Government, were important in the spread of IBs (Gustafsson-Wright, 2020). Albertson et al. (2018) stated that the spread of pay-for-success programmes in the US is mainly because of the aim to provide more opportunities for social innovation and to see if the potential risk of failure can be managed through the involvement of other actors. Furthermore, in his comparative analysis of the UK and the US, with France and Germany, Hajer (2020, p. 128) argued that the UK and the US are more inclined towards adopting and implementing SIBs than France and Germany because of their “liberal governance regimes” and greater openness to privatisation. Hajer also argued that SIBs are likelier to emerge in contexts where there is an increasing income inequality between different segments of the society, and such increasing inequality causes more social problems to be solved, and at the same time those having more income looking for possibilities to invest and SIBs could be among them.

Portugal’s ranking as the number one country (see figure 1) requires further scrutiny. Arguably, Portugal’s involvement with social finance dates back to the foundation of Portugal Social Innovation (PSI) in 2013 and the Portuguese Social Investment Taskforce in 2014 (Anselmo, 2021). There were specific factors that led to the foundation of PSI and

Portugal’s involvement with social innovation. For example, a European Investment Bank (EIB) document (2018, p. 9) stated that the European sovereign debt crisis affected a variety of European countries, like Ireland and Greece, and also led to the Portuguese government’s agreement on “a three-year Economic Adjustment Programme with the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund.” According to the EIB document, the government had to take certain measures, including budget cuts, and such restrictions resulted in more social problems to be addressed. Moreover, the document stated that during the 2014–2020 period, the government did not have many options other than using EU funds, partly due to their inability to raise funds from the debt market. All these factors led Portugal to prioritise social innovation and social entrepreneurship in their [2014–2020 Partnership Agreement](#).

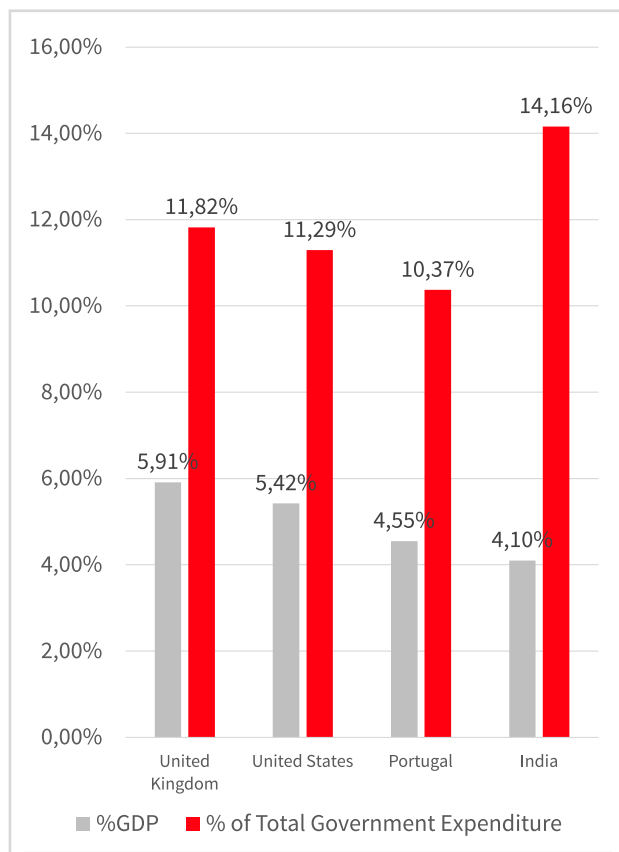
PSI presents itself as “a government initiative aimed at promoting social innovation and stimulating the social investment market in Portugal”; they were able to raise around EUR 150 million from the European Social Fund (ESF), and SIBs are used as financing instruments to provide financial support to projects related to public policy, including education (Portugal Social Innovation, n.d.-a). The findings reported here also align with other studies (e.g. Miguel, 2023) stating that among European countries, Portugal takes the lead in terms of number of SIBs. The reason behind the increasing number of SIBs in Portugal could also stem from some tax incentives introduced by the government (Miguel, 2023; Gustafson-Wright, 2020). In the Portuguese case, due to rules regarding the use of the ESF, investors could not earn financial returns from providing upfront capital; however, the tax benefits provided might be among the triggering factors behind the spread of IBs in Portugal (Gustafson-Wright, 2020). Regarding tax benefits, PSI (n.d.-b) stated: “This new tax incentive allows social investors to recognise 130% of the total amount invested in Social Impact Securities in each tax period as an expense, regardless of any future reimbursement.” PSI argued that such incentives would encourage the Portuguese private sector to fund innovative projects that offer unique solutions for social problems prioritised by the government. As Portugal has already signed [2021–27 agreement](#), future research is needed to explore how the government uses available social funds.

The literature and the findings presented show that IBs emerge as innovative instruments to finance social sectors, including education, in various contexts. Arguably, their use may continue in the near future; thus, there is a need to understand their functions in education and the potential challenges that may emerge. For example, Carnoy and Marachi (2020, p. 3) researched the factors driving investors’ involvement with IBs, raising critical points such as whether they are just “investing for impact or investing for profit” and

questioning how IBs can be helpful in overcoming existent issues stemming from structural factors rather than offering short-term solutions (see also Cohen & Zelnick, 2015). Moreover, they (2020, p. 4) asked about the extent to which IB projects are risky and argued that “SIBs may be yet another way for the private sector to finance relatively low-risk social projects for private gain.” Another critique is related to the cost involved with IBs’ development and implementation, and there have been calls for more and better comparable data to understand whether “the benefits outweigh the cost of impact bonds” (Gustafsson-Wright & Osborne, 2020).

As we aim to determine the emergence of IBs in financing education, there is also a need to understand the public spending of countries where IBs have emerged. Reviewing public spending on education helps us understand whether governments allocate enough of their budget to finance education and follow UN recommendations. Figure 1 shows that only 29 countries in the world have adopted IBs in education. Among the top countries where IBs in education emerged (i.e. Portugal, the UK, the US and India; see Figure 3), their most recent expenditure on education as a percentage of the total government expenditure remains below the 15% threshold. Furthermore, lower-middle-income and upper-middle-income countries such as Pakistan (1.95%; 9.76%), Ghana (2.91%; 13.18%), Jordan (3.23%; 9.79%) and El Salvador (3.32%; 15.89%) have governments that do not

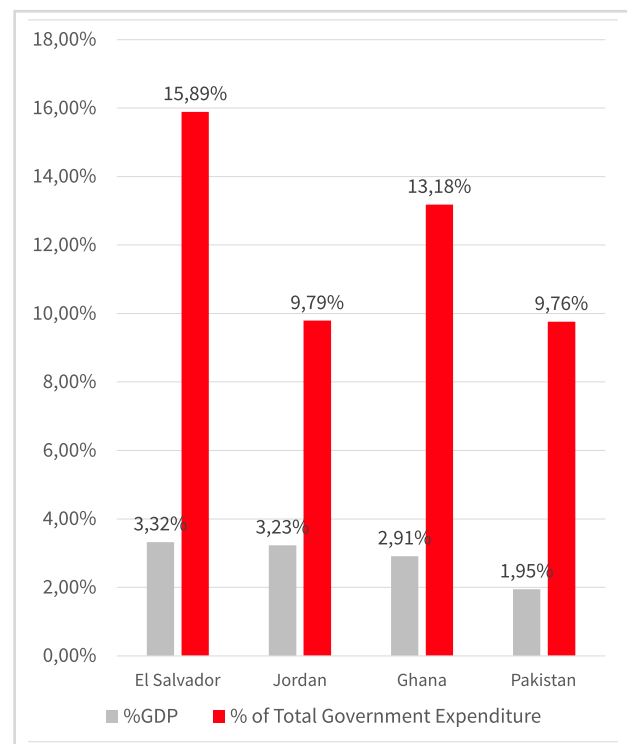
Figure 3. Government Expenditure in Education



Source: [UNESCO Institute for Statistics \(UIS\) database](#).

allocate at least 4% of their GDP on education. Only one IB project in education emerged in these contexts, and some of them were still being designed or have not launched. Figure 4 shows that there is public underfunding in education in these lower-middle-income and upper-middle-income countries. Despite this, IBs are considered an alternative for financing education-related projects and could possibly provide financial returns to investors. This raises further questions regarding the effective use of available public funding for education in the long term if governments are among outcome payers. Education-related IBs being used to supplement countries’ targeted public spending in education and share the risk of failure with private investors would indeed be very helpful in attracting more funding to education. However, if governments were to fund low-risk IB projects where public investment in education has historically been below the threshold set by the global education community, then further exploration regarding policymakers’ preferences will be required.

Figure 4. Government Expenditure in Education



Source: [UNESCO Institute for Statistics \(UIS\) database](#)

In sum, this exploratory article focuses on IBs in education with reference to the contexts in which these instruments emerge and aims to understand the rationale behind their use. Its findings show that IBs in education are considered an alternative financing instrument in 29 countries with different levels of income and amounts of public spending in education. Therefore, further research needs to scrutinise the development of IBs in education, specifically considering issues related to their costs and effectiveness. Carnoy and Marachi (2020) argued that if the suggested intervention does

involve a low risk of failure, then there is no need for public authorities funding private investors, as the impact project can be run by public authorities themselves. Moreover, Dreux Frotté (2025) stated that “while many IF [innovative financing] mechanisms are designed to enhance accountability, it remains unclear whether this accountability is directed more towards citizens or funders.” As stakeholders in education,

we should closely follow how IBs continue to be used in education, the extent to which they are useful in addressing the root causes of structural problems, and how they impact government spending on education.

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Striving for Quality Early Childhood Education with Results-Based Financing

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Summary

Quality early childhood education is essential for establishing a strong foundation for lifelong learning. However, this subsector of education is often marked by considerable underfunding. This article examines how results-based financing has been implemented in ECE, highlighting how the targeted results used to release outcome payments may direct attention towards and foster accountability for quality.

Keywords

Early childhood education
Results-based financing
Targeted results
Structural quality
Process quality

Introduction

Over the past few decades, there has been a growing recognition of the importance of quality early childhood education (ECE). One particular driving force behind this unprecedented attention is ECE's inclusion in international policy agendas such as Sustainable Development Goal (SDG) 4.2, which states, "[By 2030, Ensure That All Girls And Boys Have Access To Quality Early Childhood Development, Care And Pre-Primary Education So That They Are Ready For Primary Education](#)." Despite the global focus on ECE, it has yet to attract the necessary resources to expand access to quality services for all young children (Neuman & Powers, 2021). The potential of results-based financing (RBF) to make development spending more effective and efficient has been championed in recent years, and this article explores how it has been used in ECE. More specifically, this article analyses the extent to which improving quality is embedded within ECE RBF projects. To do so, it presents the findings of a master's thesis that analysed 87 targeted results used to disburse outcome payments across 30 projects¹ (Thorne, 2022).

Early Childhood Education

ECE can take many forms and names depending on the context. Generally, it refers to the wide range of educational services provided to children from the age of three to their age once they enter primary school (often around the age of six). It is widely acknowledged that quality ECE builds a strong foundation for lifelong learning, improves lifelong health and increases employment rates (Lu et al., 2020; Neuman & Hatipoglu, 2015). With these benefits in mind, of all education subsectors, ECE offers the [highest potential return on investment; however, it still receives the fewest resources](#). Although the precise financing gap is unknown, a consensus has been reached regarding the fact that current funding is insufficient and remains a key barrier to universal access to quality ECE.

Results-Based Financing

RBF, an [umbrella term for programmes or interventions that tie at least a portion of their financing to the achievement](#)

of verified results, is promoted for having the alluring possibility of making funding more effective and efficient. The term encompasses a wide range of financing instruments, which tend to be characterised based on [who is being incentivised](#). These instruments include performance-based aid (incentivising national governments), performance-based transfers (incentivising local governments), performance-based contracts (incentivising service providers) and impact bonds (incentivising private investors).

Despite their differences in incentivised actors, RBF instruments tend to have two commonalities. First, the payments are dependent on the results achieved. Second, the contract detailing the targeted results and their associated payments is predefined (Eldridge & TeKolste, 2016). By shifting the focus away from inputs and activities and onto these results, proponents believe that RBF offers implementing actors the flexibility to innovate and adapt their services as needed during the project timeframe to reach the intended targeted results (Loraque, 2018).

However, deciding what metrics to use as targeted results in ECE can be challenging. As can securing the funding for outcomes realised through ECE interventions due to the “wrong pocket problem”, which generally refers to when the entity bearing the upfront costs of an intervention or service does not benefit from the value of its outcomes (Roman, 2015). This is because the outcomes of quality ECE programming are realised over time and across multiple sectors, including social welfare services, health, education and criminal justice systems. This time delay between ECE interventions and ultimate outcomes later in life can make it difficult to define targeted results that are feasible to measure within a project timeframe and also demonstrate positive impact. One solution is to choose [inputs that are known to strongly correlate with development outcomes](#), such as elements of structural and process quality.

What is “Quality” in ECE?

There is no universal definition of what constitutes quality in ECE, and it is inherently dependent on context. UNICEF (2019, p. 68) states that quality is how the “learning environment supports children in gaining the knowledge and skills that will enable them to develop intellectually, physically, socially and emotionally.” Learning environments can be influenced by many factors, including staff qualifications, available resources, curriculum content, cultural appropriateness and teacher–child interactions, among others (Britto et al., 2011).

Quality ECE can also be thought of in terms of [structural and process variables](#). Structural quality refers to environmental characteristics, whereas process quality refers to a child’s interactions and experiences. The differentiation between these two variables is presented in Table 1.

Table 1. Structural and Process Quality Variables

	Category of Targeted Result	Type of Targeted Result
Structural Quality	Setting Characteristics	ECE regulations
		Infrastructure
		Curriculum
		Equipment and materials
		Educational and play spaces
		Health, safety and security
		Staff-child ratio
		Group size
	Teacher Characteristics	Teacher training and qualifications
		Continuous professional development
		Teacher salaries
Process Quality	Interactions	Child-teacher interactions
		Child-environment interactions
		Child-child peer interaction
		Parent and community involvement

Note: Data sourced from Thorne (2022).

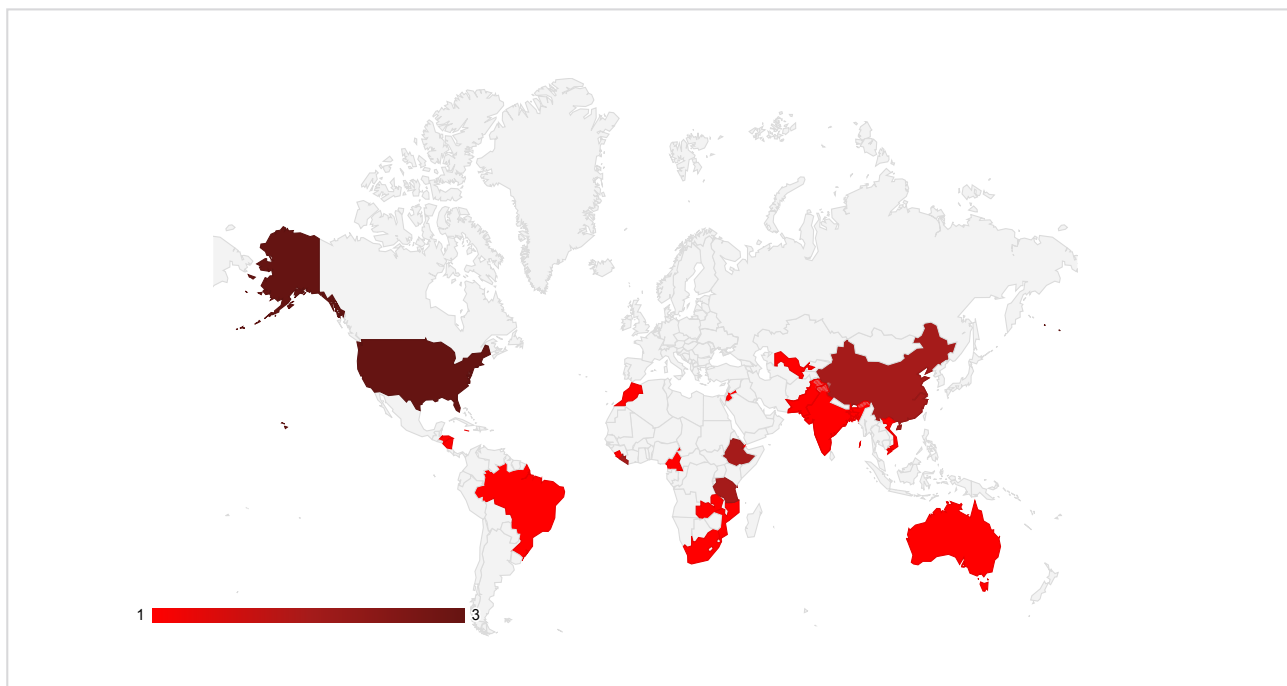
The following section will explore the practical application of RBF in ECE and the extent to which structural and process quality variables are used as targeted results.

Global Landscape of RBF in ECE

As of June 2022, 30 projects have been identified as using RBF in ECE (Thorne, 2022). This inventory of projects was built by exploring nine sources of information² to identify projects where some portion of funding was contingent upon results in ECE. Just over half of these (53%) operated solely in the ECE subsector, while the others spanned ECE and primary education (20%) or operated across ECE, primary and secondary education (27%).

The identified projects had a wide geographic distribution, located across 23 countries, as illustrated in Figure 1. The majority of projects were located in Sub-Saharan Africa (37%), followed by Latin America & Caribbean (13%) and East Asia & Pacific (13%). The region with the least number of projects was Europe & Central Asia, which hosted only the Uzbekistan Early Childhood Education Social Impact Bond. Most countries hosted just one project, except for the United

Figure 1. Location of ECE RBF Projects



Note: Data sourced from Thorne (2022).

States (three projects), China (two projects), Ethiopia (two projects), Liberia (two projects), and Tanzania (two projects).

The earliest identified project, the Early Childhood Development Project in Jamaica, was launched in 2008, followed by the Recife Education and Public Management Project in Brazil in 2012. The majority (80%) of the projects identified were launched after 2015, indicating a slow uptake as well as the possible increasing popularity of utilising RBF. The identified projects most commonly have a five-year duration but can range from two to 10 years.

The 30 identified projects can be categorised into four types of RBF instruments: performance-based aid (70%), impact bonds (16%), performance-based contracts (7%) and outcomes funds (7%). The most commonly identified type was performance-based aid, in which governments were the incentivised actors.

Tying Outcome Payments to Quality

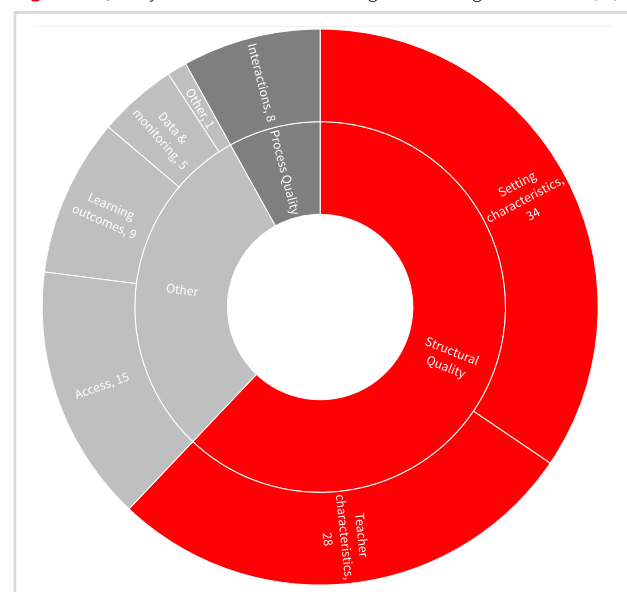
At the time of analysis, 25 of the 30 projects had defined their targeted results³. These projects tied the disbursement of outcome payments to 87 targeted results, with the highest number used in one project being 14 and the lowest being just one. Using the framework presented in Table 1, each targeted result was labelled with a type and category of targeted result and classified as “structural”, “process”, or “other”.

The targeted results of these projects demonstrated a clear focus on quality. Twenty of the 25 projects included targeted results that referred to either structural or process quality

variables or to both. Figure 2 illustrates the breakdown of the targeted results into these classifications and their related categories.

Figure 2 shows that the majority of the targeted results used in ECE RBF projects focused on quality. Overall, 70% of targeted results fell under one of the two quality classifications, of which 62% were related to structural quality and 8% to process quality. The remaining 30% of targeted results fell under the “other” category, which encompasses targeted results related to access, learning outcomes and data and monitoring.

Figure 2. Quality Classifications and Categories of Targeted Results (%)



Note: Data sourced from Thorne (2022).

Under structural quality, the targeted results can be separated into two categories: setting characteristics and teacher characteristics. The breakdown of the types of targeted results under each category is shown in Figure 3. Setting characteristics were more frequently used, within which outcome payments were tied to ECE regulations (25%), infrastructure (13%) and curriculum (8%) results. ECE regulations included the approval, implementation and improvement of quality standards. For example, in the Third Punjab Education Sector Project in Pakistan, some outcome payments were tied to the approval of an ECE policy framework detailing quality standards for ECE classrooms. Infrastructure-related targeted results involved the building of classrooms, as seen in the Brazilian Recife Education and Public Management Project, while curriculum-related targeted results comprised the revision of pre-primary curriculum in the Quality Learning for All Program for Fourth Primary Education Development Program in Bangladesh and the piloting of play-based learning in the Chinese project Jiangxi Shangrao Early Childhood Education Demonstration Program. Less commonly used were setting characteristics to incentivise equipment and materials (3%) and health, safety and security (2%). Examples of these include developing textbooks and ensuring safe facilities.

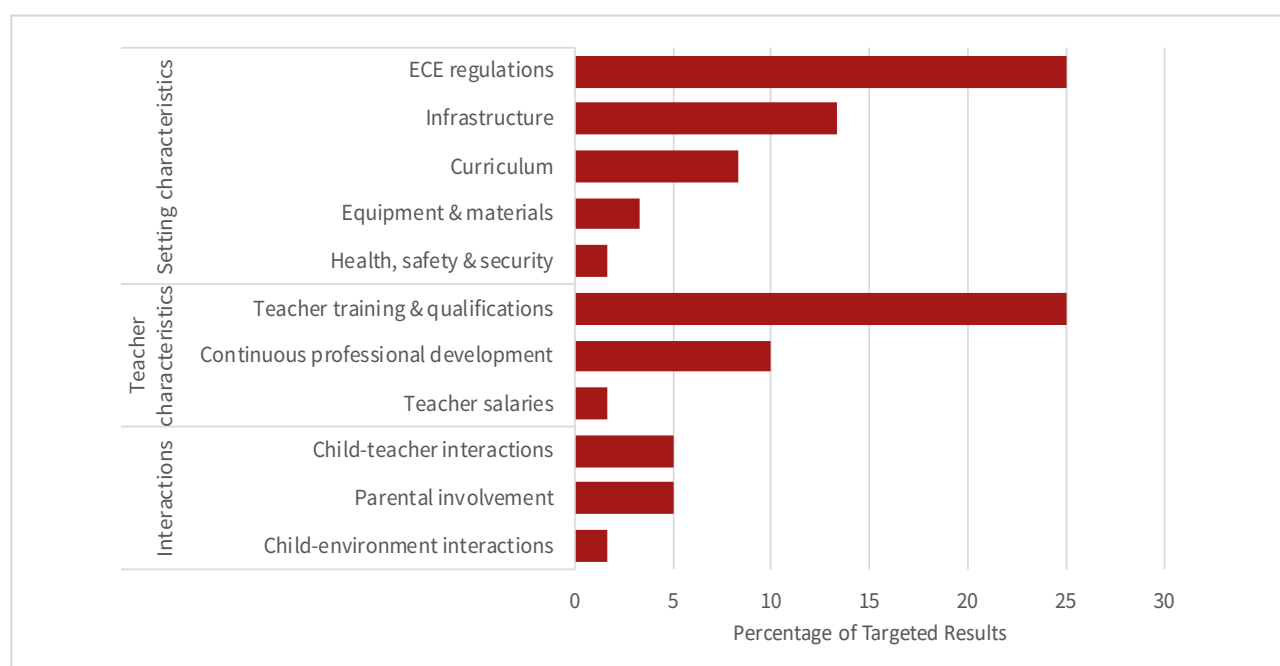
Targeted results associated with teacher characteristics tended to relate to teacher training and qualifications (25%). For example, the Liberia Learning Foundations Project disbursed payments for an increased proportion of qualified ECE teachers in targeted disadvantaged counties. Other teacher characteristics tied to outcome payments

were associated with continuous professional development (CPD, 10%) and teacher salaries (2%). The Vietnam School Readiness Promotion Project exemplifies the types of targeted results utilised for CPD, including the establishment of staff development plans and the completion of modules in a new professional development programme. The Jiangxi Shangrao Early Childhood Education Demonstration Program in China included a targeted result tied to the percentage of government-paid staff in public kindergartens, which was labelled a teacher salary-related targeted result.

Figure 3 also shows a breakdown of targeted results linked to process quality (i.e. interactions). There were far fewer targeted results under this category than those related to structural quality. However, when used, they focused on child-teacher interactions, parental involvement and child-environment interactions.

Quality was also central to projects that used “other” targeted results. For example, of the projects that used targeted results linking payments to access to services, 91% also included at least one quality-related targeted result. Only five projects did not use any structural or process quality variables as targeted results, of which four were impact bonds. These impact bonds were also the only projects to use learning outcomes to disburse outcome payments. This suggests a potential differentiation in the types of targeted results used across the four types of RBF instruments. Further exploration could unpack whether patterns between incentivised actors and the types of targeted results used exist.

Figure 3. Category and Type of Targeted Results



Note: Data sourced from Thorne (2022).

Conclusion

The wrong-pocket problem and time delay between ECE interventions and outcomes accruing over a child's lifetime can make it challenging to define the targeted results to be met within a project's timeframe. To address this challenge, there is a tendency for ECE RBF projects to tie outcome payments to elements of structural and process quality, as quality interventions are believed to be strongly correlated with positive developmental outcomes.

This analysis revealed that 70% of the targeted results in ECE RBF projects fall under one of the two quality classifications, and even when other targeted results were used, they are often in conjunction with structural and process quality variables. With the nature of RBF to shift focus from inputs to results, it can be argued that RBF is a potential tool for directing attention to and accountability for quality ECE programming.

Endnotes

1. This article draws upon data collected between January and June 2022.
2. World Bank Projects & Operations; Global Partnership for Education Partner Countries; Brookings Impact Bond Dataset; Foreign, Commonwealth and Development Office Development Tracker; Asian Development Bank Projects & Tenders; Google Keyword searches; OECD Website; Expert Interviews; Other Author's background knowledge.
3. For the full list of projects, please see Thorne (2022).

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Who Gets In and Who's Left Out? Determinants of Selection in a Social Lending Scheme for Higher Education in Kenya

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Summary

This article explores selection dynamics in the Lending for Education in Africa Partnership (LEAP), a social lending initiative in Kenya. Through a multivariate analysis of 2,290 applicants, we identify key predictors of selection, revealing that academic performance and progression outweigh equity considerations. The findings raise questions about the balance between financial risk management and inclusive access in innovative education finance models.

Keywords

Higher education
Social lending
Equity
Revolving fund
Kenya

Introduction

Across Sub-Saharan Africa, the demand for tertiary education has risen substantially, driven by improved secondary school completion rates. In Kenya, for instance, gross tertiary enrolment increased from just 3.97% in 2009 to 20.48% in 2022 (World Bank, 2022a). However, despite these gains, access remains highly unequal. In 2023, tertiary enrolment in Kenya stood at around 27% overall, yet participation from the poorest income quintile was practically zero compared with approximately 9.8% among the wealthiest quintile (World Bank, 2023).

To address this gap, the Higher Education Loans Board (HELB) has long served as Kenya's primary government loan provider by offering multi-year loans to undergraduate students at a subsidised interest rate of 4% per annum (HELB, n.d.). While the HELB aims to promote equity by considering factors like household income, parental education, and gender (Otieno, 2004; Oketch, 2022), it continues to face challenges, including high default rates (27%) and insufficient reach, with over 82,000 eligible students unable to access funding in 2021 (HELB, n.d.). In response, the Lending for Education in Africa Partnership

(LEAP) has emerged as a private social lending initiative designed to complement rather than replace the HELB.

The LEAP Model and Selection Philosophy

Unlike the HELB, which only provides tuition support, LEAP's funding model goes beyond to include living stipends and, where needed, laptops, thereby enabling students to fully participate in tertiary education (LEAP, n.d.). A key innovation lies in LEAP's wraparound services, which include financial literacy training, career readiness workshops, and access to a peer network of current and former beneficiaries, who are referred to as "Fellows." This nomenclature reflects the programme's intentional design to foster a sense of collective identity and responsibility. Fellows are encouraged to view repayment not just as a personal obligation but as a contribution to a revolving fund that enables future cohorts of under-resourced students to access higher education.

Another key innovative financing feature of LEAP is the income-contingent loan, where repayment amounts are determined by future predicted income, calculated as 20% of the anticipated gross salary according to salary benchmarks at the time of loan application. Additionally, the terms are flexible, allowing for a repayment period of up to six years with a grace period of four months after completion of studies. Beneficiaries receive unsecured loans at an interest rate of 10% per annum. Considering that Kenya's bank lending rate has ranged from 11.75% to 18.3% over the last ten years, this is a below-market interest rate (Trading Economics, 2025).

To qualify for these loans, applicants must be Kenyan citizens aged 18+, enrolled in LEAP-partnered institutions and pursuing employability-linked courses in health, STEM, or business fields. Selection is based on academic merit, financial need, and social equity. While academic performance is a key criterion for selection, selection thresholds are intentionally lowered for economically vulnerable youths, such as orphans, students from low-income or single-parent households, first-generation learners, student parents, individuals with disabilities, and applicants from marginalised areas (LEAP, n.d.).

Research Objective and Analytical Approach

While several studies have examined the factors influencing selection into government financial aid in Kenya (e.g., HELB Review, 2004; Otieno, 2004; Wanti, 2022; Oketch, 2022), far less attention has been paid to private sector-led social lending initiatives. As the landscape of student financial aid continues to evolve with innovative approaches, it is crucial to have a nuanced understanding of the dynamics at play. Understanding the factors associated with loan approval in innovative financing schemes is also essential for evaluating how equitable the process is and for identifying areas for improvement.

This study addresses this gap by analysing a five-year retrospective dataset comprising 2,290 anonymised LEAP applications from four cohorts between 2019 and 2022. Multivariate logistic regression was used to assess the predictors of selection. The key independent variables included high school grades, academic year, previous financial activity and credit behaviour, and demographic characteristics. Both unadjusted and adjusted odds ratios (OR) were reported to differentiate between simple associations and independent effects after controlling for confounding variables. To measure poverty, we constructed a proxy using the World Bank's international poverty line of \$1.90 per day (World Bank, 2022b).

Research Findings

This section presents a subset of the most relevant findings from the analysis, focusing on key predictors of selection into the LEAP programme. Of the 2,290 applicants analysed, 1,027 (44.85%) were selected into the LEAP programme. Selection was significantly associated with higher academic performance, with 88% of selected applicants having scored an A or B grade in high school. Applicants with lower high school grades, specifically those who received Grade C or D, were 71% less likely to be selected than those with Grade A (adjusted OR = 0.29, $p < .001$). Academic progression also played a critical role: students in their second year of study were 358% more likely to be selected compared to applicants who had not yet started their academic programmes (adjusted OR = 4.58, $p < .001$). These findings indicate a strong preference for candidates who had already demonstrated academic momentum.

Other variables that showed significant influence included prior loan default and academic year of application. Applicants who had previously defaulted on any loan had a 24% lower likelihood of being selected (adjusted OR = 0.76, $p = .050$), suggesting that LEAP placed weight on perceived financial responsibility. Contrary to expectations, apart from having children, traditional indicators of socioeconomic disadvantage, such as living below the international poverty line or identifying as a person with a disability, did not emerge as significant predictors of selection after adjustment. Nor was gender statistically significant, although descriptive data showed that male applicants were selected at marginally higher rates. These patterns challenge the assumption that social lending programmes systematically prioritise the most vulnerable and suggest that selection may be shaped more by risk-mitigation strategies than by equity objectives alone.

Table 1. Predictors of selection into LEAP, a tertiary education lending scheme in Kenya

Characteristic	Unadjusted (Bivariate) Estimates			Adjusted (Multivariate) Estimates		
	OR1	95% CI1	p-value	OR1	95% CI1	p-value
Age	0.95	(0.92, 0.97)	<0.001	0.97	(0.93, 1.01)	0.10
Gender: Female	0.89	(0.72, 1.12)	0.3	1.08	(0.83, 1.39)	0.6
Marital Status: Single	1.67	(1.06, 2.68)	0.029	1.60	(0.83, 3.12)	0.2
Have Children	0.88	(0.62, 1.23)	0.4	2.12	(1.27, 3.58)	0.004
Person with a Disability	1.05	(0.73, 1.50)	0.8	1.21	(0.82, 1.80)	0.3
Below Poverty Line	0.98	(0.69, 1.39)	>0.9	0.78	(0.53, 1.14)	0.2
Have a Mobile Money Account	1.22	(0.83, 1.79)	0.3	1.50	(0.98, 2.29)	0.059
Employed in the last 3 Years	1.15	(0.90, 1.47)	0.3	1.22	(0.91, 1.65)	0.2
Have a Bank Account	1.64	(1.27, 2.11)	<0.001	1.22	(0.91, 1.62)	0.2
Institution						
TVET	-	-	-	-	-	-
University	1.94	(1.56, 2.41)	<0.001	0.69	(0.45, 1.06)	0.092
High School Grade						
A	-	-	-	-	-	-
B	0.49	(0.39, 0.61)	<0.001	0.52	(0.39, 0.68)	<0.001
C/D	0.26	(0.18, 0.35)	<0.001	0.29	(0.19, 0.44)	<0.001
First Bachelor's Degree						
No	-	-	-	-	-	-
Yes	1.31	(0.97, 1.75)	0.076	0.71	(0.47, 1.07)	0.10
Academic Year						
Not Started	-	-	-	-	-	-
Year 1	1.94	(1.39, 2.73)	<0.001	3.21	(2.13, 4.91)	<0.001
Year 2	2.48	(1.76, 3.52)	<0.001	4.58	(2.93, 7.24)	<0.001
Year 3	1.96	(1.34, 2.88)	<0.001	4.32	(2.58, 7.33)	<0.001
Year 4	1.38	(0.80, 2.39)	0.2	2.69	(1.37, 5.34)	0.004
Year 5/6	1.83	(0.78, 4.37)	0.2	3.72	(1.43, 9.90)	0.007
Failed Courses	0.46	(0.37, 0.57)	<0.001	0.50	(0.37, 0.69)	<0.001
Approved for Bursaries	0.79	(0.52, 1.20)	0.3	0.76	(0.48, 1.21)	0.3
Approved for HELB	1.50	(1.17, 1.92)	0.001	1.27	(0.96, 1.67)	0.092
Ever-Defaulted Loan	0.93	(0.73, 1.19)	0.6	0.76	(0.58, 1.00)	0.050
Ever Applied for LEAP	1.32	(0.84, 2.10)	0.2	0.72	(0.43, 1.22)	0.2
Annualised LEAP Loan Amount Requested	1.00	(1.00, 1.00)	0.2	1.00	(1.00, 1.00)	0.8
Cohort						
Cohort 1	-	-	-	-	-	-
Cohort 2	0.23	(0.01, 1.22)	0.2	0.14	(0.01, 0.76)	0.063
Cohort 3	0.15	(0.01, 0.80)	0.071	0.11	(0.01, 0.59)	0.037
Cohort 4	0.10	(0.01, 0.51)	0.026	0.07	(0.00, 0.35)	0.010

¹OR = odds ratio, CI = confidence interval; bold estimate indicates statistical significance at p-value <= 5%

Source: Authors.

Equity Goals Versus Financial Realities

The findings suggest that LEAP's selection process prioritises academic performance and progression over conventional markers of disadvantage. While selection is meant to consider financial need and social equity, its operational model appears more strongly aligned with risk reduction and sustainability goals of the revolving fund. According to LEAP, academic performance in particular functions as a key proxy for future employability and repayment capacity. Applicants with higher grades were significantly more likely to be selected, reflecting the programme's strategy to prioritise candidates perceived as having stronger potential for job placement and loan repayment. However, this reliance on academic achievement may unintentionally disadvantage students from under-resourced schools or marginalised backgrounds, who often underperform due to systemic inequalities. Nationally, fewer than 20% of high school candidates attained grades of C+ or higher (KNEC, 2019), yet the majority of LEAP beneficiaries scored either an A or B, highlighting the programme's selective emphasis on top academic performers and reinforcing concerns about equitable access.

Another consistent and significant predictor of selection was academic year, with students in their second or third year of study significantly more likely to be selected than those who had not yet commenced their academic programmes. This trend raises an important question: Is the LEAP programme primarily facilitating access to tertiary education, or functioning as a course-completion mechanism for students already enrolled? Our interpretation, based on programme documentation and internal interviews, is that LEAP made a strategic choice to prioritise later-year students as a deliberate risk-mitigation strategy. By selecting students who had already progressed in their studies, the programme had access to more reliable indicators of academic performance, such as GPA, failed courses and deferral history, that could be used to assess repayment risk and future employability. This approach allowed LEAP to de-risk its revolving loan fund, reducing the likelihood of selecting students who might default post-graduation or struggle with job placement.

While this strategy may limit the programme's role in enabling initial access to tertiary education, it simultaneously advances another dimension of equity: reducing the risk of dropout due to financial hardship. In Kenya, tertiary dropout rates are a persistent challenge, particularly for low-income students affected by delayed fee payments and limited financial support (Bomer et al., 2021). Financial barriers force students to skip meals, defer semesters, or drop out entirely (The Kenya Times, 2024). By prioritising students already progressing in their studies, LEAP helps reduce dropout risk and sustain educational pathways, thereby advancing equity in tertiary education.

The findings related to equity dimensions were mixed. While applicants with children had a higher likelihood of selection, other indicators of social disadvantage, including gender, disability, and poverty line status, were not statistically significant after adjustment. This may be due to the interdependence of equity variables with academic and financial indicators or to limitations in the operationalisation of these variables within the dataset. Notably, LEAP employs an equity scoring algorithm that integrates multiple socioeconomic indicators into a composite index to inform selection decisions. In this study, we relied on the World Bank's international poverty line as a simplified, standardised proxy for socioeconomic disadvantage (World Bank, 2022b). While this approach enables comparability with global benchmarks, it may not fully reflect the nuance of LEAP's internal equity assessment framework.

Implications for Practitioners and Policymakers

Findings from this study present important considerations for policymakers seeking to promote equitable and sustainable tertiary education financing. While LEAP's selection model does demonstrate some responsiveness to indicators of financial need, its overwhelming reliance on academic performance and progression suggests a cautious approach aimed at preserving loan repayment viability. This raises critical policy questions around the trade-off between safeguarding fund sustainability and broadening access to students from historically marginalised or academically disadvantaged backgrounds. If left unaddressed, the current emphasis on academic merit may perpetuate existing structural inequalities, excluding those whose performance is hindered by systemic barriers rather than by individual ability.

To enhance the inclusiveness of social lending schemes like LEAP, policymakers could encourage the adoption of more holistic and equity-sensitive selection criteria. This might involve complementing academic performance with contextual indicators, such as school-level disadvantages and regional educational disparities. Additionally, selection frameworks could explicitly factor in life-course disruptions that disproportionately affect underrepresented groups, such as caregiving responsibilities, health conditions or displacement. Developing policy guidelines that require or incentivise such practices across non-state financing initiatives could help level the playing field and ensure that high-potential candidates are not excluded due to their circumstances.

Lastly, LEAP's prioritisation of second- and third-year students suggests a broader policy consideration: What role should private social lenders play within the larger education financing architecture? While public actors remain the primary vehicle for enabling entry-level access, private schemes like LEAP complement this by providing top-up support for both tuition and non-tuition costs, such

as food, transport, and laptops – critical needs often unmet in traditional financing packages. Rather than calling for a wholesale shift in public policy, a more feasible and strategic approach may be to recognise and institutionalise the emerging synergies between state and non-state actors. Instruments such as risk sharing, matching grants, default guarantees, or subsidised interest rates could help expand these partnerships, enabling social lending schemes to reach higher-risk students while still fulfilling both developmental and fiscal objectives.

Collectively, these findings highlight the need for policymakers to reflect on the role of private social lending schemes within the broader higher education financing ecosystem. While programmes like LEAP can support financially constrained students with strong academic potential, they are less suited to serve early-stage applicants or those facing deeper structural disadvantages. Such groups often fall outside the reach of both public loans and private equity-focused schemes. This underscores the need for a layered approach combining public loans, private social finance and targeted grants to ensure no group is left behind.

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Funding What Matters: Can Outcomes-based Funding Drive Improvements in Education in Rural India?

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Summary

Our paper will look at some of the conditions under which outcomes-based funding can work in education, what works and what we have learnt during our 10-year journey that has resulted in the enrolment of 1.6 million girls into government schools, improved learning for 900,000 children and the successful capacity building of 17 hyper-local NGOs in the state of Bihar to deliver outcomes-based contracts.

Keywords

Girls' education
Enrolment and learning
Development impact bond
Local leadership

The questions we needed to ask ourselves as we looked for both quality and scale for India's invisible girls.

Results-based financing (RBF) and, more specifically, the idea of deploying an impact bond within the education sector, was very new and largely untested back in 2014 when we were asking ourselves the question: "Can we use a payment-by-results approach for girls' education?" At the time, the world's first social impact bond had been underway since 2010 in Peterborough, UK, and the Centre for Global Development wrote a report that interrogated the idea of using this nascent model in an international development context (CGD & Social Finance, 2013). And, we at Educate Girls were coming out of an unsuccessful bid to become part of the UK government's Girls' Education Challenge Fund after India was removed as a recipient country.¹ At that point, we were a traditional grant-funded NGO operating through grant-based funding in rural India, but we were drawn to the idea that tying funding to outcomes might yield better results for our communities as we expanded. So, to answer the question about RBF in education, we partnered with a group of donors and intermediaries to launch the first-ever Development Impact Bond (DIB) as a proof of concept.²

Fast forward to 2018, and the DIB's results demonstrated decisively that, yes, we could use RBF in education to drive both access and learning. Targets were agreed upon in the initial design phase of the contract, with the goal of enrolling 79% of all eligible girls and achieving 6,664 learning gains for the children (Instiglio, 2015). Our results were excellent, and we far exceeded our targets, enrolling 92% of girls aged 7 to 14 into government schools, achieving 116% of our target. We also improved learning outcomes (foundational literacy and numeracy [FLN]) for a cohort of girls and boys in these schools, achieving 160% of the set target. All this was evidenced by an external evaluation and randomised controlled trial (RCT).³ The concept was proven! Yet, given its lack of precedent, the contract was complex to structure. We received upfront capital as an investment from UBS Optimus Foundation, and the outcomes were paid for at the end of the contract by the Children's Investment Fund

Foundation. Results-based financing consultancy Instiglio designed the DIB and provided performance management support. IDinsight, the independent evaluator, assessed the programme's impact. We all learnt a lot through the successful partnership. This structure ensured that capital was provided upfront, enabling operations to begin without delay, and the outcomes were independently assessed before payments were triggered.

Nevertheless, the DIB's success raised further questions: Can we achieve this without requiring pre-financing and investment capital, and can we do it at scale? Could we simplify the structure? And we were thinking of a dramatically accelerated scale!

Fast forward again, and Educate Girls has just successfully delivered on an outcomes-based funding contract by [the Audacious Project](#)⁴ to support the enrolment of 1.56 million girls into India's government schools to improve learning outcomes for over 900,000 children in remote rural communities (McManus et al., 2025).⁵ This time, a five-year commitment of flexible funding enabled both access and learning outcomes to be achieved, albeit on a large scale, rather than through a DIB contract. Many multiyear grants of this magnitude tie funding to a prescriptive plan of activities, and expenditures must be accounted for accordingly with strict budget adherence. The funding Educate Girls received from the Audacious Project was tied to the achievement of outcomes, and the organisation had full flexibility on how to allocate and spend the funding. Reporting was against outcomes and not activities. Where this differed from the DIB was that this funding mechanism did not rely on third-party investors; instead, the contract with the funders clearly articulated outcome milestones and gave us full flexibility in how the programme was structured and delivered; in other words, it was unrestricted. But funds were received, some upfront and others in tranches, tied to the delivery of target measurable outcomes, throughout the grant's lifecycle. We were therefore able to operate without the need for upfront capital whilst adhering to the basic premise of finance driving "outcomes" rather than funding "inputs."

This structure preserved the benefits of RBF—accountability, flexibility, and data-driven implementation—while reducing transaction complexity and expanding operational latitude. The contract also enabled us to scale through partnerships and allowed us to adapt during the unpredictable conditions of the COVID-19 pandemic. And again, the results were impressive. Educate Girls enrolled 1.56 million girls back into school, which was 101% of the target. It also exceeded its target for children receiving the learning curriculum by 104%. But most importantly, the learning outcomes as measured by an RCT demonstrated an increase in quality of education as compared to the RCT in the original DIB, demonstrating that we improved rather than diluted quality as we went to scale.⁶

Box 1. Urmila's Story.

Take the story of Urmila (name changed), a 13-year-old girl from Fatehpur district. Having dropped out after Grade 5 to work at a brick kiln and support her family, Urmila had been disconnected from formal schooling for two years when she was identified during a door-to-door survey by Sangeeta, an Educate Girls Field Coordinator. While Urmila strongly desired to return to school, her parents remained hesitant. The nearest upper primary school was outside the village, and they were uncomfortable with their daughter commuting alone.

Sangeeta introduced the possibility of enrolling Urmila in a government-run residential school for girls (Kasturba Gandhi Balika Vidyalaya [KGBV]), which could mitigate their concerns about safety and distance. She also enlisted Manish, a Team Balika community volunteer, to accompany her in conducting regular counselling visits to the family. Their efforts, which included patiently building trust, understanding parental concerns, and repeatedly reinforcing the potential of education, eventually persuaded Urmila's family.

Our conclusion, based on two outcomes-based contracts, is that RBF can play a crucial role in driving successful outcomes for education, focusing funding on outcomes that matter rather than on activities, and enabling locally led solutions to previously intractable problems. Particularly in contexts where flexibility and adaptability are needed and where the communities we work with face immense challenges brought on by the climate crisis, pandemics, health shocks and poverty. And, at Educate Girls, this has all been possible through ongoing partnerships with state education ministries, ensuring that education remains free for children. Demand has increased; supply has improved. Previously excluded girls are able to access their right to education.

What distinguishes Urmila's story (Box 1) within the framework of an outcomes-based contract is not only that Urmila was reached but that her re-enrolment, continued retention, and eventual progress in learning were the very metrics against which payments were made. Unlike traditional funding models, where disbursements may be linked to the number of teachers trained or textbooks distributed (inputs that may or may not translate into real, measurable impact), an outcomes contract triggers payment not for an activity but for results: Urmila's enrolment, her retention in school over a year, and her demonstrated learning gains. This fundamentally links financial flows with what truly matters.

We have watched on with interest as more experimentation in RBF has taken place in the global community, with the likes of the UNICEF-hosted Education Outcomes Fund

championing the approach in Ghana and Sierra Leone (Education Outcomes Fund, n.d.). At the end of the day, the learning crisis will require more and better funding; therefore, we must continue innovating and exploring the best ways to deliver quality education with efficiency and cost-effective approaches. The focus on narrowly defined indicators and inputs can unintentionally sideline broader outcomes, such as community ownership and changes in behaviour and mindset. Funding is only going to shrink, and we have limited time to achieve the Sustainable Development Goals.

With this in mind, Educate Girls has felt a responsibility to scale our impact but not grow the size of our organisation, so we have been examining whether or not we can support a group of new, much smaller community-based organisations (CBOs) to adopt this approach, improve their performance management capabilities and deliver outcomes-based contracts in remote rural India. Part of the achievement of our successful enrolment of 1.56 million girls is attributed to a new partnership approach, Project Maitri, in which Educate Girls has acted as technical advisors to 17 hyper-local organisations in the state of Bihar (Social Finance International, 2024).

Educate Girls drew on its experience of being a service provider in an outcomes-based contract and designed Project Maitri with this experience in mind. Due diligence was conducted by an independent consultancy, with inputs from Educate Girls' experience of what was needed to deliver outcomes, in terms of governance and performance management. However, the core focus when selecting partners was on their community knowledge and local engagement. Educate Girls then became advisors and mentors to each partner, providing them with a digital performance management system and intensive training in data collection and analysis. The technical advisory team also mentored the CBO leadership with advice on hiring, target setting, training, programme management, and evaluation. An external evaluation team was also brought in to verify results. The project first started in September 2022 and is ongoing, now in its third cohort of partners. The initial target was surpassed by 41%, with 39,428 girls enrolled in school. Again, like the Audacious Project, the CBO partners received enough upfront capital to start delivering their intervention, but a tranche system released ongoing funding only after achieving set targets.

These organisations are working in some of the most neglected districts in the country, areas of the state where donors have rarely worked, let alone funded through an outcomes contract. Our insights from Maitri demonstrate that an outcomes-based approach to scaling impact through community-based organisations has much broader potential not just for us but for other larger nonprofits and funders,

and for the community-based organisations themselves, for whom the approach creates both opportunities for flexible, locally informed delivery and real accountability for the change they are creating. As one partner, AIDENT, explained: "This balance between clear targets and flexible implementation was crucial for effectively addressing the unique challenges of the project and achieving the desired outcomes... Earlier, projects were more process driven. The outcome was dependent on the thoroughness of the process, but there was no strict requirement to achieve specific results. The focus was more on the activities and less on the final outcomes." (Social Finance International, 2024, p. 30).

In this decade-long journey, we have learnt that putting girls and parents first in all decision-making leads to funding and programme implementation that is locally led and leaves a legacy of agency and empowerment. There is a risk that contracts can become too prescriptive and reductive; however, if there is alignment from the beginning with community needs, funding, and a focus on what matters, it can lead to more girls being in school and dramatic improvements in learning outcomes.

We have also recognised the value of truly anchoring the results in concrete educational outcomes. In our contracts, the metrics were designed not abstractly around financial structures but around the number of out-of-school girls identified and number of out-of-school girls enrolled. Our starting point was the mission and the education problem. The funding structure followed, aligning our outcomes with national education goals.

Of course, this approach is not without its risks and challenges. Some critics may argue that RBF models tend to overstate innovation or its scope. Others might contend that the flexibility of the contract should not be mistaken for innovation. Yet, in our experience, the problem-solving approach for locally led solutions can be innovative. RBF enabled community-based organisations to leverage local knowledge and expertise in designing and delivering culturally relevant services while establishing a strong foundation for financial and impact accountability. Many partner CBOs developed new approaches to identifying, enrolling, and retaining out-of-school girls. For instance, "We started displaying community data... The community itself started supporting kids and ensuring that they go to school." (Social Finance International, 2024, p. 30). This ability for the partner to adapt and innovate was intentionally built into the contract. In a region where few established NGOs operate, this type of bottom-up innovation is both significant in creating momentum and scalable.

As we look ahead, we are refining our understanding of what constitutes optimal technical support and what is needed to build a larger ecosystem of practitioners. There is a clear opportunity to institutionalise this model in a way that both scales impact and decentralises ownership. Educate Girls continues to evolve, and our experience with outcomes-based contracts suggests that this architecture, although complex, can fundamentally transform the ecosystem of educational delivery and funding in India, accelerating improvements to both demand- and supply-side issues.

One thing is clear: A future of educational equity will require us to build models where funding is both accountable and empowering, rooted in evidence yet also built on trust.

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Endnotes

1. The Girls' Education Challenge fund was and still is the world's largest funding programme dedicated to girls' education. Launched in 2012, it was the first FCDO-funded (formerly DFID) programme for education to experiment with a payment-by-results component as part of its contracting with service-providers/NGOs. <https://girlseducationchallenge.org/>
2. To read more about the DIB, see <https://www.educategirls.ngo/dib/> and <https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/educate-girls/>.
3. You can read the RCT results in this report published by the external evaluator on the contract. <https://www.idinsight.org/project/educate-girls-improving-learning-outcomes-for-millions-of-marginalized-children-in-india/>
4. The Audacious Project is a funding initiative that encourages the world's greatest changemakers to 'dream bigger.' They support organisations to shape their ideas into viable multi-year plans and with the backing of a group of visionary philanthropists who collaboratively fund those plans with multi-year flexible funding. The grants have become known as 'big bets'. Educate Girls' contract was outcomes focussed but with upfront capital and no need for a working capital loan.
5. You can read the RCT results in this report published by the external evaluator: IDInsight, McManus, J., Sagar, N., Biswas, S., Kaul, A., & Kumar. (2025, March). *Evaluation of Educate Girls' scale up in India*. <https://www.idinsight.org/publication/educate-girls-the-audacious-project-evaluation-report/> (accessed July 16, 2025).
6. In the DIB RCT children in treatment schools achieved 39% more learning outcomes than children in control schools and in the Audacious RCT they achieved 110% more learning outcomes than children in the control schools. See McManus et al. (2025), p. 20.

From Theory to Action: Evidence on Impact Bonds Improving India's Educational Outcomes

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Summary

This article draws on British Asian Trust's (BAT) experience of leading three of India's five impact bonds (IBs) – the Quality Education India Impact Bond, Skill Impact Bond and LiftEd – to examine their application, potential and challenges in the field of education alongside offering learnings on how design innovations can help overcome perceived limitations.

Keywords

Outcomes-based financing
Development impact bonds
Public-private partnerships
Education
India

From Access to Outcomes: Addressing India's Education-to-Employment Crisis

India has made noteworthy strides in improving access to school education, yet the quality of learning outcomes remains concerning, pointing to a persistent learning crisis. Only [23.4% of Grade 3 students](#) and 44.8% of Grade 5 students can read Grade 2-level text and in mathematics. Just 33.7% of Grade 3 students can solve basic subtraction problems, while only 30.7% of Grade 5 students can handle simple arithmetic. Low learning levels are pervasive in higher education as well and evidence shows that children who do not learn foundational skills early struggle to catch up (Carter et al., 2020). These learning gaps translate into shortfalls in educational attainment, greater rates of unemployment and eventually slower economic growth – potentially costing India [\\$4–12 trillion in GDP](#) over the next two decades, highlighting its economic imperative.

In response to these challenges, the Government of India launched the NIPUN Bharat Mission, a national initiative with an annual budget exceeding [\\$200 million](#) to improve foundational learning by 2027. Additionally, the Skill India Mission that recently celebrated [10 years of its implementation](#) is creating a skilled and educated workforce by training over 400 million individuals across various sectors. These national initiatives have served as a rallying call for action for the private sector and civil society, as reflected in the notable increase in [Corporate Social Responsibility \(CSR\) spending](#) in these sectors, with education receiving the highest contributions to date, amounting to ~\$1.22 billion.

However, the scale and complexity of India's education-to-employment crisis demands innovative action, particularly amid a precarious funding environment that calls for judicious use of existing resources and value for money. It is in this context that approaches such as outcomes-based financing (OBF) have gained salience, enhancing the efficiency, accountability, and impact of education and vocational education (VE) investments.

Understanding of Impact Bonds

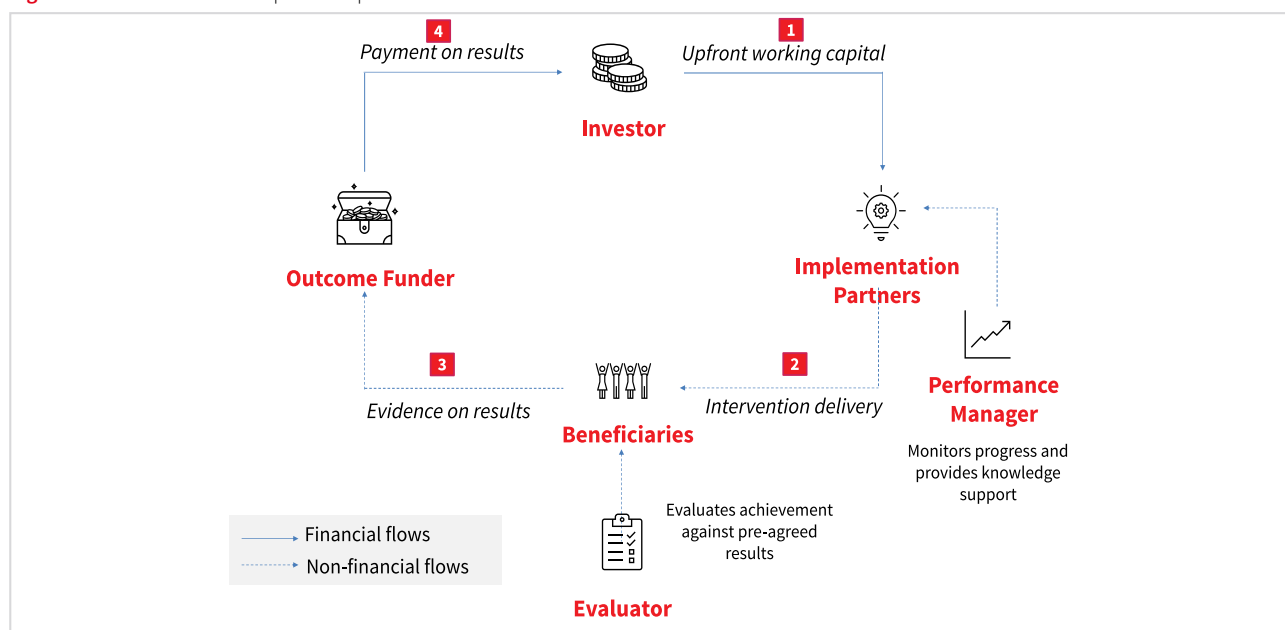
OBF is a **funding approach** where payments are made only on the achievement of pre-defined, independently verified outcomes, as opposed to on inputs or activities. There are several types of OBF instruments, including social success notes, pay-by-results contracts, impact guarantees and the focus of this paper: impact bonds (IBs).

An IB is an outcomes-based contract that uses funding from investors to cover the upfront capital required for an implementor to set up and deliver a service to the population

in need. Upon evidence of achieving pre-agreed outcomes, the outcome funder repays the investor the initial capital, along with a **moderate financial return**.

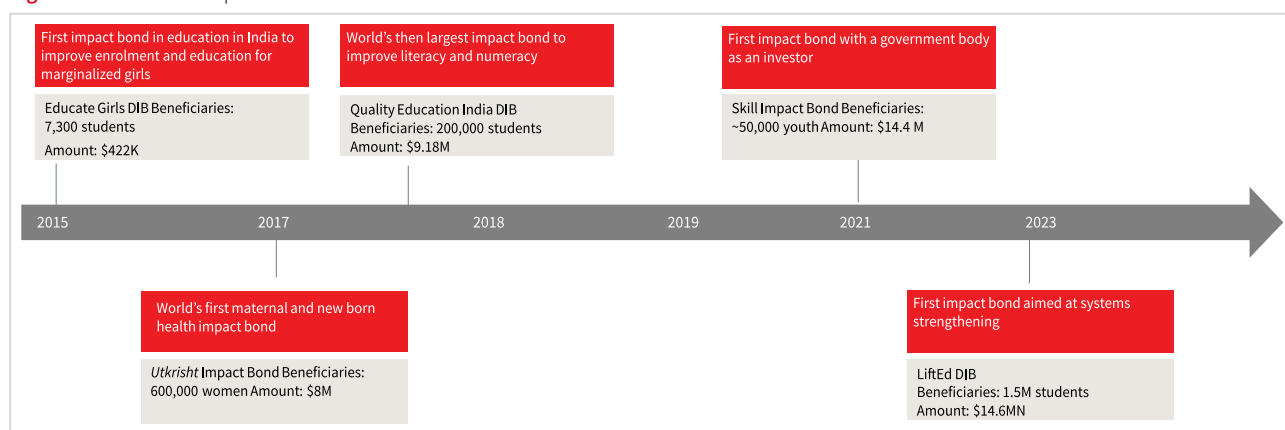
Within IBs, a key distinction between development impact bonds (DIBs) and social impact bonds (SIBs) lies in the identity of the outcome funder: typically, a philanthropic donor or multilateral agency for DIBs, and the government for SIBs.

Figure 1. Structure of a Development Impact Bond



Source: Authors.

Figure 2. Evolution of Impact Bonds in India



Source: Authors based on Government Outcomes Lab [GO Lab] (n.d.), Ministry of Skill Development & Entrepreneurship (2025), Convergence & Palladium (2018) and ANI (2025).

As shown in Figure 2, India has implemented five IBs over the past decade across education, vocational training and health, mobilizing approximately US\$45 million.

Evidence on the Effectiveness of Impact Bonds in India

Drawing on a mix of programmatic documents available to the authors, their reflections and public information, this paper examines the effectiveness of three IBs in India as financing and delivery mechanisms across three key aspects – outcomes for end users, impact on implementation partners, and impact on funding systems.

Outcomes for End Users

Levels of Outcomes Achieved

Independent verification of outcomes for two of the three IBs shows that these IBs have achieved or are on track to achieve their pre-agreed outcome targets.

Quality Education India Development Impact Bond (QEI DIB): Students in intervention schools outperformed those in non-intervention schools by [2.5x at the end of the bond period](#).

Skill Impact Bond: An independent verification up to cohort 6 out of a total of 8 cohorts showed that [76% of enrolled candidates joined jobs and 62% were retained in jobs](#) – well above sector averages, especially for women (Press Information Bureau, Government of India).

Halfway results assessed independently under LiftEd DIB show that the systems strengthening interventions have led to 8.7 months of additional growth in oral reading fluency and over 2 months of additional learning in both literacy and numeracy among children at a cost of ~\$4 per child.

While comparative evidence is still limited, anecdotal evidence suggests that IBs outperform non-IB funding models. For example, QEI DIB partners shared that the outcomes achieved were, on average, 50% higher than similar interventions funded by non-OBF grants (BAT & Dalberg Advisors, 2025). Similarly, secondary data suggest that Skill Impact Bond's outcomes are six times higher than India's largest national VE initiative (BAT and Dalberg Advisors, 2025). The factors likely contributing to this include the incentivisation of outcomes, operational flexibility and rigorous performance management, although further research is needed to unpack the drivers of these differentials (Hameed, Oberoi, & Airoidi, 2023; Gustafsson-Wright, Massey, & Osborne, 2020; Dalberg Advisors, 2022).

Cost-Effectiveness

Cost-effectiveness can be seen from two perspectives – price per outcome achieved and the ratio of programmatic to non-programmatic costs (e.g. design, legal, evaluation or performance management).

While data on cost per outcome in IBs compared to other financing structures is lean, the cost analysis in the Skill Impact Bond has shown that the “input” cost of delivering an intervention under the IB is marginally higher than the government's cost norms, mainly because it provides for resources post training that are critical for outcomes achievement. The cost is comparable to non-government initiatives for VE in the private sector. Because Skill Impact Bond's retention rate is many times higher, it is more cost effective when one considers cost per candidate who was retained in their job for three months (and not just enrolled).

On the ratio between programmatic and non-programmatic costs, the first IB in India had high design and evaluation costs, stemming from smaller size and lack of previous learnings. But these reduced over time as systems matured. For example, the aforementioned IBs maintained a programmatic to non-programmatic cost ratio of ~80:20 by standardising contracts, optimising legal costs, and using fit-for-purpose evaluations (British Asian Trust, 2020, 2022, 2024).

Impact on Implementation Partners

IBs often claim positive impacts on implementation partners (IPs), mainly on their use of data, monitoring and evaluation (M&E) processes and innovations in delivery (Gustafsson-Wright, Osborne, & Massey, 2020). All three aforementioned IBs have shown qualitative evidence of both.

Improvements in M&E and Data Usage

Given the centrality of good-quality data, measurement and verification in any IB, these elements are recognised as key advantages for IPs globally (Hameed et al., 2023; Gustafsson-Wright & Osborne, 2020).

In the Skill Impact Bond, many IPs strengthened their M&E systems due to the IB, especially their ability to internally verify the outcomes (Chauhan & Parekh, 2025). One partner has institutionalised an organisation-wide internal misreporting prevention team focused on ensuring quality control and verifying data reported by ground teams. Another partner is tracking why trainees drop out, using this data to reduce dropouts in future cohorts (British Asian Trust, 2024).

In the LiftEd DIB, one partner progressed from having limited data and visibility into on-ground challenges to effectively collecting and leveraging timely data insights to deliver targeted nudges to teachers, leading to a 30% increase in the adoption of formative assessment strategies in classrooms (Dalberg Advisors, 2024).

Process Innovations in Delivery

Implementation partners and interventions in IBs are selected based on evidence of outcomes and track record.

The provision of upfront working capital required for intervention delivery by the investor to such IPs provides certainty, predictability and stability for IPs, allowing them the flexibility to contextualize and experiment with their delivery methods within their [evidence-backed intervention](#) (Gustafsson-Wright et al., 2017). This is complemented by performance management and data-backed decision-making support by investors, which help mitigate performance risks.

The QEI DIB saw a collaborative delivery of an EdTech intervention where a company that had developed an evidence-backed personalized adaptive learning app [partnered with a grassroots non-profit partner](#) to drive better engagement and adoption. Though collaboration between social organizations is common, jointly owning accountability for targets and outcomes, sharing and monitoring usage data in real time together and creating local strategies in a structured way was facilitated because of the IB structure (Hameed et al., 2023).

In the Skill Impact Bond, the flexibility offered by the IB led to outcomes-boosting micro-innovations such as adopting a demand-led model for placement with job openings secured before batch start, using group placements for women migrating from similar geographies to build a peer support system in their destination state, building support teams to guide candidates and families through their first few weeks in a job, etc. (Skill Impact Bond Programme Management Unit, 2023).

Impact on Government and Funding Ecosystem

Governments and the private sector (such as impact investors, CSR, and philanthropic foundations) spend a significant amount of funds on education and VE. This section examines if these two sources of capital/ funding have started adopting OBF as a financing approach based on the aforementioned pilots to improve the effectiveness of their spends.

Adoption of OBF by Government

Early IBs operated on the premise that demonstrating what works would lead to the government's direct uptake of the OBF approach. However, this assumption did not fully materialize due to a lack of awareness, a lack of institutional capacity to scale these, a need for a policy change in certain cases to enable OBF-based procurement and budgeting, and other reasons.

Hence, when designing subsequent IBs, there was a conscious attempt to create pathways for the deeper mainstreaming of OBF.

For example, in the Skill Impact Bond, the National Skill Development Corporation (NSDC), a quasi-government body that functions as the apex body overseeing implementation and quality of the VE ecosystem, played a dual role in the IB as co-investor and performance manager. This allowed

it to draw on NSDC's technical expertise and institutional legitimacy within the government while enabling NSDC to champion, scale and embed OBF in other national-level schemes and programs from within the government system. Early signs of mainstreaming are being reported with the [Minister of Skill Development and Entrepreneurship](#) publicly acknowledging the value of OBF and [announcing a campaign to launch a \\$60mn OBF fund for skilling](#).

Adoption of OBF by the Private Funding Ecosystem

The impact on the private funding ecosystem has been mixed. In the IB model, upfront risk capital is ideally provided by investors who, in return, earn moderate financial returns (historical benchmarks in India are 8-10% Internal Rate of Return) for taking on this risk. In the case of the QEI DIB, and to some extent the Skill Impact Bond, philanthropic capital filled this role, though commercially oriented investors also participated. On the outcome funding side for IBs, contributions have been exclusively philanthropic, with no direct government involvement. However, the IBs successfully attracted a diverse set of philanthropic sources, including domestic CSR funds from some of India's largest corporate houses, despite structuring challenges and regulatory considerations on permissible recipients for CSR funding and the uncertainty introduced when paying on outcomes.

Lessons and Reflections

Building on the evidence presented and based on the authors' experience in anchoring and implementing these IBs, a few key lessons emerge:

Embed Pathways for Government Engagement Early and Intentionally

OBF, as an approach, brings accountability, efficiency and effectiveness in development [financing for education and VE](#). Given that the government remains the largest provider of these in India, adopting the principles of OBF can enable the government to spend better by achieving concrete outcomes. Pathways for this need to be intentionally built into program design from the outset, as expecting organic government adoption or replication may not work. Globally, governments have often served as outcome funders in IBs. In India, however, this role remains nascent, though the government has expressed a strong intent in recent years. The gap between intent and action is due to two main reasons, a) public spending processes focus on inputs, and to shift to outcomes-based procurement requires both a mindset shift and the development of capabilities and systems to support multiyear budgets, quality assessment of services, etc. b) limited availability of credible, verifiable administrative data necessitates third-party verification, which contribute to perceived cost and complexity of adopting [OBF models within government](#) (Government Outcomes Lab & British Asian Trust, 2022).

It is therefore important for stakeholders to give governments a more immersive experience of IBs to better understand how procurement, cost analysis, measurement and quality assessment would work and complement this with technical assistance to address any capacity gaps.

Design for Imperfect Realities

IBs typically require certain preconditions, such as strong existing evidence, reliable data systems and well-established benchmarks for outcomes and pricing. However, many of these elements are either nascent, missing or weak in the Indian context. All three IBs mentioned above have had to address this challenge by adopting flexible and adaptive approaches to design. In the QEI DIB, for instance, the absence of a widely accepted benchmark for learning outcomes would have made it impossible to set a target on outcomes or design the DIB. To address this, IPs treated their last year's performance on learning outcomes as the baseline for their next year, with a target to outperform their own levels. Similarly, the Skill Impact Bond employed a sliding scale approach wherein payments tied to outcomes were close to the status quo in the sector with higher percentages tied to certification and lower to retention in the initial cohorts, but progressively reduced the proportion on certification and increased the proportion for retention, providing an acclimatisation period for all stakeholders. The LiftEd DIB did not find suitable existing benchmarks on the relationship between learning outcomes and systems-strengthening interventions. To address this, a grant-funded runway period (akin to a preparatory phase) was built into the design to test key assumptions and identify the learning benchmarks to inform the future years of the DIB. In the context of a developing country such as India, it is therefore recommended that IB contracts incorporate a “do and learn” approach that enables iterative learning and course correction throughout the implementation period.

Prioritize Fit-For-Purpose Evaluations

In any IB, evaluation and measurement are central, given that payments are tied to verified outcomes. To confidently attribute the outcomes being paid for to the interventions, IBs typically rely on experimental methodologies or quasi-experimental. However, these methods can be resource and time intensive and operationally challenging. Leveraging existing government data systems could streamline verification processes, but the quality, consistency and relevance of such data remain uneven. These realities call for evaluation approaches that are context sensitive, balancing methodological rigour with operational feasibility.

Overall, the verification costs for large IBs (between \$8 million and \$12 million in outcomes funding) in India have been in the range of around 5%–12% of total outcomes funding. There are efforts being made to strengthen the government

data systems at central and state levels, improve data quality and instill trust in the data, which can enable the use of administrative data for verifying outcomes in the future and therefore reduce the cost of verification.

Embed Inclusion and Equity by Design

Although IBs have been deployed to serve vulnerable populations, such as persons with [disabilities](#) and [refugees](#), there remains a prevailing view that IBs often lack a deliberate focus on inclusion. This challenge can be addressed through intentional, equity-focused design choices made at the outset. For example, in the Skill Impact Bond, the funders incorporated a very strong gender lens using multiple levers, such as setting higher outcome price for women, establishing floor targets on women's participation and embedding these targets contractually and providing handholding support to IPs to innovate their [value chains for women](#).

In sum, while challenges remain, evidence and experience from India's IBs provide a valuable blueprint. With sustained commitment and strategic collaboration, OBF approaches such as IBs can meaningfully transform social impact delivery at scale across sectors beyond education.

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Beyond Learning Outcomes: Setting the Right Metrics for Innovative Financing in Education

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Summary

This article proposes a reimagining of outcome-based financing frameworks in education by integrating equity-focused learning metrics and system strengthening indicators. Drawing on the Language and Learning Foundation's experience in India, it highlights the limitations of aggregate measures and outlines a dual-focus framework that better reflects the goals of inclusive, sustainable foundational learning reform.

Keywords

Outcome-based financing
Foundational learning
Equity in education
System strengthening
Education metrics
Inclusive foundational learning

Outcome-based financing (OBF) models are reshaping how education systems define and pursue success. By tying funding to demonstrable improvements in student learning, these models bring sharper focus, accountability, and urgency to implementation. In India, the Language and Learning Foundation (LLF) has seen this firsthand: Our experience with Development Impact Bond (DIBs) has shown significant gains in foundational literacy and numeracy outcomes. Clearly, outcomes matter, and OBF can be a powerful tool to drive student learning.

Yet, most OBF models continue to rely on short-term, aggregate-focused indicators like mean scores and effect sizes, missing two critical questions: Who is being left behind or not learning adequately? And is the public system becoming more capable of sustaining change beyond the financing period?

These questions are central to foundational literacy and numeracy (FLN). FLN comprises core skills that every child must master to do well in the rest of their school education. It is not enough to raise class/student averages – every child “must” reach identified levels of mastery. This makes it crucial that programmes track the achievement of all children, particularly those at the greatest risk of not learning enough. These children are often invisible in average score improvements, despite being the ones most in need of targeted support.

Importantly, OBF has untapped potential to support this ambition. When designed thoughtfully, it doesn't just help funders track success; it helps implementation partners sharpen their focus on the most at-risk children.

In this article, we argue that, while outcome measurement remains essential, the definition of success must evolve. LLF proposes that OBF frameworks for foundational learning must incorporate two core dimensions: whether children who are learning the least are making adequate,

measurable gains; and whether public systems are improving in their capacity to sustain and scale those gains beyond individual projects.

Challenge with Current Metrics in Innovative Financing

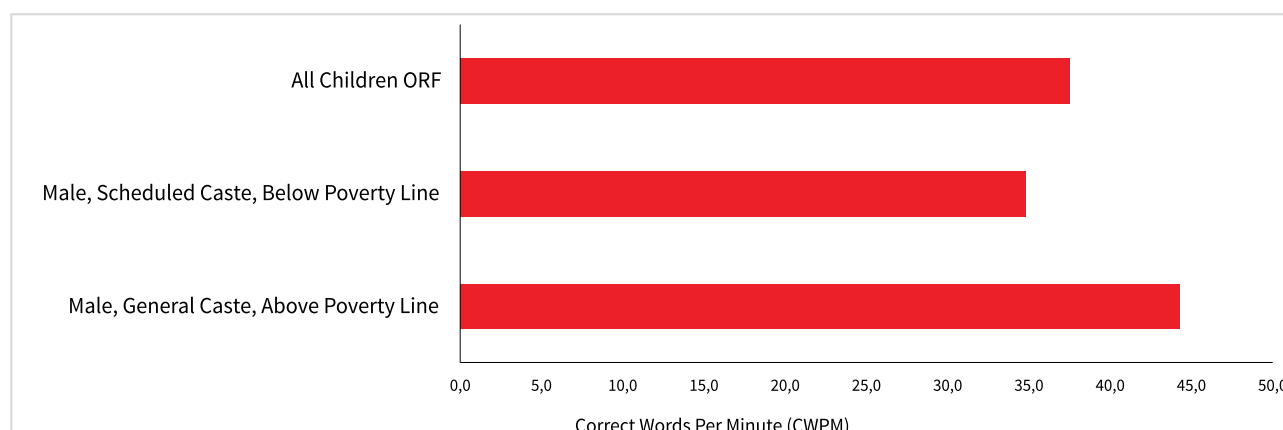
Despite the growing popularity of outcome-based financing, the metrics used to define “success” often fail to capture the full story. Most OBF programmes, particularly in foundational learning, evaluate progress using aggregate learning indicators such as mean scores, standard effect sizes, or pre-post differences in performance using methodologies like difference-in-differences (DiD). These approaches are analytically sound and easily comparable, but they are inherently limited in two important ways.

First, aggregate results can mask the learning trajectories of the most marginalised learners. A programme that improves the average score across a district may still leave the bottom

quartile of students with very limited gains. Thus, those who were already far behind and who often face the most significant barriers to learning gain much less than those who started at higher levels of learning, further exacerbating learning disparities.

This includes children from disadvantaged castes, tribal communities, low-income households and those whose home language differs from the medium of instruction. When monitoring frameworks prioritise average improvements over disaggregated gains, programmes are implicitly incentivised to focus on learners who are easier to lift, which in turn informs programme strategy, creating a feedback loop. Without disaggregation by gender, language, caste, disability, or geography, it is impossible to assess whether learning gains are truly equitable or to respond effectively.

Figure 1. Intersectionality of Gender, Caste and Economic Status in Oral Reading Fluency (ORF) for Grade 3 Students



Source: Author; created using data from LLF Baseline Sample Assessments, District Varanasi, Uttar Pradesh (2024).

Second, few financing models evaluate whether systems are becoming stronger as a result of the intervention. Are local education authorities improving in their ability to support teachers? Are schools better equipped to monitor learning, plan remediation, or deliver multilingual instruction? These system-level shifts, essential for sustaining progress beyond the 2–3-year financing window, are rarely tracked.

A foundational learning programme that lifts average scores without closing learning gaps or building state capacity is, at best, incomplete. At worst, it can entrench inequities by ignoring those farthest behind and overlooking strengthening the institutions that must ultimately sustain change.

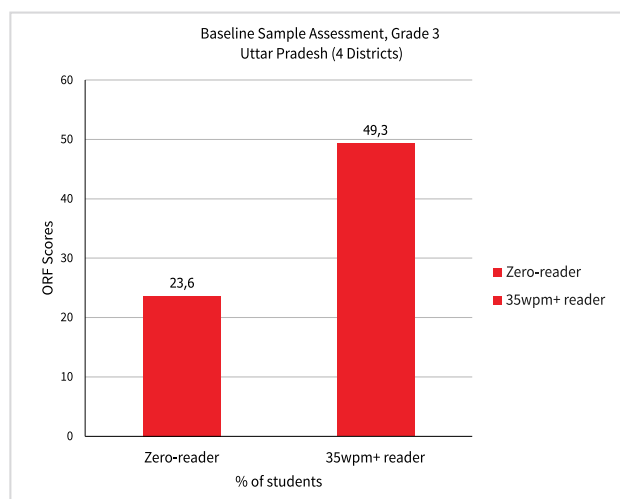
Expanding the Metrics Lens: Making Learning Equity a Core Objective

The limitations of aggregate metrics point directly to the need for equity-focused measurement. To reframe what counts as success in foundational learning, we propose that OBF metrics integrate two equity-aligned goals: reduce learning disparities and children at the bottom of the learning ladder make significant learning gains.

When OBF frameworks include metrics that track disaggregated learning gains, they send a clear signal to implementation partners: success requires reaching the learners who are typically left behind. Metrics such as the proportion of children moving from non-reader status to fluency, or gains made by the bottom quartile, force programmes to identify and address exclusion early in the design and implementation process. In this way, metrics don’t just measure progress; they shape it.

This reframing is especially urgent. LLF’s internal assessments show that 10%–20% of children in Indian government classrooms remain non-readers, even by the end of Grade 3. These children, often from ethnic or linguistic minorities, or low-income households, struggle with instruction that does not match their language background or initial learning levels.

Figure 2. Oral Reading Fluency Scores, LLF Baseline Sample Assessment, August 2024



Source: Author; created using data from LLF Sample Assessments (August 2024).

Yet, many programmes still fail to target these learners, assuming that generally informed materials and instructional practices will support them adequately and that all children, regardless of starting point, will respond similarly to the same interventions. National assessments like the Annual Status of Education Report (ASER)¹ and the National Achievement Survey² (NAS) rarely draw attention to the bottom of the learning distribution, where disparities are most acute. Figure 2, drawn from LLF’s baseline assessments across four districts in Uttar Pradesh, three of which are part of DIB-structured programmes, illustrates this vividly: Even at the outset of implementation, a significant proportion of children were non-readers, particularly among those from linguistically and socio-economically marginalised communities.

In reality, children who begin furthest behind often require differentiated strategies and more time. The growth mindset approach to assessment offers a corrective: rather than expecting uniform gains across a cohort, it recognises that each child should be assessed on the basis of progress from their individual starting point (Masters, 2013).

Despite their importance, equity-focused metrics are rarely included in DIB financing structures. Their exclusion stems from the complexity of disaggregated measurement, the lack of consensus on standard equity indicators, and the challenge of setting clear, context-specific targets, making them harder to tie to payments despite their centrality to programme goals.

However, as Luis Crouch (2020) argues, real progress in education systems begins at the tail of the learning distribution, where the most marginalised children are often concentrated. When programmes focus on lifting this tail, they don’t just promote equity; they improve overall system performance.

The takeaway is clear: When you design for the margins, everyone benefits.

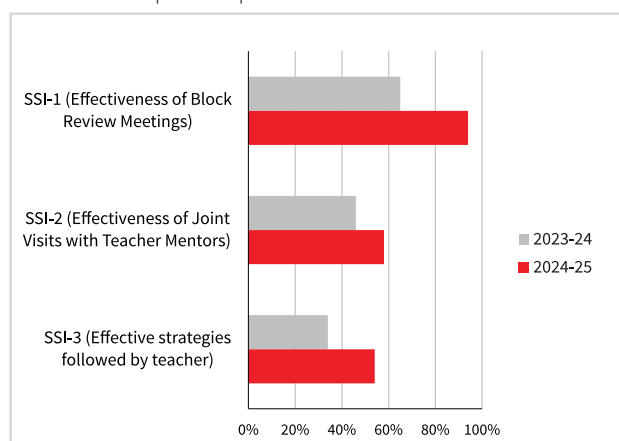
Measuring What Sustains Change: The Case for System Strengthening

The sustainability of any FLN reform depends on the strength and resilience of the system that delivers it. System strengthening in FLN encompasses improvements across multiple domains:

- The capacity of state academic bodies like the State Council of Educational Research and Training (SCERT) to design, revise, and contextualise high-quality curriculum, teaching materials, and teacher professional development programmes.
- Robust teacher training delivery systems, particularly the effectiveness of multitiered cascade models.
- The use of data at decentralised levels (e.g. a district) to drive corrective action through regular academic reviews and planning cycles.
- Instructional leadership and support from mid-tier functionaries, including school visits, mentoring sessions, and feedback loops that actually support teachers’ ability to improve classroom practice.

These are not intangible goals. In LLF’s experience with the LiftED Development Impact Bond, 50% of outcome payouts are tied to system strengthening indicators (SSIs) – an intentional design decision that tracked improvements in mentoring, instructional leadership, and data use in review meetings³. As the implementation partner, LLF actively advocated for the inclusion of SSIs and initial results. Figure 3 illustrates year-on-year improvements in key SSIs, and has shown that when these dimensions are tracked intentionally, there are marked improvements. These process metrics are directly linked to outcome goals and to payout triggers, underscoring their central role in both programme implementation and financing.

Figure 3. Improvement in System Strengthening Indicators as Part of the LiftED Development Impact Bond



Source: Author; created using data from the LLF Management Information System, Sirsa (Haryana) and Fatehpur (Uttar Pradesh) Districts (2023–2025).

Still, integrating SSIs into financing frameworks comes with some challenges: defining what matters, measuring change over a short timeframe, and ensuring that these indicators are not treated as optional add-ons. The quality of teacher training delivery can be measured; however, institutional culture or the capacity for curriculum renewal is harder to measure. Systemic shifts take time, often unfolding beyond a 2–3-year financing window. And unless system indicators are embedded in the design of financing models, they risk being sidelined in favour of more immediate learning gains. The cost of omission of these dimensions of progress is high. Without a strong system, even the best-designed FLN programme may falter when financing ends.

Rethinking Success: A Dual-Focus Framework for OBF

The need to expand OBF metrics is clear. But doing so effectively requires more than critique; it calls for a practical, actionable framework that funders and implementers can adopt to build more inclusive and sustainable education programmes.

Drawing on the LLF’s experience and global research, we propose a dual-focus metric framework rooted in two complementary pillars:

1. **Equity-sensitive learning outcomes:** Metrics that go beyond averages to measure whether the most marginalised learners, those starting with the least, are making meaningful gains.
2. **System strengthening indicators:** Metrics that assess whether the public education system is becoming more capable of delivering, sustaining, and scaling equitable foundational learning.

This framework doesn’t discard conventional metrics; it enriches them by embedding values of inclusion and institutional resilience at the heart of how success is defined and rewarded. Implementing this requires strategic alignment across funders, implementers, and governments. The challenges are real –

tracking disaggregated learning or institutional trends is more complex than measuring average gains. But complexity cannot justify omission. The question is not whether these indicators are easy to measure but whether we are willing to prioritise what truly matters.

Phased payment models and longer-term OBF designs can accommodate this complexity. More importantly, they signal a shift, not excluding but adding; from rewarding short-term outputs to valuing long-term transformation.

We recommend a balanced approach: While certain critical indicators, such as gains among non-readers or improvements in academic support structure, can be tied directly to outcome payments, others may be tracked through robust monitoring and review systems that inform adaptive implementation. The key is intentionality: What gets measured must reflect what matters, even if not every metric is monetised. Embedding equity and system-strengthening indicators into both the programme design and its regular review mechanisms ensures that these priorities shape implementation, and not just evaluation.

Ultimately, expanding the metrics lens is an investment in more equitable programmes, stronger systems, and a clearer roadmap for sustainable learning. It’s how OBF can evolve from merely a one-dimensional results-focused mechanism to a reform enabler, and from a measurement tool to a mission-aligned lever for change.

To transform outcomes at scale and over time, financing models must reward programmes that reach the furthest behind and strengthen the institutions that serve them. This is not just a refinement of metrics; it is a redefinition of impact.

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Endnotes

1. ASER stands for Annual Status of Education Report. This is an annual citizen-led survey that provides reliable estimates of children's schooling and learning levels in rural India.
2. The National Achievement Survey (NAS) is a national-level large-scale assessment conducted to obtain information about the learning achievement of students of Classes 3, 5, 8 and 10 studying in state government schools, government-aided schools, private unaided schools and central government schools.
3. Block-level academic review meetings were considered effective only if they met defined quality thresholds such as integrating FLN-focused discussions, using student learning data to inform decisions, and reviewing follow-through on prior meeting resolutions.

Key Learnings from Outcomes-Based Contracting with Educational Technology in Middle East and North Africa

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Summary

Our paper explores how EdTech enterprises and impact investors use outcomes-based financing to address K–12 education. Drawing on cases from the Middle East/ North Africa region, we highlight lessons from linking financial incentives to educational impact, balancing efficacy with innovation and setting metrics in dynamic, tech-driven environments like AI-enabled learning.

Keywords

EdTech
Impact investing
Outcomes-based financing
Educational outcomes
Performance metrics

A unique challenge in performance-based education contracts is the critical need to strike a balance between efficacy (measured through controlled experimental studies) and effectiveness outcomes (measured through teacher-led implementation studies). In the case of educational technology (EdTech), the educational outcomes that an enterprise can achieve are often limited by the challenge of setting clear metrics in a fast-moving, innovative landscape.

Outcomes-based financing, also known as performance-based contracting, refers to funding mechanisms in which financial rewards are directly tied to the achievement of measurable outcomes, such as educational or social improvements resulting from a specific intervention or solution (Airoldi et al., 2024). While this approach has been applied in large-scale education initiatives for years (see Holland & Link, 2017), it remains relatively new in the EdTech sector. However, it holds significant promise: Unlike traditional investment models that prioritize rapid scaling, outcomes-based financing places impact at the forefront. By linking financial incentives to demonstrable improvements in learner outcomes, this model helps ensure that EdTech solutions deliver meaningful, measurable educational benefits.

This short paper outlines how EdTech actors and impact investors navigate innovative financing mechanisms to improve educational outcomes in K–12. Drawing from

empirical research and practice experiences, we exemplify how outcomes-based financing mechanisms have been implemented in the Middle East/North Africa (MENA) region with two EdTech enterprises: Little Thinking Minds (LTM) and Abwaab. Both enterprises have been incentivized by the Impact-Linked Fund for Education to achieve pre-defined and independently verified educational outcomes. The Impact-Linked Fund (ILF) for Education supports inclusive, high-quality basic education for vulnerable children and youth, particularly in the MENA and West Africa regions. Funded by the Swiss Agency for Development and Cooperation and the Jacobs Foundation, it provides innovative financing, such as social impact incentives and impact-linked loans, to high-impact education enterprises. We, as researchers, were tasked with supporting two enterprises through technical assistance and mentorship to enhance their educational impact on learners. This engagement taught us some valuable lessons on structuring financial incentives to drive improved learning outcomes.

In this work, we observed a pressing need for structured, research-informed support to enhance the additionality of outcomes-based financing mechanisms in the EdTech sector. Specifically, this requires the strategic alignment of researchers' domain expertise with the unique objectives and operational contexts of EdTech enterprises. Such collaboration enables the precise articulation of target outcomes – that is, clarifying what should be measured, how it should be measured, the expected dosage and intensity required to produce observable effects, and the timeframes within which these outcomes are likely to manifest. This, in turn, allows for a more accurate and realistic specification of outcomes-linked financial rewards that reflect genuine learning outcomes for children.

When conceptualizing these outcomes, it is essential to adopt a multidimensional understanding of educational impact. This broader perspective encompasses not only efficacy, assessed through controlled studies, but also teacher-informed evaluations and participatory research that considers pedagogical relevance and contextual adaptation. Equity is another critical dimension; specifically, the extent to which EdTech solutions reach marginalized populations, have equitable impacts (i.e., generate outcomes for all children), and promote inclusive education. Ethical considerations, including how data is collected, processed and used, must also be central to any impact assessment. Our approach is therefore grounded in the 5Es Framework, which integrates these core dimensions: efficacy, effectiveness, equity, ethics and environmental impact (Kucirkova et al., 2025). The latter is of growing relevance given the environmental footprint of EdTech solutions, especially those enhanced by AI capabilities.

Case Studies

Case 1: *Little Thinking Minds*

LTM provides Arabic-language and literacy solutions for Arabic-speaking K–12 students. Recently acquired by US-based EdTech Seesaw, LTM has grown since 2004 into a leading startup in the MENA region with 400,000 students across over 10 countries.

The key lesson for performance-based approaches is the importance of carefully sequencing incentives to ensure meaningful outcome measurement. This requires first establishing robust data infrastructure, aligning the platform or product with established scientific literature and ensuring that assessments – such as quizzes – are psychometrically sound. Only once these foundational elements are in place should financial incentives be tied to outcomes; otherwise, there is a significant risk of measuring factors unrelated to the platform's true educational impact. Our technical assistance enabled ILF to design both the structure of the financial incentives and the specific educational outcomes to which these incentives are linked. Namely, ILF could develop a tiered incentive structure that calibrates disbursements based on the quality and magnitude of outcomes while incorporating safeguards from outcomes-based financing literature to mitigate unintended consequences (so-called “perverse incentives”), promote inclusive learning and foster sustained educational impact over time.

ILF's investment in LTM's technical assistance enabled the company to strengthen their evidence base in several areas. First, a comprehensive expert review of LTM's digital platform I Read Arabic (IRA), designed to support Arabic literacy, was undertaken. This focused on a literature review of the key principles behind the science of reading and their relevance in the Arabic context and alignment with LTM. The researchers provided several recommendations for product development to enhance the platform's impact and its ability to capture and demonstrate educational outcomes.

A central recommendation was the development of SMART learning performance indicators (specific, measurable, achievable, relevant and time-bound), specifically tailored to IRA's current model. These metrics included measures of learner engagement (activation, session frequency and varied usage), teacher engagement (usage frequency and session length), and key reading-related language skills (phonological awareness, vocabulary, reading fluency and comprehension). These indicators directly align with the IRA's core educational goals and were aimed at providing clear, actionable data to assess the platform's impact over time.

A review of LTM's data infrastructure and platform architecture led to recommendations for data collection and data analysis procedures by the company. These included

the need to adapt traditional, paper-based assessments for the digital format of IRA, ensuring that they were engaging and brief to avoid learner fatigue. Psychometric analysis was also recommended and undertaken to assess the reliability and validity of the digital assessments embedded in the platform. In this way, LTM could measure internally whether students' engagement with IRA is related to progress in the students' reading skills. Crucially, establishing the validity of IRA's internal learner assessments against widely used standardized assessments with good psychometric properties would allow IRA to effectively track learner outcomes going forward. Lastly, the recommended data analytic plan was developed to (1) understand whether and how learners' IRA use and engagement related to learning outcomes, (2) identify factors associated with IRA use and engagement and (3) determine whether IRA use, engagement and potential learning gains were equitable across all learners.

Additionally, the recommendations stressed the importance of teacher feedback through surveys and qualitative insights, elucidating how teachers interacted with the platform and how this engagement affected instructional practices and student learning outcomes. While motivation and socioemotional well-being were recognized as important yet challenging to measure directly, these factors were identified as key elements in understanding the broader learner experience that influences engagement and performance.

Case 2: Abwaab

Abwaab is an education technology platform that provides learning support to students across six Arabic-speaking countries: Jordan, Iraq, Saudi Arabia, Egypt, Oman and, more recently, expanding to Qatar. Abwaab offers a comprehensive online learning experience tailored for students in Grades 4 through 12 through curriculum-aligned video lessons, practice questions, gamified features and a guided learning journey through its academic advisor feature and private tutoring support.

The research support started by scoping discussions with the Abwaab team to understand the services offered and the model adopted in relation to published literature on similar EdTech platforms in low- and middle-income countries and specifically Arabic-speaking countries. This literature, along with extensive discussions with the Abwaab team, led to a co-created theory of change and a logic model that combines the company's current resources and activities with assumptions around expected outcomes and impact derived from scientific literature. A list of short-term and long-term outcomes were identified that were based on measuring improved concept mastery and self-efficacy for students. These outcomes were explored against all available data and metadata that Abwaab has collected from users and their platform to understand the possibility of measuring impact

against these outcomes. This data baseline was quality-assured with references to the academic literature and tied up with the incentive targets that ILF can deploy in its performance-based contract with the company.

While Abwaab had a robust data infrastructure that effectively tracks students' learning behaviour on the platform (which maps to the outputs from the theory of change), the research team worked with Abwaab to extend the data infrastructure to include impact metrics that can give direct insights about the outcomes of interest: concept mastery and student self-efficacy. This was done by identifying the most effective and least intrusive types of data and ways of collecting it that are directly related to measuring the ultimate outcomes of interest (impact metrics).

A key insight from this process was the critical importance of establishing a robust theory of change from the outset. The theory of change framework enabled researchers to accurately identify the most appropriate outcome measures for the impact evaluation process. Selecting the right outcome measure is essential when developing impact metrics; it must strike a balance between scientific precision by being clearly defined and not overly broad and practical feasibility, ensuring that the company can realistically collect the necessary data. While EdTech companies often develop their own logic models and define intended impacts independently, the involvement of researchers means that the company's impact goals are aligned with the established academic literature and existing data infrastructure. This can then enhance the rigour of the impact strategy and its measurement.

Discussion

Building on these two examples, as well as our broader work in the fields of performance-based and impact-linked funding, we observe a compelling need for structured, research-informed support to maximize the additionality of such financial mechanisms. Maximizing additionality means in this case designing incentives and outcome measurements to ensure that observed impacts are truly caused by the approach and would not have occurred without it. To ensure that these funding approaches are effectively aligned with educational objectives, it is essential to strategically match the domain expertise of researchers with the specific focus of the EdTech company, such as engaging a literacy scholar to advise on a literacy intervention platform (see Kucirkova, 2025). Furthermore, the technical assistance provided must be contextually grounded; it should ideally come from experts with experience in or originating from the same geographical region as the company. This ensures that impact goals are not merely theoretical constructs but are instead actionable, context-sensitive and realistically achievable by the organization being incentivized through impact-linked funding.

From a scientific standpoint, technical support should be grounded in a thorough review of the relevant literature to identify outcomes that are both educationally meaningful and measurable. This must be complemented by data infrastructure reviews, which involve detailed psychometric analyses of the data collection instruments (such as surveys, quizzes or assessment tools) developed by EdTech companies. These reviews can ensure that the tools are valid, reliable and fit for purpose. Equally critical is the evaluation of data privacy and management systems, to guarantee that data collection is not only aligned with impact objectives but also adherent to ethical standards and regulatory frameworks.

Furthermore, to ensure that impact-linked funding (just like all innovative financing mechanisms) does not inadvertently exclude marginalized communities in the pursuit of measurable financial returns (Frotte, 2025), equity audits are a crucial component of the impact evaluation process. The equity lens spotlights whether an EdTech solution and the measures of its impact privilege certain groups of students and help safeguard against the risk of incentives being tied to narrowly defined outcomes. An example of this is when incentives are based solely on learning outcomes that are verifiable through standardized test performance, which are known to disproportionately benefit groups already positioned to excel in such assessments (see Singh et al., 2025), thereby reinforcing existing inequities.

Moreover, for EdTech solutions that incorporate advanced technologies, particularly generative AI, it is essential to extend the scope of impact evaluations beyond cognitive outcomes alone. The environmental responsibility of EdTech products must be acknowledged, especially in light of the growing intersection between green and digital education (Selwyn, 2023). These considerations are often overlooked when impact-linked funding frameworks prioritize learning outcomes exclusively, without accounting for the broader systemic implications (Shengjergji et al., 2024).

Impact-linked funders have a distinctive and powerful role to play in incentivizing EdTech providers through an integrated approach that adopts a holistic view on impact. To guide these efforts, the 5Es Framework emphasizes not only efficacy and effectiveness, which both focus on learning outcomes, but also incorporates ethics, equity and environment, as a multidimensional way of understanding educational impact (EduEvidence, 2024). Such a comprehensive approach to impact evaluations and their sustained support through innovative financing requires a “bouquet” of support that can only be effectively delivered through a collective effort. A coordinated expert network where contributors are engaged based on their specific expertise and the unique needs of the company at its various stages of growth can support responsible innovation that benefits all learners while

aligning with global sustainability and inclusion goals. Such support is needed across geographies, EdTech types and growth stages, and it should not be confined to a particular region or EdTech segment.

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Performance-Based Financing Shows Sustained Impact on Learning Outcomes in Democratic Republic of Congo

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Summary

There is ample evidence that performance-based financing is an effective approach to achieve improvements in the health sector, but evidence from the education sector is scarce. We present the case of a project in the Democratic Republic of Congo, showing that linking payment directly to results sustainably increased the accessibility, quality and governance of the primary education system.

Keywords

Performance-based financing

Education

Learning outcomes

Education system strengthening

Democratic Republic of Congo (DRC)

Introduction

Performance-based financing (PBF) is widely embraced by governments and donors (Bertone et al., 2018; Gergen et al., 2017) as an effective approach to achieve improvements in the health sector (Shapira et al., 2023; Bonfrer et al., 2014). However, in the education sector, evidence is still scarce. The Dutch NGO Cordaid, with an extensive track record in PBF Health (e.g. Rwanda, Burundi, Zimbabwe, Democratic Republic of Congo [DRC], CAR, and Ethiopia), first started piloting PBF in education in 2008. Here, we present the case of the Project for the Improvement of Quality of Education in the Democratic Republic of Congo, implemented from 2018 until 2022 in 1,350 primary schools across 9 out of 26 provinces with US \$20 million in funding from the Global Partnership for Education.

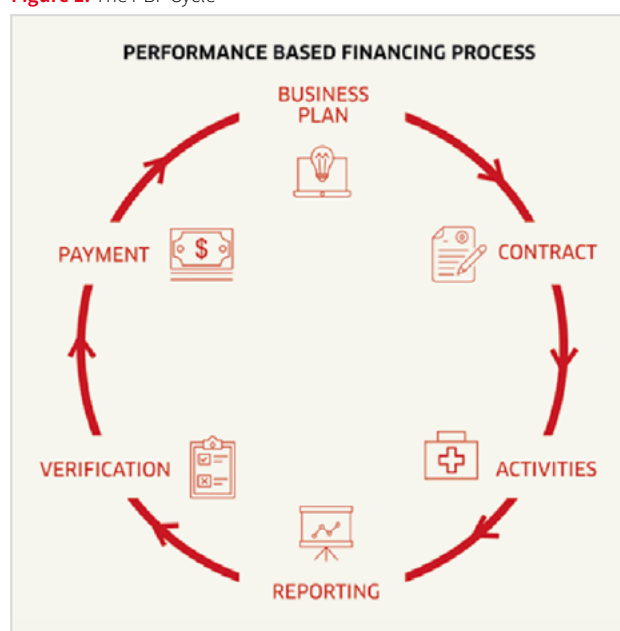
PBF entails a fundamental shift from paying service providers entirely upfront for their operation and activities (input-based funding) to linking part of their income (the PBF subsidy) to the achievement of measurable outcomes, such as the number of deliveries in a hospital (health) or the number of girls finishing school (education). Through the direct link between performance and payment, PBF is fundamentally different from most traditional school grants. Cordaid (2021, 2025) developed six key principles:

1. Linking payment to results: Payments are based entirely on specific, measurable outcomes (besides existing public, input-based funding). This motivates providers to focus on results.

2. Contracting: Formal contracts between service providers and a contracting agency define performance expectations, payment conditions and evaluation methods.
3. Autonomy: Service providers determine how to achieve targets, fostering innovation, and are free to decide how to spend the PBF subsidies.
4. Separation of functions: The role of funding agent, service provider and regulatory authority is divided between different actors to avoid conflicts of interest and enhance transparency.
5. Community empowerment: Communities are involved in monitoring services, ensuring that services meet local needs and encouraging accountability.
6. Equity: PBF targets underserved populations to reduce disparities.

The PBF cycle, developed by Cordaid, shows, in a nutshell, the different stages of PBF (see Figure 1 and [here](#)). An independent

Figure 1. The PBF Cycle



Source: Cordaid (2017).

contracting and verification agency (CVA) (existing or newly established) purchases selected services from service providers. A business plan, developed by the service provider, forms the basis of the contract and defines incentivised services, targets and investment plans for quality improvement. After signing the contract, service providers implement activities and report periodically (e.g. each trimester) on their performance, which is then verified by the CVA. The amount paid to service providers is directly linked to their performance. These funds can then

be autonomously allocated by the service providers based on their needs and in line with the business plan, which will then be updated for the next round.

Since 2002, when Cordaid launched its first pilot project in Rwanda, leading to improved use and quality of maternal and child health services (Basinga et al., 2011), PBF has been widely implemented in the health sector in many African countries, several with fragile and conflict-affected contexts (Bertone et al., 2018). More than just a health financing modality, PBF has proven to be a comprehensive health system strengthening strategy, directly or indirectly touching all the building blocks of health systems (Witter et al., 2013).

The good results in the health sector by Cordaid and others (Bertone et al., 2018) have motivated Cordaid, since 2008, to also pilot the PBF approach for education system strengthening in the DRC, Burundi, Malawi, the Central African Republic, Uganda and Ethiopia. These experiences (M&N Consultancy, 2025; Centre for Policy Research and Capacity Enhancement (CPRCE), 2023) demonstrate that PBF can help address systemic educational challenges regarding access, quality and governance, which are also the three pillars of the DRC Education sector strategy. It can address poor teacher motivation and satisfaction, a misalignment between government plans and practical realities, and a lack of accountability towards pupils and parents, thereby leading to better and more equitable access to education of high quality. In 2018, after several PBF pilot projects had been implemented by Cordaid, the Ministry of Education of DRC contracted Cordaid for the implementation of the PBF approach under the Project for the Improvement of Quality of Education (PAQUE).

PBF in Primary Education: Case Study PAQUE in the DRC

Design

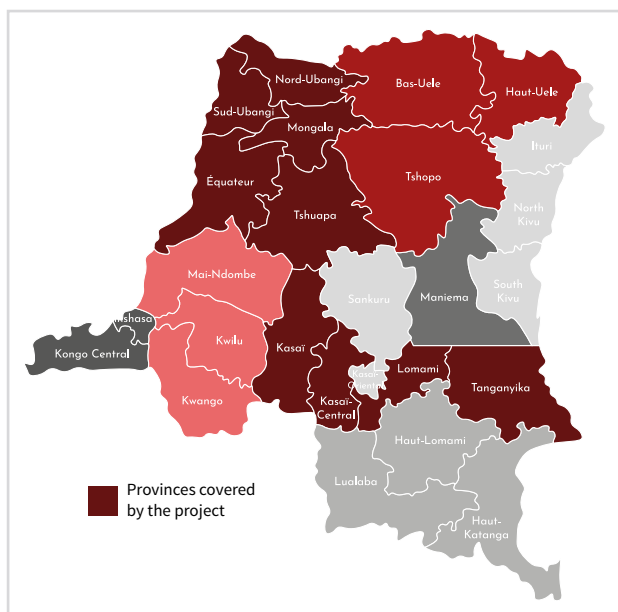
The PAQUE project was implemented in nine provinces of the DRC, targeting 1,350 schools (Cordaid, 2022; Figure 2).

Cordaid provided technical assistance to the Ministry of Education in the elaboration and implementation of the PBF approach. In the set-up of the PBF PAQUE project, six separate roles can be distinguished (Figure 3):

Regulator: Ministry of education, provincial educational office and sub-office, and the (sub) provincial inspectorate with the task of applying the national standards, coordination, supervision and assessment and training of teachers.

Fundholder: Cordaid. After receiving verified and validated invoices, the fundholder transferred PBF subsidies directly into the school bank accounts.

Figure 2. PAQUE Coverage of Nine Provinces in the DRC



Source: Cordaid (2022)

Contracting and verification agency (CVA): Five domestic non-governmental organisations were selected, in a competitive process, to perform the role of CVA. The CVA signed performance contracts with actors in the educational system that each play their separate role (service provision, regulation, community representation) and subsequently verified the performance.

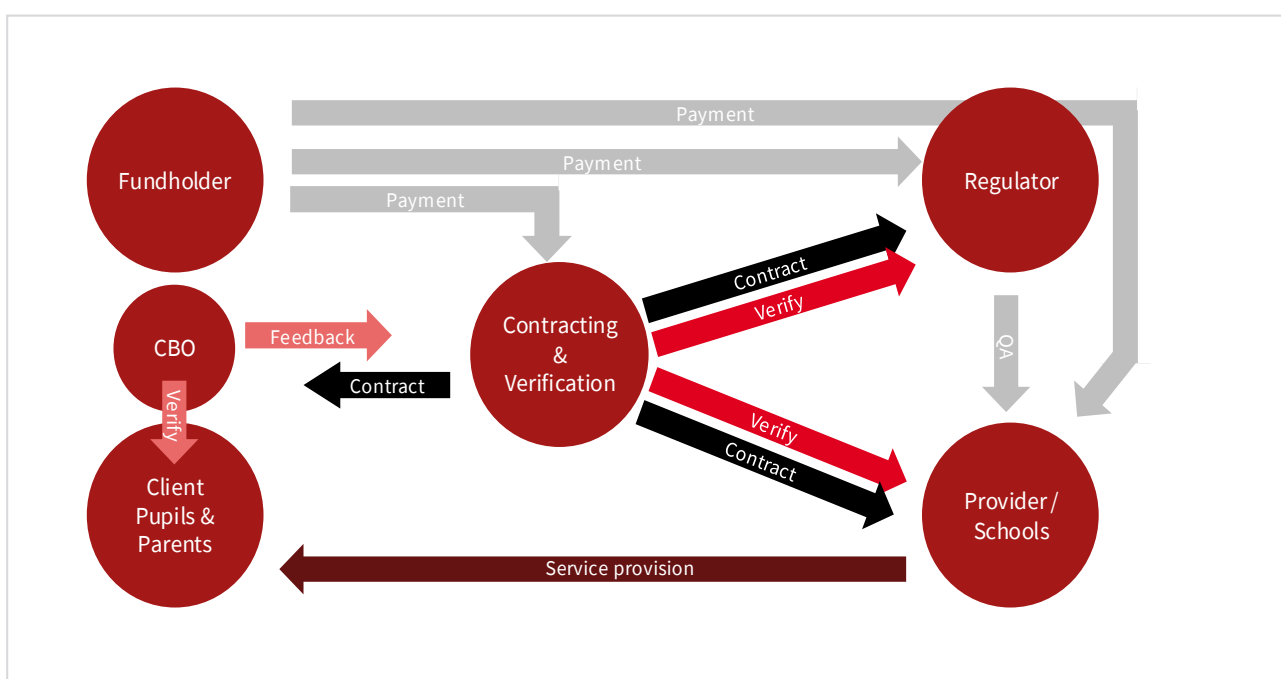
Service providers: Primary schools that provided the educational services to the children.

Community Based Organization (CBO): CBOs signed a contract with the CVA to conduct community satisfaction surveys about the perceived quality of the school. This information (satisfaction score) was one of the factors that determine the height of the subsidy paid to the school.

Client/community: schoolchildren that benefited from the educational services, and their parents.

Schools and regulatory authorities sign a performance contract with the CVA for the provision of a standard set of specific services (indicators). The CVA verifies the performance on these indicators after each school term. The indicators are partly quantitative (e.g. each girl accessing school) and partly qualitative (e.g. availability and cleanliness of separated latrines for boys and girls, school manual availability, presence of schoolteachers, and collaboration with parents) and/or related to good governance (e.g. financial management, internal meetings, and availability of school statistics). CBOs conduct community surveys to verify the satisfaction of parents and children. All these elements together determine the total trimester PBF subsidy earned by the school, which fluctuates from trimester to trimester depending on performance. This payment, reflected by the grey arrows in Figure 3, is then partly used to pay for staff incentives (up to a maximum of 70% of the total subsidy) and partly for the improvement of the school or regulator as per their own business plan, for instance by constructing toilets or by buying school materials, fuel for supervision visits or school kits for vulnerable children. It should be

Figure 3. Separated Functions and their Relations



Source: Cordaid (2018).

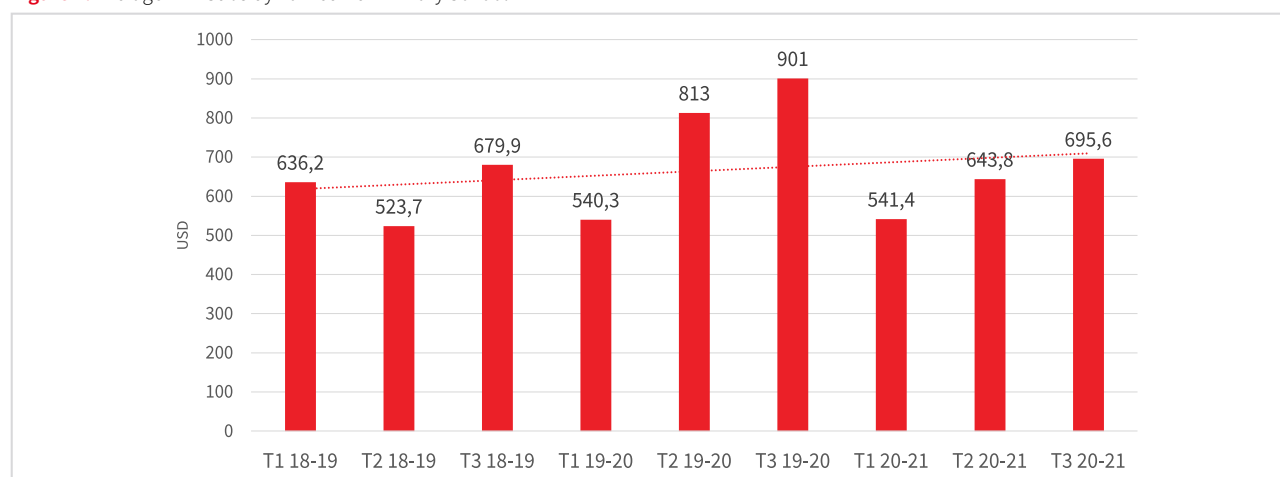
noted that schools also receive other resources (e.g. from the government) that are not dependent on performance.

Results

Each trimester, the CVA calculated the amount of PBF subsidy to be paid to each school after thorough, independent verification of the data. The average amount of PBF subsidy paid per school increased over time (from US \$636 US to US \$696), reflecting improving performance (Figure 4). The high increase, noted in trimesters 2 and 3 of 2019–2020, was the result of the addition of newly incentivised indicators, due to new government priorities and intensive training. The decreases in 2020–2021 and beyond were due to the COVID-19 outbreak, causing the partial closure of schools and reduced coaching.

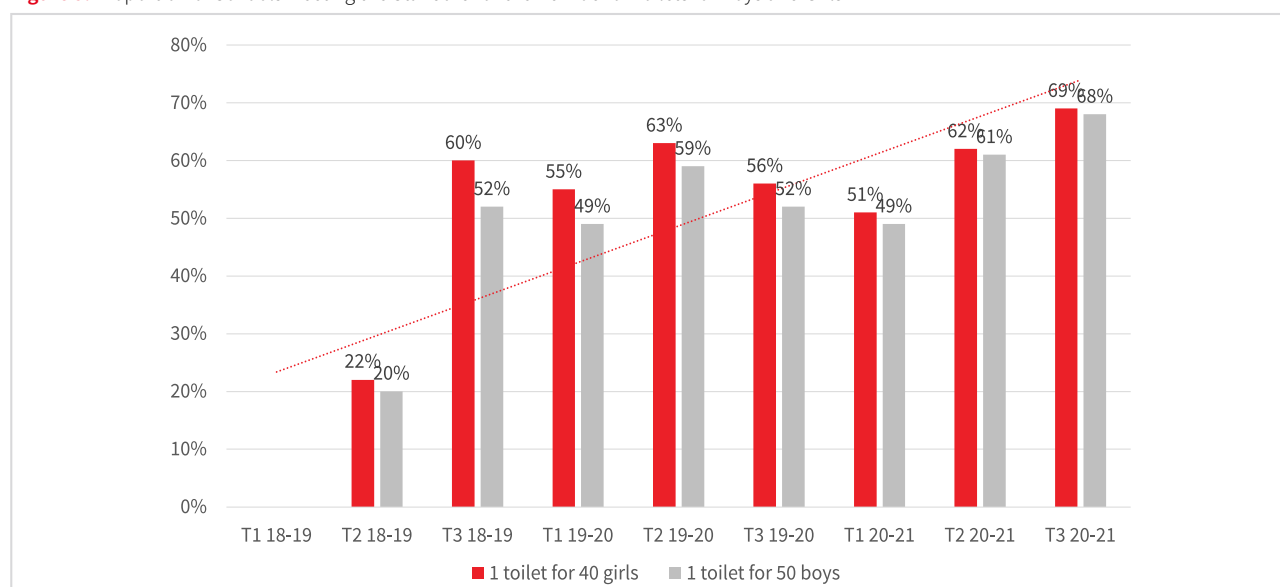
The project reached over 650,000 schoolchildren. The increase in the number of school-going children, also aided by the announcement of free education by the DRC government from 2018–2019 onwards, was more pronounced for girls than for boys, with in the end more girls than boys in school turning gender parity around (Cordaid, 2022). The improved enrolment and retention of girls was partially due to improved hygiene and the availability of separated toilets (Figure 5), which are important drivers for parents to keep their daughters in school. These positive results can directly be attributed to PBF, as this was one of the subsidised indicators and the PBF subsidies were used by schools to improve this drastically. The percentage of schools meeting the standard number of toilets (1 for every 40 girls, 1 for every 50 boys) more than tripled, from 20% to 68%.

Figure 4. Average PBF Subsidy Earned Per Primary School



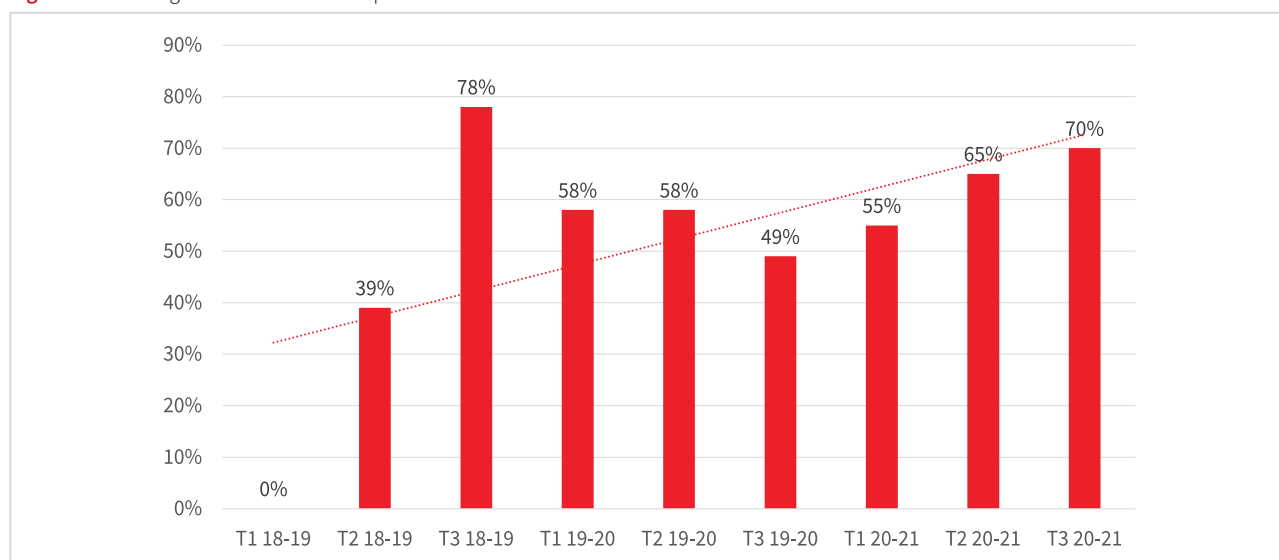
Source: Cordaid (2022).

Figure 5. Proportion of Schools Meeting the Standard for the Number of Toilets for Boys and Girls



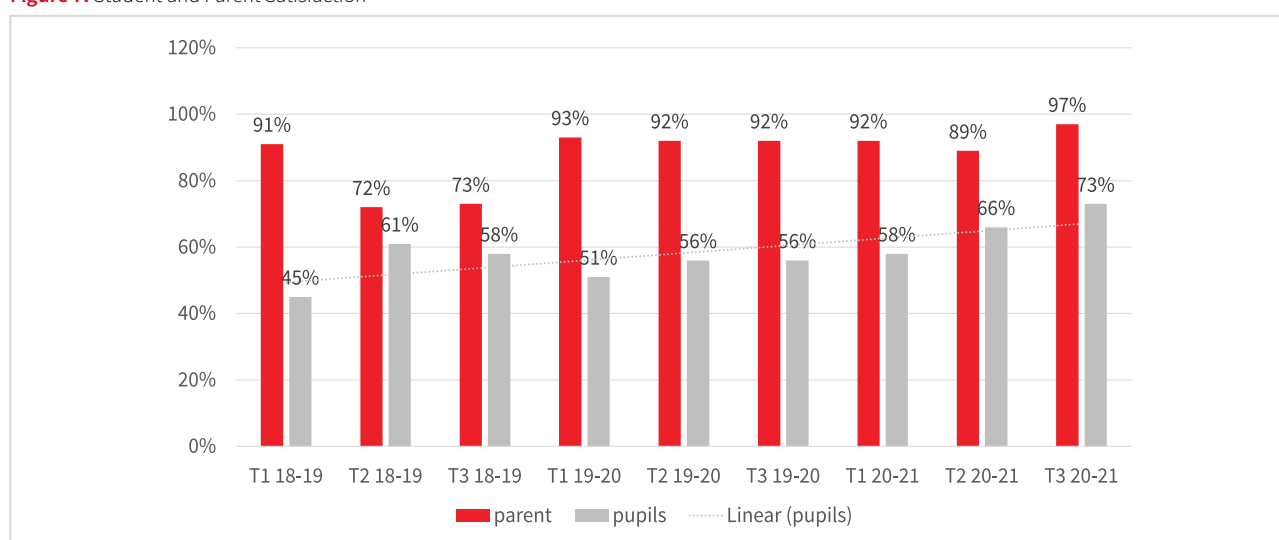
Source: Cordaid (2022).

Figure 6. Percentage of Schools Whose Pupils Have Textbooks



Source: Cordaid (2022).

Figure 7. Student and Parent Satisfaction



Source: Cordaid (2022).

Table 1. Number of Schools by Level of Performance on TENAFEP (Final National Exam)

Performance	Region 1: Sud-Ubangi, Nord-Ubangi, Mongala			Region 2: Kasai-Central, Kasai			Region 3: Tanganyika		
	Before PBF	During PBF	After PBF	Before PBF	During PBF	After PBF	Before PBF	During PBF	After PBF
Excellent	19	94	51	34	54	49	4	34	25
Very good	78	29	61	28	15	19	30	9	16
Good	25	0	9	5	0	1	8	0	2
Moderate	1	0	2	2	0	0	1	0	0

Source: IRSAC (2024).

The availability of textbooks for mathematics and French increased from 39% to 70% (Figure 6).

The perceived quality of education was measured each trimester by contracted CBOs, through student- and parent-satisfaction interviews. Satisfaction of parents increased by six percentage points over time, while student satisfaction increased by 28 percentage points (Figure 7).

An impact study on six of the provinces grouped into three regions in 2024 (IRSAC, 2024), conducted almost three years after the closure of the project, showed that the average number of girls per classroom was still higher than the number of boys (34 compared to 30, respectively). Infrastructural improvements (e.g. buildings, toilets or school furniture) had mostly been sustained. Teachers continued to keep the pedagogical documents, respect regularity and punctuality and prepare their lessons on a daily basis.

Good progress was also made in the area of governance, due to closer collaboration between the schools and parents, and the availability and use of management tools such as the management plan and accounting documents, which have improved good governance and accountability. The independent evaluation (IRSAC, 2024) also found that directors and inspectors continued to maintain the supervision and inspection of the schools.

Most importantly, the observed improvements also led to better learning outcomes, as demonstrated by higher scores on the final national exam. The percentage of pupils scoring “excellent” improved dramatically during project implementation and remained substantially higher as measured three years after the closure of the project, while not as high as during the implementation (Table 1).

This sustained impact is due to the early and constant engagement of education authorities, schools and communities at all phases of the project, leading to strong local ownership. Also, PBF is a systemic approach (Meessen et al., 2011), which addresses problems at different levels in a comprehensive and synergistic way.

Challenges and Mitigation

The main challenges encountered during project implementation are mentioned below, including the mitigation measures:

- The lack of a permanent team of trained and available experts at the Ministry of Education.
- Due to the lack of bank branches in parts of the DRC, school staff had to travel long distances to collect their subsidies, impacting teachers’ attendance. To counter this problem, the project contracted certified financial institutions to get the money closer to the schools. Also, payment using Mobile Money was implemented as an innovative way to pay subsidies.
- Due to the immense distances, there were often delays in verifications and payments.
- The closure of schools by the government during the COVID-19 pandemic.
- Gaming: Any PBF system will have to mitigate two major risks: 1) the overreporting of results (to receive more subsidy), which is mitigated by the strict verification of reported results and punishment of fraud, and 2) neglect of non-subsidised services. Therefore, the list of indicators should include at least 15–20 indicators that cover various aspects of the service.

Conclusion

The PBF approach has demonstrated strong potential and has led to sustained improvement of school results regarding access, quality and governance, the three pillars of the DRC Education sector strategy. It is believed that if this can be achieved in a country as vast and complex as DRC, then PBF may also work well in other settings. In the past, the flexibility of the approach made it so that the health sector has widely embraced it, mostly starting with pilot projects to adapt the mechanisms to the specific country context and needs. Governments are often already familiar with the PBF concept in health, which will spur their interest in piloting the approach in the education sector. Funding remains a main challenge. So far, PBF has been applied only to primary education (with some small pilots in DRC in secondary education). An opportunity lies in exploring the applicability of PBF to secondary and vocational education and notably to incentivise the transition from primary schools to secondary schools. Another major opportunity lies at the intersection of education and health, for instance by incentivising the education of children about healthy behaviour in school. Sexuality education, in particular, is a sensitive issue that could be stimulated through PBF. Cordaid is currently gaining experience in these areas in countries such as Ethiopia and Mali. At the same time, there are undoubtedly limitations in the extent to which PBF can solve all problems related to poor education, especially when root causes lie in poverty, distance, displacement or insecurity.

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Impact-linked Lending for Non-State Schools: Perspectives from Global South Implementers

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Summary

This paper examines impact-linked lending approaches for non-state school providers – a specific form of outcomes-based financing– to improve educational access, quality, and learning outcomes in low- and middle-income countries. We analyze two pilots implemented under the USAID CATALYZE EduFinance activity to outline the successes, challenges and learnings of these models in these specific contexts and in relation to other innovative financing mechanisms used in education.

Keywords

Education
Blended finance
Outcomes-based finance
Impact-linked lending
Kenya
South Africa

Background and Introduction

Despite progress in educational access and quality in low- and middle-income countries (LMICs), hundreds of millions of children are still out of school (UIS-World Bank, 2019), and many of those in school are not learning (World Bank Group, 2023). This is further complicated by a \$100 billion annual funding gap preventing LMICs from achieving Sustainable Development Goal 4 (Edmond, 2023). Given these gaps, many families in LMICs send their children to low-fee non-state schools in areas where public schools are not sufficiently meeting demand or are perceived as low quality (Piper, 2018). Indeed, 25% of students globally attend non-state schools (Opportunity International, 2024), with much higher rates in many low-income urban areas, such as 60% in Nairobi's informal settlements (Kimathi, 2021). However, these schools face challenges accessing affordable finance and capacity building, given they typically lack access to government and donor funds or programs. In addition, financial institutions (FIs) often perceive these schools as too risky; many FIs will not lend to them at all, and if they do, it is often at unaffordable rates. There is also a dearth of evidence on what works to improve access, quality and learning in the non-state sector and how private education providers can effectively coordinate with and complement public education systems.

The USAID CATALYZE EduFinance activity, led by Palladium, sought to bridge these gaps through innovative financing pilots in 11 countries, focused on two dimensions:

1. Mobilizing new resources for low-fee non-state schools through **blended finance**, the strategic use of USAID's grant funds to catalyze new sources of private capital, and
2. Improving educational access, quality, and learning through outcomes-based financing (OBF) pilots that measure and provide financial incentives for improved education outcomes.

From 2020 to 2025, CATALYZE EduFinance developed promising pilots, mobilizing more than \$38M in new sources of private capital via a [diverse set of blended finance approaches](#), training over 800 school leaders and reaching more than 1.1 million students and 7,500 schools and parents.

Much of the literature on innovative financing in education has focused on models that tie grant-based funding to achievement of measurable outcomes (e.g. [impact bonds](#) and [outcomes funds](#)). In contrast, CATALYZE piloted outcomes-based financing approaches linking private investment capital to non-state, revenue-generating education providers serving low-income populations. This paper explores the successes and challenges of these models through the experiences of two local education providers: i) [Grow ECD](#), which supports a network of early childhood development (ECD) social enterprises in South Africa, and ii) [Jackfruit Finance](#), an education-focused financial institution in Kenya. The data for the two cases was gathered from the following sources: internal CATALYZE MEL data, project reports, and other qualitative reporting, along with key informant interviews post activity termination.

Before proceeding, it is important to highlight the sudden and unexpected dissolution of USAID in early 2025, which terminated CATALYZE as it entered its final year. While this cut short many key pieces of the pilots – such as endline assessments, rewards payments, and learning dissemination – there is still a great deal of learning from the design and implementation to date that is valuable to others implementing similar models.

CATALYZE Impact-Linked Lending Pilot Overview

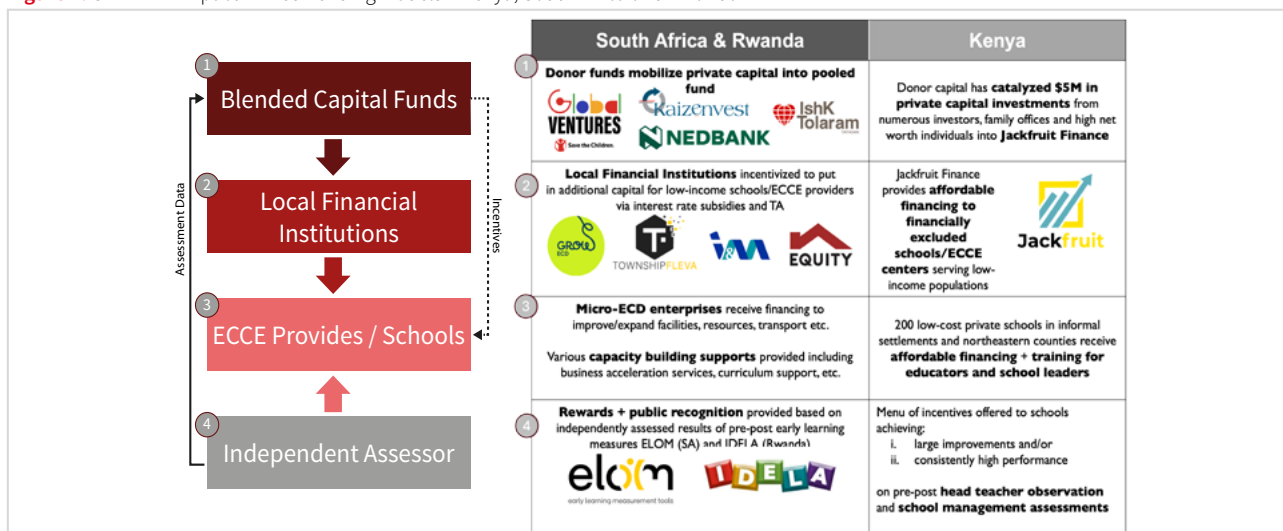
CATALYZE piloted three impact-linked lending (ILL) activities, a type of OBF applied to market-based models that mobilizes new sources of capital for affordable non-state schools and ties loan conditions to improvements in educational performance.¹ Figure 1 below outlines the high-level mechanics of these models

in Rwanda, South Africa, and Kenya, including:

1. Raising private investment through blended capital structures. USAID provided catalytic grant capital that incentivized private investors and FIs to invest in education providers they previously deemed too risky through a variety of mechanisms, such as technical assistance, guaranteeing some portion of the portfolio against potential losses, and subsidies to lower interest rates.²
2. Creating partnerships with and mobilizing additional capital from local FIs through targeted incentives and TA to build tailored education finance portfolios and expertise, who then
3. Created tailored loan products and disbursed to schools and ECD operators to improve/expand infrastructure, purchase educational resources, provide working capital for teacher salaries and training, etc.
4. Linking loan terms to impact achieved by conducting annual pre-post assessments of select schools (e.g. measuring teaching quality, learning outcomes) to determine a range of financial and non-financial rewards (e.g. lower interest rates, stipends to cover key school operational costs, public recognition ceremonies).³ Depending on the model, schools also received a combination of capacity building supports to test how different packages of financing, training, and incentives influence quality and learning outcomes.⁴

Generally, the design of these activities is different from traditional loan mechanisms that only consider the financial dimensions of an investment. Embedding this focus on educational outcomes seeks to improve both educational and financial outcomes. Improving school quality is good for learners and families and is also a key factor that, in turn, increases enrolment and the sustainability of a school's business model.

Figure 1. CATALYZE Impact-Linked Lending Models – Kenya, South Africa and Rwanda



Source: Authors

South Africa: Kaizenvest and Grow ECD

In South Africa and Rwanda, CATALYZE partner Kaizenvest mobilized new sources of private capital to low-cost ECD owners that needed affordable financing to expand educational access and improve quality. As of February 2025, the activities had mobilized US\$6 million, with US\$7.5 million in additional commitments set to mobilize in the coming year. Private capital mobilization is particularly important in South Africa, where there is very limited public ECD provision and where 70% of ECD funding comes from private sources (ReSEP, 2023).

CATALYZE utilized US\$83,000 in USAID funds to expand [Grow ECD](#)'s business accelerator program, which supports women-led, micro-ECD centers to access financing, high-quality resources, and capacity building. This grant capital then catalyzed US\$1.8 million into Grow ECD-supported entrepreneurs from private donors in the form of low-interest loans and capacity-building support. In addition to financing, an outcomes-based lending model called Rewards & Recognition (R&R) provided financial incentives in the form of interest rebates along with public recognition to ECD centers based on improvements in child development outcomes measured in the same cohort of students 7–10 months apart.⁵

The sudden and unexpected termination of CATALYZE in February 2025 prevented completion of the full intervention, including a planned second round of R&R in South Africa.⁶ However, the implementers were able to complete one full round of the R&R in 2023–2024 with 40 centers, producing promising results: 35% of pre-primary learners improved at least one early learning and development level, far surpassing the 10% target.

Given the novelty of the intervention, there were several challenges, learnings, and adaptations:

- A distinctive feature of this model is that it must first mobilize capital before the impact-linked lending model with schools can commence. The activities encountered significant delays in this mobilization stage due to perceived sector risks from investors, macroeconomic challenges, and bureaucratic delays. Across most CATALYZE activities we found that establishing these foundations for a sustainable education finance ecosystem takes considerable time, but results can move very quickly once key stakeholders buy in.
- Once we mobilized capital and rolled out the R&R, we encountered additional implementation hurdles, including the small size of ECD centers, a staggered onboarding schedule, and high student attrition. These made getting sufficient sample sizes of children in the

correct age cohort from baseline to endline difficult, leading to multiple adaptations, including shifting from individual rewards based on the relative performance of each center to instead providing a uniform award for improvement across the whole cohort.

- While we had planned mitigations for future R&R rounds, these were unable to proceed due to USAID's dissolution. Regardless, the experience highlighted the importance of flexibility, partner-specific customization, and ideally building in an initial pilot year to stress test design elements to ensure fairness and transparency for implementers before going to scale.

Despite its early termination, the activity has left a sustainable impact on participants; indeed, Grow ECD is planning to embed a similar results-based lending approach into its model going forward. Moreover, all participants indicated that the new capital mobilized via CATALYZE has been highly impactful. As Grow ECD's CEO Tracey Chambers noted:

The Grow ECD model exists to level the playing field. For too long, access to quality education and business support has been out of reach for the very people who are closest to the need. Impact-linked finance, like the support provided through CATALYZE, helps us change that – enabling centre owners to grow sustainable businesses and improve early learning outcomes where it matters most. Our work with CATALYZE proved that small, affordable loans – when backed by mentorship, curriculum and operational tools – can have outsized impact. We're seeing a new generation of preschool owners become confident businesswomen, managing cash flow, growing enrolments and delivering five-star early learning in underserved communities.

Image 1. Spring Tots Childhood Centre



Source: Grow ECD – Spring Tots Childhood Centre.

Kenya: Jackfruit Finance

In Kenya, CATALYZE piloted a similar ILL model via Jackfruit Finance, leveraging its AI-enabled credit scoring platform to tailor affordable financial products to low-fee private primary schools. A portion of USAID funds served to de-risk private investment by protecting against potential losses as well as to provide capacity building for schools to make them more investment ready. These mechanisms were highly effective, achieving the US\$5 million private capital mobilization target by February 2025 a full year early. On top of access to affordable financing, Instill Education provided instructional leadership and classroom pedagogy training.⁷

Unlike the South African case, the capital mobilization phase moved much more rapidly, given that Jackfruit had already established operations and built a strong pipeline of schools. This laid the foundation for a quick rollout of the ILL pilot, with baselines kicking off in October 2024 with 35 schools. The assessments used tools adapted from the Early Grade Reading Assessment (EGRA), including measures of: (i) teacher effectiveness (via classroom observation tool), (ii) school management effectiveness (via head teacher survey), and (iii) early-grade literacy skills (via reading assessments). In contrast to South Africa, the approach deliberately placed incentives on intermediate educational outputs (teacher skills and school management) rather than student learning outcomes due to time constraints and the objective of establishing a model that could be sustainably embedded in Jackfruit's business model.⁸ Rewards were to be issued to schools that showed improvements in these measures over the course of the academic year, on a sliding scale, as well as those that scored consistently high at baseline and endline.

While the project's early termination paused the ILL program, Jackfruit was able to successfully finish out the pilot with support from the Waterloo Foundation. The [endline evaluation](#) of 28 ILL schools found significant improvements with reading comprehension scores tripling from baseline to endline.⁹ In addition, early learning from the CATALYZE ILL program went into shaping the [Incentives for Learning program](#) that is piloting a similar model in low-fee private schools in Kenya. RCT results for this program will be available at the end of this academic year.

The consortium also captured significant learning to inform Jackfruit's continuation of this model going forward:

- The pilot demonstrated that schools are excited to engage with outcomes-based models when incentives are achievable and relevant.
- Like South Africa, the initial pilot round was important to optimize the design including selecting tools and

indicators that were easily administered and allowed for fair reward determination.¹⁰

- Schools also noted that the assessments alone were highly valuable for improving their practice regardless of the incentives offered. As one school director noted:

We never really had a way to know how we were doing beyond exam results. The assessment and classroom feedback helped us see specific areas we could improve, like giving clearer instructions or checking for understanding. I even started observing my teachers differently after that.

Discussion

These impact-linked lending models show promise in mobilizing new financing sources in an increasingly constrained global education financing landscape while also incentivizing improved quality. That said, one critical distinguishing factor of these models is that they are designed for private capital providers investing in revenue-generating models, and are therefore unsuitable for non-profit providers that cannot repay upfront financing. Both grant-based and market-based OBF models have their unique place in the education ecosystem and should be considered as complementary. While grant-based models that have been pioneered in impact bonds and outcomes funds are best suited for non-profit models and public education provision, privately run models like these ILL pilots also have a role to play in education systems where there is significant non-state education provision to low-income populations.

Importantly, while blended and private sector-led models like ILLs can complement public and grant-based approaches, they are not a replacement. First, given they can only work with fee-charging schools set up as businesses, they are naturally limited in their ability to reach the most vulnerable populations.¹¹ Second, while private sector-led models can facilitate localized and self-sustaining financing solutions once local financial institutions have developed well-performing education portfolios, they are less immediately suited to working directly with public systems and therefore become more challenging to scale without a central coordinating body.¹² However, given the complexity of working with government and multi-stakeholder consortia, ILL models are often quicker to design and launch than other instruments like impact bonds and outcomes funds, given that there are fewer contractual parties and that implementation is fully led by the private sector.¹³

While the findings of these models are limited due to their early termination, these pilots show that impact-linked lending models are ripe for further exploration. Going

forward, these models require refinement and further evaluation to determine to what extent they actually motivate improved performance and what the optimal design features are to maximize improved outcomes. That said, they offer a compelling case for impact-linked lending as a bridge between financial sustainability and school quality improvement in the non-state education sector and provide a baseline for future experimentation and learning.

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Note

This article was written from the perspective of Palladium/USAID CATALYZE when Lauren Pisani and Joseph DiSilvio were both employed by Palladium, the main implementer of USAID CATALYZE. Lauren Pisani led the ECCE portfolio and Joseph DiSilvio led the Education Finance Africa portfolio.

Endnotes

1. Note that approaches with similar design features are being implemented by the [Impact-Linked Finance Fund](#), led by iGravity and Roots of Impact, as well as the [Incentives for Learning \(IfL\)](#) program led by IDP Foundation and GSF, which will be useful cross-learning initiatives as they move forward.
2. Note that these types of blended finance structures are often needed up front to help prove to financial institutions and investors that local education providers are investable; however, they are ideally no longer needed as FIs build a successful portfolio of education-related investments. Given the capital mobilized from the private sector through these models is all completely new sources of financing to education, this sets the foundation for sustainable financing to close education funding gaps over time.
3. Payment metrics and implementation approach varied by country. In South Africa and Rwanda, rewards were linked to improvements in early childhood development outcomes, and in Kenya they were linked to improvements in teacher skills and management practices.
4. It is important to note the role of donor funding in these pilots and what can and cannot continue once USAID funding was terminated. The main pieces that require donor funds in these pilots were i) the upfront grant funds to catalyze new sources of private capital; ii) all key monitoring, evaluation, and learning (MEL) activities, including the pre-post assessments and associated reward payouts, and iii) capacity building/TA for schools and FIs. While these donor funds are needed at the pilot stage; the models were intended to become sustainable over time. Indeed, the private-sector funders and implementers featured in this piece will carry on despite the termination of USAID funding, but the actual impact-linked lending pilots will only continue if implementers can raise new sources of grant funding for the measurement and payouts. That said, these features were also intended to ideally become sustainable over time or maintained with limited grant funding. Jackfruit Finance, for example, planned to embed an affordable pre-post assessment approach into its risk scoring model, rewarding high-performing schools for making tangible improvements in quality and learning, which serve to improve both educational impact and financial performance.
5. Early childhood development outcomes were measured by the Early Learning Outcomes Measurement (ELOM) in South Africa based on government preferences, and by the International Development and Early Learning Assessment (IDELA) in Rwanda.
6. Baselines in Rwanda were planned for February 2025 but were unable to start due to the dissolution of USAID. As such, we do not have concrete data points from that activity and must largely exclude it from this analysis.
7. In addition, Dalberg Advisors supported the design of the ILL program in partnership with Palladium, and Zizi Afrique was the independent evaluator carrying out the education assessments that fed into the ILL.
8. While the consortium did assess reading skills via the EGRA, it did not link this to financial incentives given the limited time for improved learning outcomes to accrue and cost considerations for future rounds.
9. Note the USAID termination had no impact on the financing since USAID funds for that purpose already raised the full US\$5 million private capital target before termination. All 200 schools that were planned to receive financing under CATALYZE, and many more, will still receive financing, although the teacher capacity building and incentive program will not restart without additional grant capital. Central to Jackfruit's plans to embed impact-linked lending sustainably into its portfolio is the development of an AI-powered school quality feedback engine that provides tailored feedback and training content based on assessment results.
10. For instance, through this round, we learned that many schools scored relatively highly at baseline, leading to adaptation of the scoring to allow for rewards for both improved performance as well as consistently high performance.
11. Note that under CATALYZE, we completed comprehensive affordability studies in each activity to set strict thresholds of what fees were affordable to lower-income families in line with USAID's Congressional Guardrails. In spite of this, the very poorest populations typically cannot afford even modest school fees and can be left out of these low-cost private school models.
12. In contrast, Education Outcomes Fund's models in [Sierra Leone](#) and [Ghana](#) provide examples of approaches where the mechanism is built into government systems from the start as a pathway to sustainability.
13. Importantly, many of the considerations and tradeoffs inherent to other types of results-based financing apply here – such as metric selection, payment terms, avoiding perverse incentives, and managing diverse stakeholder objectives – which are the focus of several other studies but are beyond the scope of this piece. Other relevant studies that delve into these topics include a [comparative study of DIBs](#), analysis on [measurement tool considerations](#) in outcomes-based financing activities focused on ECD/ECCE; learnings and best practices in designing ECCE focused [outcomes funds](#). In all outcomes-based approaches there is also a central tradeoff between simplicity and rigor in metrics, tools, and evaluation methods, which is highly dependent on the priorities and resources of key stakeholders involved. While OBF mechanisms often prioritize rigorous evaluation approaches in order to attribute outcomes to a particular intervention as the basis for payments, these pilots opted for simpler models that did not allow for direct attribution, as the objectives of private-sector implementers were focused on identifying sustainable, cost-effective solutions over systemic evidence. Note that any of these pilots could have been implemented with a more rigorous evaluation approach as well so long as resourcing, time, and stakeholder will was sufficient, although there would be trade-offs with self-sustainability and quick adaptation. For example, the Rwanda activity had planned a quasi-experimental approach with a comparison group to test differences between groups getting incentives versus not but was unable to start due to the termination of activities.

Rethinking Inclusion in Outcomes-Based Financing: Lessons from the ECCE Outcomes Fund in Rwanda

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Summary

This article explores how Rwanda's Early Childhood Care and Education Outcomes Fund (ECCE Outcomes Fund) embedded disability inclusion into its design as a guiding principle—before implementation—rather than an afterthought. Drawing on local knowledge systems, community learning, and a relational ethic of care, it highlights how outcomes-based financing can support meaningful participation for all children.

Keywords

Disability inclusion
Early childhood care & education
Outcomes-based financing
Education equity
Rwanda

Disclaimers

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Why Inclusion Must Come First

Young children with disabilities remain among the most likely to be excluded from early childhood care and education (ECCE), especially in low-income and under-resourced settings (Banks et al., 2019; UNICEF, 2021). Despite decades of international commitments to “leave no one behind,” ECCE systems are often fragmented, shaped by ableist assumptions and poorly equipped to support the full range of developmental diversity (Division for Early Childhood and National Association for the Education of Young Children, 2009; Watson, 2017). Traditional input-based financing models, such as those that fund infrastructure, training or materials, tend to reinforce exclusion when they prioritize visible, short-term deliverables over long-term relational support. These models often undervalue the invisible work of care, fail to track the participation of marginalized groups, and overlook the systemic barriers that prevent meaningful access.

Outcomes-based financing (OBF) emerged as a response to some of these limitations, linking funding to results rather than inputs. In theory, OBF aims to improve efficiency and impact by paying for measurable outcomes. However, when results are narrowly defined through standardized benchmarks or rigid indicators, OBF models may still reproduce exclusion. Children who learn, move or communicate differently can become invisible within these systems, particularly when their progress does not fit neatly into predefined metrics (Needham, 2023; Olusanya et al., 2023). While both traditional and outcomes-based models risk reinforcing exclusion, they do so in different ways. Traditional models may fail to notice exclusion at all, while OBF models

may create financial disincentives to include children whose learning journeys are less linear or harder to quantify.

This article explores a different approach. Rwanda’s [ECCE Outcomes Fund](#), designed in partnership with the Government of Rwanda and the [Education Outcomes Fund](#) (EOF), is one of the first OBF programs to embed disability inclusion as a central feature of its design. Drawing on local knowledge systems, field-level learning, and a relational ethic of care, the Fund offers lessons for designing financing systems that centre equity without replicating deficit-based assumptions about children or communities.

This perspective of inclusion is grounded in the social model of disability, which emphasizes that exclusion arises not from an individual’s impairment but from the interaction between a person and their environment—such as inaccessible services, exclusionary assessments or rigid program designs. In contrast, the medical model frames disability as an individual problem to be treated or “fixed,” often resulting in siloed and segregated services (UNICEF, 2023; Needham, 2023). Watson (2017) further cautions that even within settings labeled “inclusive,” the power of the “normal” can subtly dictate who is seen as competent and who is positioned as deficient. By aligning with the social model, the ECCE Outcomes Fund invested in transforming systems—not children—and affirming that every child belongs, learns, and contributes in their own way.

What is Outcomes-Based Financing?

OBF is a funding model in which resources are disbursed based on the achievement of predefined results. Rather than paying for specific activities – such as constructing classrooms or conducting training – governments or donors link payments to measurable progress, such as improvements in children’s development or increased participation in early learning. An outcomes fund is one model of OBF, and the [Education Outcomes Fund](#) (EOF) is a leading global initiative that pioneers the use of outcomes funds specifically in the education sector. The EOF works with governments and partners to design programs that focus education systems on learning outcomes by tying funding to demonstrable results.

In theory, this approach helps align funding with impact and encourages accountability. However, in practice, many OBF models rely on standardized data, rigid indicators, and linear benchmarks that may not reflect the complex realities of children’s lives—particularly those who are disabled, neurodivergent or navigating multiple barriers. These frameworks often assume that all children follow a single trajectory of development and learning, leaving behind those who move differently, communicate nonverbally or require more time and support.

When funding is tied to narrowly defined results, providers may face strong disincentives to enrol or meaningfully support children who do not easily “fit” into conventional assessment frameworks (UNICEF, 2023). Rigid OBF models risk rewarding speed and simplicity over care and connection and may inadvertently reinforce exclusion, even while claiming to promote equity (Olusanya et al., 2023).

The ECCE Outcomes Fund in Rwanda challenges this logic. It begins from a different starting point: that all children have a right to participate, and that systems—not children—must change in order to realize this right. The Fund adopts a design approach that emphasizes adaptive participatory practices rooted in local expertise and cultural values. In doing so, it responds to critiques of top-down development models and speaks to the urgent need for financing strategies that are context sensitive, inclusion driven, and ethically grounded (Education Outcomes Fund, 2024).

A Fund Rooted in Community and Care

The ECCE Outcomes Fund (“the Fund”) is a new outcomes-based financing initiative currently being developed through a partnership between the Government of Rwanda and the EOF, a global financing facility hosted by UNICEF. EOF supports country-led outcomes funds across the education sector, and in this case, is co-designing the ECCE Fund with Rwanda’s National Child Development Agency and Ministry of Education. The Fund aims to improve developmental outcomes for young children by aligning financing with inclusive, community-driven practices. While the design process began in 2023, implementation is expected to start in late 2025.

The Fund is structured to contract local non-governmental organizations (NGOs) and community-based organizations to deliver early learning services in informal ECCE centres. These centres often operate outside the formal school system and are primarily led by women caregivers embedded in the communities they serve. These caregivers bring invaluable insight into family dynamics, daily routines, and cultural values—knowledge often overlooked by standardized systems or externally defined “evidence-based” models.

The Fund’s design places inclusive practice at the centre, grounded in the relational, place-based ethic of care reflected in the traditional Rwandan concept of *kubaho nu kubana* (“to be is to be with”). This worldview affirms interdependence and collective responsibility within *umuryango*, the kinship structures that shape community life. In this context, community does not refer only to physical proximity, but to a felt sense of belonging and mutual care—particularly for children with disabilities, whose inclusion often depends on the strength of these relationships (Karangwa, 2006; Batamuriza, 2024).

To operationalize this vision, the Fund will link payments to outcomes that reflect both participation and equity. While specific contractual details are still being finalized, the design includes outcomes-based payments tied to disability-disaggregated enrolment and retention data, alongside targeted incentives for inclusive practices. Additional non-financial mechanisms, such as peer learning networks and technical coaching, will support implementing partners to embed inclusion in culturally grounded ways.

A broad coalition has been engaged in the Fund's co-design, including:

- The Government of Rwanda (National Child Development Agency and Ministry of Education)
- The EOF, hosted by UNICEF with support from the Rwanda Country Office
- Local and international NGOs and community-based organizations delivering ECCE services
- An Inclusion Technical Team composed of disability researchers, caregivers, inclusive education advisors, and Rwandan advocates with lived experience of disability

By rooting inclusion in relationships, local knowledge and shared accountability, the Fund aims to create a financing model that does not merely permit inclusive practice but actively sustains and rewards it.

Designing for Inclusion: Four Key Shifts

The ECCE Outcomes Fund did not retrofit inclusion. Instead, it reimagined its incentive structures, accountability frameworks, and program supports around inclusive values from the outset. While implementation is expected to begin in late 2025, the Fund's design process has already surfaced several challenges and opportunities that may inform future programs. Four interlinked shifts were central to this inclusion-first design approach.

1. Financing Participation, Not Just Performance

Traditional outcomes-based financing models often reward easily measurable outcomes, such as test scores or enrollment numbers. This can disincentivize support for children who require more time, adaptations, or relational scaffolding. In Rwanda, the Fund proposes expanded payments for providers who enroll and support children with disabilities. These payments will be linked to disability-disaggregated participation data, drawn from the [Washington Group Child Functioning Module](#) (WG-CFM) and attendance tracking over time (Washington Group, 2020).

While this marks a shift from output-focused metrics, it remains a partial measure. Presence alone does not equal meaningful inclusion, especially if the environment is not accessible or attuned. The incentive is designed to recognize effort and signal that inclusive practice is valued. Over time, the aim is to evolve toward richer indicators that capture the quality of participation—not just its occurrence.

Envisaged challenges: Service providers may need time, training, and support to identify functional difficulties reliably, implement accommodations, and shift attitudes. Sustaining this work may require layered incentives and ongoing coaching.

2. Adapting Tools to Recognise Diverse Learning

Standardized assessments often miss how children with disabilities express themselves, connect with others, or demonstrate learning. To counter this, the Fund adapted two tools:

- The International Development and Early Learning Assessment (IDELA) – a widely used measure of school readiness developed by Save the Children. The IDELA was adapted in Rwanda to better reflect local cultural contexts and avoid penalizing children whose learning paths differ from standardized benchmarks ([Save the Children, 2024](#)).
- The Washington Group Child Functioning Module (WG-CFM) – a globally recognized screening tool developed to identify functional difficulties in a non-diagnostic, rights-based way ([Washington Group, 2020](#)).

These tools were selected with input from local experts and adapted for cultural and linguistic relevance. They are used to guide care and identify support needs—not to diagnose or determine payment. Their role is formative, helping caregivers ask, “What does learning look like for this child?” rather than comparing children to a so-called norm.

Key challenges include ensuring providers are trained to use these tools in relational, non-judgmental ways, and addressing limited referral pathways, especially in rural areas.

3. Centring Multisectoral Collaboration

Inclusion depends on more than ECCE alone—it requires access to health, protection, and family support, as outlined in the Nurturing Care Framework ([WHO & UNICEF, 2018](#)). The Fund promotes multisectoral coordination through referral guidance, shared data templates, and links to community health worker networks.

Given the absence of a formal referral system in Rwanda, coordination often relies on informal relationships. Grantees (contracted service providers) are encouraged to develop simple,

trust-based case management approaches. While system integration will take time, the Fund begins by strengthening local networks and promoting shared responsibility across sectors.

4. Honouring Caregiver Knowledge

Too often, inclusion is framed through technical training or external standards. The Fund takes a different approach, treating caregivers—mothers, grandmothers, and community leaders—as knowledge-holders with deep, culturally grounded expertise. Through coaching and peer-led exchange, caregivers will be supported to share strategies and strengthen inclusive practice.

While tools like IDELA and WG-CFM can inform care, they are only as effective as the relationships that surround them. This relational approach departs from typical OBF models that prioritize metrics over community wisdom. Embedding this approach into a results-based system will require flexibility, trust and sustained support.

Table 1 summarises how the Fund’s inclusion-first design rethinks the key assumptions held in traditional outcomes-based financing models. These principles are operationalised through outcomes such as disability-disaggregated enrolment and retention, participation in inclusive training, and centre-level improvements in inclusive practice. For example, providers receive an enhanced payment—double the standard amount—for each child with a disability enrolled and supported. While early indicators remain quantitative, they are designed to reward inclusive practice and signal that belonging and growth matter. More relational metrics—such as caregiver-reported experiences or child engagement—are under consideration for future funding cycles.

Table 1. Reframing Outcomes-Based Financing Through Inclusion

Dimension	Traditional OBF	Relational Inclusion (Rwanda Fund)
What counts as success?	Standardized benchmarks	Participation, belonging and growth
How is the difference understood?	As a gap to close	As diversity to honour
Progress is measured by...	Uniform outcomes	Adapted tools and local insights
Accountability is...	Data-driven and comparative	Shared and community-grounded
The provider’s role is to...	Deliver outcomes	Nurture relationships and care
System orientation is...	Individualized and siloed	Multisectoral and collective

Source: Authors.

What’s Still Missing—and How the Fund is Responding

Even as outcomes-based financing grows in popularity, many models still lack the structures necessary to support meaningful inclusion. Exclusion often arises not by design, but by default—when rigid metrics, siloed systems, or data gaps go unchallenged (Needham, 2023; UNICEF, 2021; Olusanya et al., 2023). The ECCE Outcomes Fund in Rwanda does not claim to have solved these challenges, but its design attempts to account for them. Table 2 outlines common barriers and how the Fund aims to address each through adapted financing, measurement, and service delivery strategies.

Table 2. What’s Still Missing in Outcomes-Based Financing—and How the Rwanda Fund Responds

Systemic Gap	Barrier for Inclusion	Fund Adaptation
Inclusion not embedded	Children with disabilities excluded	Inclusion integrated from the outset into design, incentives and measurement
Standardized outcomes	Invisible learning pathways	Adapted IDELA and WG-CFM tools used to recognize diverse progress
Incentives misaligned	Focus on “easier” learners	Enhanced payments (2x premium) reward inclusive enrolment and sustained participation
Poor disability data	Children remain unseen and unsupported	Community-level identification and flexible tools integrated into programming
Siloed systems	Fragmented and inconsistent support	Multisectoral coordination embedded across education, health and protection
Caregiver knowledge ignored	Valuable insight lost	Peer learning and coaching models validate and leverage caregiver expertise
One-size-fits-all fund models	Cultural dissonance and local disconnect	Fund approach grounded in “kubaho nu kubana” or “to be is to be with”

Source: Authors.

Each of these shifts is explored in more detail in the accompanying technical brief: [Designing for Disability Inclusion in ECCE: Learnings from the ECCE Outcomes Fund in Rwanda](#) (Education Outcomes Fund, 2025).

What Can Others Learn?

The ECCE Outcomes Fund in Rwanda offers a compelling case for how outcomes-based financing can be reimaged through an inclusive lens. Although when this article was written in May 2025, the Fund was still in its contracting phase, its design process surfaces important tensions in education financing—between efficiency and care,

standardization and diversity, and externally imposed metrics and locally grounded knowledge.

Several lessons are emerging that may be useful for funders, policymakers, and implementers working in other contexts:

Figure 1. Key Lessons for Inclusive Outcomes-Based Funding



Source: Authors

Conclusion: Creating Inclusion, Not Just Measuring It

Inclusion is not a bonus metric or a marginal concern—it is the foundation of equitable early childhood systems. The ECCE Outcomes Fund in Rwanda shows that outcomes-based financing can support inclusion, but only when it resists standardization, embraces relational accountability, and treats community care as a central form of knowledge.

These principles were not abstract: they were built into design features such as enhanced payments for enrolling and supporting children with disabilities, the use of adapted assessment tools to guide practice, and requirements for caregiver coaching and multisectoral coordination. These operational choices reframe inclusion as a core investment, not a trade-off.

The Fund did not aim to fix children to fit systems. It sought to redesign systems to welcome children as they are. If we are to build truly inclusive systems, we must move beyond measuring inclusion—and begin creating it.

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Rethinking “Transaction Costs” in Outcomes-Based Financing: An Analysis of Pre-Implementation Costs in Education Outcomes Funds

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Summary

Outcomes-based financing (OBF) is often criticised for high “transaction costs.” Drawing on experiences from multiple education outcomes funds and internal cost analyses, this paper proposes a new classification of pre-implementation expenditures. It argues that many of these costs are strategic investments in system-building and programme success – common to well-designed input-based programmes as well, and not unique to OBF.

Keywords

Outcomes-based financing
 Outcomes funds
 Education
 Transaction costs
 Cost-effectiveness analysis

Introduction

Governments and philanthropic organisations are increasingly turning to outcomes-based financing (OBF) tools to enhance the impact of education spending. While a growing body of evidence from OBF programmes highlights their potential to strengthen collaboration and improve performance, some observers argue that the high transaction costs associated with single outcomes-based contracts (OBCs), such as impact bonds, continue to limit their broader adoption (e.g. OECD, 2025; Ecorys, 2022). In response, there is rising interest in tools that support multiple OBCs, such as outcomes funds, which consolidate multiple outcome-based contracts within a unified framework¹ (OECD, 2025, p. 27). However, despite these evolutions, critics continue to raise concerns about their cost-effectiveness, particularly in relation to the pre-implementation transaction costs incurred during design and contracting.

This paper challenges the prevailing narrative that emphasizes the need for cost reduction in OBF – and in outcomes funds more specifically – by unpacking the often-critiqued category of “transaction costs.” Specifically, we examine which of these costs are unique to OBF, and which are investments in system-building and programme success – and hence independent of the contract type.

Drawing on the EOF partnerships with governments in developing outcomes funds in education, we argue that many design and contracting expenditures should not be viewed merely as transaction costs. Rather, they represent strategic investments in governance, quality assurance, and accountability, or serve as essential foundations for programmatic success – such as feasibility studies, sound metrics, effective procurement, and thorough due diligence.

By introducing a new classification of pre-implementation expenditures, we aim to shift the conversation beyond a narrow emphasis on cost minimisation. Instead, we call for a more nuanced perspective – one that recognises these expenditures as strategic investments in the foundational elements necessary to unlock the full potential of outcomes funds and OBF more broadly, strengthening education systems and achieving measurable improvements in both current and future programmes.

Reframing the Transaction Cost Narrative in OBF

The literature on OBF is shaped by two competing narratives: one of promise and one of caution (Fraser et al., 2016). The former narrative emphasises OBF's potential to reform public service delivery and financial systems by aligning incentives with measurable results (Fraser et al., 2016). Relatedly, emerging empirical evidence highlights the “impact channels” through which OBF can drive change, such as fostering collaboration, stimulating innovation, and strengthening outcome-oriented performance management (Ecorys, 2022). However, this narrative often falls short of establishing causality, largely due to the limited quantitative comparisons between OBF and traditional financing models.

This evidentiary gap gives rise to the cautionary narrative, which frequently centres on OBF's high transaction costs. OBF is described as “complex, ponderous and costly,” “costly to manage involving heavy upfront investment,” and “costly in both terms of time and money.” Yet these claims are rarely backed by robust evidence or clear comparators (Gustafsson-Wright & Osborne, 2020). This raises a critical question: costly compared to what?

Much of this critique stems from first-generation OBF initiatives – many of which did incur substantial start-up costs (Cox et al., 2019). However, the discourse has not kept pace with the market efficiencies and institutional learning that have consolidated over time. Furthermore, newer instruments, such as outcomes funds, have streamlined design processes and reduced resource burdens.

Of relevance to this paper is the cautionary narrative's reliance on “high transaction costs” in OBF programme design as a blanket critique. These costs are often broadly defined – encompassing activities from technical assistance and evaluation and legal fees to the complexities of multi-stakeholder contracting arrangements.

While we acknowledge that these components can be resource-intensive, we challenge the tendency to indiscriminately group a wide range of expenditures – many of which are not unique to OBF. To meaningfully assess OBF's value, we must distinguish between costs intrinsic to the model and those common to well-designed programmes

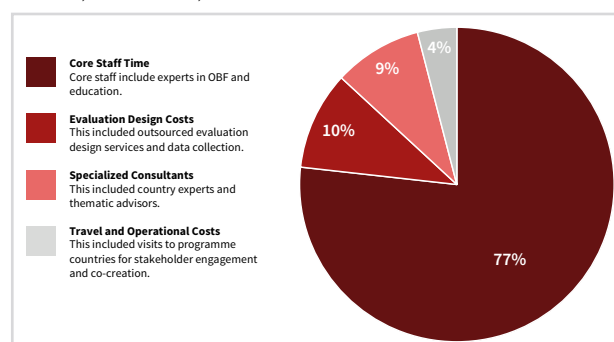
more broadly; and, crucially, consider their functional purpose.

Findings from Analyses of Programme Development Costs

To promote transparency and contribute to a more informed discussion about the costs of OBF, EOF undertook retrospective analyses of the costs associated with the development of its early childhood care and education (ECCE) funds in [Rwanda](#), [Sierra Leone](#) and [South Africa](#), as well as a skills-for-employment fund in [Tunisia](#), FBR@Work.² The objective was to identify which expenditure categories contributed most significantly to EOF's direct costs, often included among “transaction costs” in the OBF literature.

Figure 1 presents the direct costs incurred by EOF during programme development averaged across the four programmes. The analysis revealed that core staff time constituted the most significant share of EOF's expenditures during programme development, accounting for approximately three-fourths of total direct costs.

Figure 1. Direct Costs Incurred by EOF during the Development of the Rwanda, Sierra Leone, South Africa and Tunisia Outcomes Funds³



Source: EOF's resource allocation data.

We mapped the core staff time onto an adapted version of the pre-implementation cost categories outlined by Gustafsson-Wright and Osborne (2020) to further elucidate how it was allocated. This adapted version of their framework, shown in Table 1, compares cost categories across outcomes funds⁴ and input-based financing models⁵, and includes stakeholder engagement as a separate pre-implementation cost category. Notably – and consistent with the original framework – we find that only one of these “transaction cost” categories, investment capital raising, is specific to outcomes funds.

Table 1. EOF's Average Direct Costs during Programme Development

Cost category ⁶	Activities	Present in input-based models?	Present in outcomes funds?	Proportion of EOF team time spent on activities
Categories from Gustafsson-Wright and Osborne's framework				
Programme design	Feasibility study	Sometimes	Yes	9%
	Determination of intervention and outcome metrics	Yes	Yes	24%
	Financial structuring	Yes	Yes	
	Procurement of service providers	Yes	Yes	
Procurement and contracting	Due diligence of service providers	Yes	Yes	38%
	Contracting/legal services	Yes	Yes	
Other	Investment capital raising	No	Sometimes	Not applicable to EOF's model ¹
Additional categories from EOF's internal analysis				
Stakeholder engagement	Government engagement	Yes	Yes	13%
	Donor engagement	Yes	Yes	16%

Source: EOF's internal data; calculations by the authors. Framework adapted from Gustafsson-Wright and Osborne (2020), with figures from EOF's internal data and calculations.

Our analysis shows that less than a quarter of staff time was spent on technical design tasks, suggesting that their cost intensity may be overstated in the relevant literature. The primary cost driver was procurement and contracting⁷, reflecting the rigor needed to ensure capable and aligned delivery partners. Nearly a third of core staff time was spent on government and donor engagement. While not typically classified as transaction costs, these resource-intensive activities are vital to government ownership. For instance, although EOF aims to develop programmes within one year, timelines sometimes extended to two or even three years, as in Rwanda, where aligning government and funder priorities led to an eight-month extension.

These findings also challenge narrow definitions of the “design phase” in OBF literature. Technical design is only part of a broader process that includes stakeholder alignment and system readiness – key to government ownership and strengthening of education management systems. EOF uses the term “programme development phase” to describe this integration of design, engagement, and delivery system setup, emphasizing that many so-called “transaction costs” are in fact foundational programmatic investments.

Reframing Pre-Implementation Costs: A Functional Classification Framework

Building on the insights from our internal cost analyses, we argue that understanding the function of pre-implementation activities and their associated costs is key to evaluating their value. Since what ultimately matters are not costs alone but the effectiveness and impact of that spending, a focus on function spotlights the value of investment. To reflect this, we propose an extended classification framework that organizes pre-implementation costs of outcomes funds (and OBF) into three functional categories:

1. Core design and procurement costs essential for programme success regardless of the financing mechanism.
2. Systems-level investments – strategic spending on the structures, relationships, capabilities and values of programme stakeholders that underpin long-term change in education management systems regardless of the financing mechanism.
3. Costs that are specific to or elevated in outcomes funds and OBF relative to input-based financing models.

Table 2. From Costs to Investment: Expanding on the Framework

Cost category	Activities	Found in strong programme design and procurement	Found when programme invests in systems	Specific to or elevated in outcomes funds
Categories from Gustafsson-Wright and Osborne's framework				
Programme development	Feasibility study	Yes	No	Not specific but likely elevated ⁸
	Determination of intervention and outcome metrics	Yes	Yes	Not specific but likely elevated
	Financial structuring	Yes	No	Not specific but likely elevated
	Procurement of service providers	Yes	No	No
Procurement and contracting	Due diligence of service providers	Yes	No	Not specific but likely elevated
	Contracting/legal services	Yes	No	Not specific but likely elevated
Other	Investment capital raising	No	No	Specific but only sometimes
Additional categories from EOF's internal analysis				
Stakeholder engagement	Government engagement	Yes	Yes	No
	Donor engagement	Yes	No	No

Source: Authors' framework adapting the pre-implementation cost categories proposed by Gustafsson-Wright and Osborne (2020).

Costs Associated with Strong Programme Design Practices

This functional category reflects the technical rigour and broader commitment to fairness, transparency, and sustainability that underpin any successful impact-driven programme, regardless of the financing model. At EOF, this first entails feasibility studies. Though resource-intensive, they ensure that programmes are evidence-based and locally relevant. Equally important is the co-creation of SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) metrics and robust evaluation methodologies, which align incentives and establish a shared understanding of success – and when well executed, can also strengthen broader education management systems.

Next, EOF's procurement processes – as a UN-hosted fund – adhere to UNICEF's procurement principles, prioritizing extensive market engagement, sufficient time for proposal development, competitive negotiations to ensure value for money and robust due diligence processes.⁹ These practices are agnostic to the contracting modality but reflect a commitment to the robust and transparent procurement of implementation partners.

Consultative processes with government leadership and stakeholder trust are also central to strong programme development as well as being central to strengthening education systems. In Tunisia, years of engagement with

national actors ensured contextual fit and broad support for FBR@WORK, launched in May 2025. These sustained efforts foster ownership, relevance, and long-term sustainability – key features of impactful programme design that go beyond transactional engagement.

Together, these practices demand significant time and human resources, highlighting the intensive effort needed to design high-quality programmes.

Costs Associated with Investing in System-Level Change

A second functional category of pre-implementation costs relates to investments in system-level change – those that aim to strengthen the structures, relationships, technical capabilities, and values that underpin long-term improvements in the delivery of education services (Savell, 2022). These costs go beyond programme development, aiming to embed lasting change in public systems. While not unique to outcomes funds, such investments are particularly critical in this context, where the development phase often requires a deeper engagement with system components (Gustafsson-Wright & Osborne, 2020).

At EOF, we see system-level investments as essential to improving immediate and long-term learning outcomes. As exemplified in the co-creation of outcome metrics and evaluation methodologies in ECCE outcomes funds in

Rwanda, Sierra Leone and South Africa, we go beyond typical outcomes fund design to ensure government leadership and integration into public systems and national priorities. Though resource-intensive, this process supports both fund performance and national quality assurance systems, with potential for long-term use.

Costs Related to Outcomes Funds

While we find that investment capital raising is the only cost unique to outcomes funds, our analysis – again, echoing Gustafsson-Wright and Osborne (2020) – finds that other activities can be more resource-intensive under outcomes funds. Two key factors drive higher pre-implementation costs in outcomes funds: first, OBF tools shift the financial risk of under-performance from the funder to service providers – or in some cases, investors – raising the bar for programme design. This requires rigorous feasibility studies, well-balanced metrics and robust procurement to ensure providers can deliver, specifically ensuring strong due diligence to avoid the “winner’s curse.”¹⁰

Second, outcomes funds currently lack the standardized tools and templates available in traditional financing models, which can lead to higher legal and startup costs due to the mechanism’s novelty. However, as experience with outcomes funds grows, early signs already indicate cost reductions. Following the launch of the first outcomes fund in Ghana, EOF reduced development timelines by 35% and staff costs by 40% when developing the basic education [outcomes fund in Sierra Leone](#) – thanks to more efficient processes and a more experienced team. A subsequent ECCE programme in Sierra Leone cut design timelines by an additional 25%, demonstrating how repeated engagement and institutional learning can significantly reduce costs over time (Castellnou et al., 2021). Similar patterns of efficiency gains linked to institutional learning have been observed in other contexts (Strid & Ronicle, 2021).

Conclusion

In this paper, we challenge the prevailing narrative that OBF tools – including outcomes funds – are excessively costly. Drawing on EOF’s experience developing multiple outcomes funds, we argue that many expenditures commonly labelled as “transaction costs” are, in fact, strategic investments in programme quality and systems strengthening. Through a functional classification framework, we distinguish between three categories of pre-implementation costs: those associated with strong programme design and procurement, those that reflect investments in systems-level change, and those specific to or elevated in outcomes funds and in OBF more broadly.

While some costs are inherent to outcomes funds, like investment capital raising, and others are elevated due to the model’s novelty and a shifted financial risk, most pre-implementation costs incurred by EOF for outcomes funds reflect intentional investments in governance, accountability, and institutional capacity. For example, in South Africa, EOF’s collaboration with the Department of Basic Education and National Treasury for developing an ECCE outcomes fund also facilitated efforts to build coalitions for expanding access to quality ECCE.

More broadly, these findings underscore the importance of viewing OBF-related costs through a lens that acknowledges their functional roles and long-term value. To fully harness the potential of OBF tools, including outcomes funds, we encourage practitioners, researchers, and funders to move beyond the blanket use of the term “transaction costs.” Instead, we advocate for a more nuanced perspective – one that recognizes many expenditures as integral to strong programme design and systems strengthening. Consequently, the pre-implementation costs of OBF tools – including outcomes funds – should be benchmarked not against the lowest-cost input-based programmes but against those that prioritize impact and systemic change.

While some OBF-specific or elevated costs are likely to persist, others can be reduced as the field matures. EOF prioritises three strategies to support this:

- Codifying replicable outcome fund models,
- Fostering collective learning,¹¹ and
- Creating accessible [knowledge products](#) to support the confident uptake of outcomes funds in new contexts.

By embracing these strategies, the education financing community can unlock the full potential of outcomes funds and OBF more generally – not only as a financing tool for delivering results in the short term but as catalysts for long-term, systemic change for improved learning and employment outcomes.

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Endnotes

1. To learn more about outcomes funds in education, refer to <https://www.educationoutcomesfund.org/post/new-information-brief-on-outcomes-funds-for-education>
2. As none of these programmes have completed implementation, the analyses focus on the pre-implementation phase. EOF intends to conduct similar cost analyses once the implementation of these programs is complete.
3. The analyses are focused on only those costs incurred by EOF during the pre-implementation of these outcomes funds. They do not include costs incurred by other stakeholders, including but not limited to service providers, government partners and other outcome funders.
4. While the adapted framework compares input-based financing and outcomes funds, we would expect most of the findings to be applicable to OBF more broadly.
5. Input-based financing refers to a traditional funding approach in which financial resources are allocated to service providers based on the estimated costs of inputs required to deliver specific goods or services. These inputs may include personnel, equipment, infrastructure, and materials. Under this model, disbursements are typically made in advance and are not directly linked to the actual performance or outcomes achieved even if performance and outcomes are measured.
6. Here, we present an adapted version of the cost categories originally listed under the “Project Design and Structuring” phase in Gustafsson-Wright and Osborn’s 2020 framework. We interpret this phase as corresponding to what EOF defines as the “programme design” and “procurement & contracting” phases, which together constitute the broader “programme development” phase. Costs have been re-ordered to reflect EOF’s approach to programme development.
7. Examples include engaging providers, developing request-for-proposal materials, selection, due diligence, and finalizing legal agreements.
8. One reason feasibility study costs may be elevated in outcomes funds is because they include an analysis of the value-add of the financing mechanism itself.
9. As of August 1, 2025, EOF is now a UNOPS-hosted fund
10. The “winner’s curse” occurs when the winning provider underbids or overestimates their targets or ability to deliver results, leading to financial strain or underperformance. It usually arises in competitive bidding, where a provider offers lower prices or overly ambitious targets to win funding beyond what they can realistically achieve. This can result in financial losses, project failure or lower service quality.
11. These efforts are already underway through EOF’s co-convening of peer-to-peer learning initiatives, such as the Collective Learning Initiative for OBF in ECCE. EOF also engages in community building efforts with the Outcomes Finance Alliance and the Education Finance Network, bringing in and sharing out our learnings accrued during programme development.

Can Outcomes-Based Financing Change How We Work? The Case of Save the Children and the Sierra Leone Education Innovation Challenge

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Summary

The Education Outcomes Fund's Sierra Leone Education Innovation Challenge has been one of Save the Children's first experiences with outcomes-based financing in education. Here, we reflect on how this experience differed from the norm of payment for activities and how it could change our ways of working for the future.

Keywords

Education
Outcomes-based financing
Accountability
Organisational effectiveness
Evidence and learning

An outcomes fund is an outcomes-based financing (OBF) mechanism in which funding from multiple sources is pooled to fund providers to achieve a pre-determined set of outcomes (EOF, 2025). Payment is made to organisations who achieve outcomes, demonstrated through a third-party evaluation. The intention of outcomes funds (and OBF generally) is to generate better results, more efficiently than programmes where funding is tied to the delivery of activities. Brock (2025) reflects on additional hypothesised benefits of OBF, including the flexibility to focus on what matters, greater local ownership, stronger accountability (through risk), innovation and flexibility and improved efficiency. In this article, we explore some of these additional hypothesised benefits through the lens of Save the Children's participation in the Education Outcomes Fund's (EOF) Sierra Leone Education Innovation Challenge (SLEIC).

The SLEIC is a USD 18 million outcomes fund led by the EOF, and funded by the government of Sierra Leone, the UK Foreign, Commonwealth & Development Office (FCDO), the Hempel Foundation, the Korean International Cooperation Agency (KOICA) and Bank of America. SLEIC began in 2022, with the first year's funding being awarded based on delivery of activities, and subsequent payments for the second and third year being entirely awarded based on the extent to which providers improved literacy and numeracy outcomes in primary schools.

Save the Children is one of five SLEIC providers supporting 65 schools across three districts. Save the Children International manages programme implementation through the Sierra Leone country office, while Save the Children UK manages the contract and provides technical assistance to the implementing team. The financial risk of non-achievement

of outcomes is borne by Save the Children UK and several backers who provided the initial capital for implementation either through donations or zero-interest loans and who agreed to split some of the risk of not achieving targets. Our interventions have focused on a) teacher professional development and support for school leadership, b) increasing the supply of materials through the establishment of book banks, c) providing flexible learning opportunities for at-risk learners and d) building community support for safe and inclusive education.

For SLEIC, payments are made based on learning gains and the proportion of Grade 4 and 5 learners reaching a minimum competency benchmark. To improve equity, outcomes for girls are paid at a higher rate than for boys. The learning gains payments are made by multiplying a) the number of boys and girls attending on the day of the evaluation, b) the learning gains target in SD units, and c) the price per outcome, which is higher for girls. If the learning gains target is not met, the payment will be zero. There is a stretch case payment that is calculated by multiplying a) the number of boys and girls attending on the day of the evaluation, b) all learning gains in excess of the target, and the stretch case price per outcome. This means that by achieving learning gains targets, providers recoup their budget, and the stretch payments present an opportunity to be rewarded more than the budgets committed. Targets were set by the Sierra Leone Ministry of Basic and Secondary School Education (MBSSE) and EOF, and were adapted each year based on evaluation results, meaning that they remained ambitious but achievable.

While the aim of SLEIC is to demonstrate models for improving learning outcomes, for this paper, we are interested in the additional benefits of OBF, and whether SLEIC had a positive impact in the way in which we worked to deliver outcomes. We want to know:

1. How did accountability for outcomes manifest in our ways of working? What drove it and what did it result in?
2. Did the flexibility of the model and the availability of evidence through external evaluation lead to a more adaptive approach to programme delivery?

We are interested in understanding the comparative benefit over traditional payment-for-activities contracts. This paper draws from workshops that took place during the final months of SLEIC implementation, representing the experience of both the Save the Children International (SCI) and Save the Children UK (SCUK) teams.

The Drivers and Impacts of Accountability for Outcomes

The outcomes contract created accountability for outcomes both through the creation of a narrative focused on outcomes and through the financial risk of not achieving outcomes, as detailed above. A focus on achieving outcomes is not unique to outcomes contracts, but the fact that evaluation results were yearly, comparative (with other providers), and continually referenced and emphasised by all parties was felt to create a much stronger narrative than usual. Combined with the financial risk², this accountability for outcomes created a sense of urgency that is not felt in other projects.

This urgency led to us shifting the project team members' objectives from the delivery of activities to how their work with schools and communities that contribute to improving children's learning outcomes. Monthly one-to-one meetings and fortnightly project review meetings provided space for engagement among team members discussing challenges during implementation, with a focus on outcomes. This created opportunities to share learning on activities that have worked well and why they worked so others can learn and share context challenges and how they have been solved. We feel that this outcome-focused approach to progress monitoring was driven by accountability for outcomes.

At the organisational level, the nature of the contract facilitated discussions on how systems, including SCI's internal indicator monitoring and procurement systems, needed to be adjusted to facilitate learning and adaptation. Changes allowed more frequent changes to indicator targets or shorter timelines for procurement than was the norm (the results of which are covered in the next section). Teams across SCI and SCUK felt that this flexibility may not have been widely supported without the urgency created by the outcomes contract.

Urgency and financial risk are not without their downsides. Early in the project, the team felt significant levels of negative stress. This was driven by two factors. Firstly, the sense that the achievement of education outcomes rests on assumptions about factors outside of our control. While interventions were based on previous work in Sierra Leone, and on Save the Children's evidence-based common approaches, there was uncertainty as to whether they would lead to the intended outcomes. Secondly, it highlighted gaps in organisational learning culture. Despite clear messaging from all levels of leadership that this was a learning experience, there was a sense that the project team would ultimately be "blamed" for a failure to achieve outcomes.

The establishment of a culture of learning requires trust within and between teams and the freedom to make decisions independently and to learn from them. The fact that the failure to achieve outcomes would be public and

costly creates a greater need for a learning culture that doesn't create individualised blame. While this improved over time, we feel that we have more work to do as an organisation to create this openness.

Evidence, Learning and Adaptation

SLEIC aimed to support data-driven learning and adaptation through the provision of regular evidence on learning outcomes through external evaluation and through greater flexibility for providers to use evidence to adapt their activities.

The provision of yearly data from the external evaluation served as a mechanism to assess the effectiveness of the interventions, generating insights on what was working and what was not and for whom. These data informed internal reviews, in which we were able to use the evidence to refine approaches and throw more weight on those activities that were demonstrating impact. It provided a focal point for engagement with school, community, and district-level partners. Grounding these engagements in the evaluation data created a sense of shared responsibility between the project team, government partners, teachers and headteachers, which supported collective effort in achieving learning outcomes for children.

Beyond the outcome indicators, activity and output indicators were not fixed and had no bearing on payment. Rather than being bound by a predefined log frame, project activities could be based on evidence from monitoring data, review meetings and feedback from teachers and headteachers. This flexibility allowed us to adjust our strategies in real time to better align with the overall goal of achieving learning outcomes, rather than being constrained by fixed pathways to deliver, which might have led some indicators to become irrelevant during implementation.

While there were restrictions on how the budget could be allocated between staff costs and activity costs, there was more flexibility to re-allocate resources between activities than what would normally be available through payment-by-activity grants. This further incentivised and created space for adaptation. At any point, we could redirect funds from activities that were not contributing to learning outcomes and invest more in those that were showing greater promise.

The results of this freedom were not fundamental changes in what we delivered, which would not have been feasible, considering the overall budget and timelines for delivery. Instead, the flexibility allowed the project team to make in-the-moment decisions about specific activities without needing to get changes approved, for example, deciding to cancel a planned training due to low potential attendance and impact, rather than go ahead with it as it was a programmed activity. It also allowed for more expansive yearly planning, as we recognised that all activities were up for discussion and subject

to change based on our target outcomes and the evidence we had from the previous year.

In both the adaptation of activities and budgets, the change from business as usual highlighted barriers in both systems and mindsets. While learning and adaptation have become common goals in programming, the norm is a bureaucratic process by which significant changes to log-frames or budgets are proposed, approved at multiple levels and then actioned. In our reflections it was felt that this disincentivises adaptive programming, by creating time-lags and additional work, that programme teams must weigh up against the (unrealised and uncertain) benefits of the adaptation.

The change in mindset brings us back to learning culture. Removing the structural barriers to adaptation essentially allows for more autonomy for the programme team to make decisions based on emerging evidence and the imperative to achieve outcomes. This degree of freedom was felt to be markedly different from business as usual and required the development both of self-trust in the decision makers (who do not normally have that degree of autonomy), as well as the strengthening of learning culture across the organisation.

Conclusions

It should be clear from what is articulated here that we believe that the outcomes-contracting modality had a positive impact on the way in which we approached and worked together to deliver the SLEIC programme. The sense of urgency to achieve outcomes pushed us to consider new ways of working, and the flexibility afforded for adaptation created freedom and autonomy for the project team to use evidence to adapt activities. What is important to note though is that the things that had a positive impact (bar the financial risk) were largely things that could be achieved through other funding modalities. A clear emphasis on outcomes, the flexibility to adapt targets and budgets, and the centring of evidence of learning are features of many projects.

What was different was the urgency and the financial risks that the OBF model creates. This kick-started discussions on the need for internal and external systems that not only facilitate adaptation but incentivise it. It has also highlighted the need for a culture that gives real autonomy and trust to the teams who are ultimately best placed to make decisions and who need to make them quickly and responsively without long approval processes. This aligns with Save the Children's ambitions to shift the power from centre offices in the global north to our teams in country offices.

While the long-term viability of outcomes funds in education depends on their ability to deliver strong outcomes, in the short term, SLEIC has spurred an honest reflection on our ways of working, which we feel is a positive outcome for Save the Children as an organisation.

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1. Additional technical review provided by Kirsten Mucyo (SCUK).
2. As previously noted, this financial risk was shared between SCUK and its social investors.

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