Case Study

International Financing Facility for Education (IFFEd)

Author: Albiana Jasiqi, supported by NORRAG

Introduction

The International Commission on Financing Global Education Opportunity, or simply the Education Commission, created the International Finance Facility for Education (IFFEd), which aims to mobilize at least USD 10 billion of new funding by 2030. This funding is to be offered to the national governments of lower middle-income countries (LMICs) as concessional loans to enable access to school and learning for every child.

The IFFEd will mobilize resources for education by collaborating with countries, multilateral development banks (MDBs), and partners around the world. These donors and investors can contribute to both or one of the following funding formats: the guarantee and the grant windows. The IFFEd's initial fundraising target is USD 1 billion for the guarantee window (USD 150 million in cash and USD 850 million in contingent commitments) and USD 1 billion for the grant window. This will result in a total of USD 5 billion leveraged in its first five-year program period (Education Commission, 2020). Nearly 50 countries may eventually benefit, including populous countries with large poor and marginalized populations.

The problem

The world is currently falling far short of meeting the fourth sustainable development goal (SDG) target to ensure inclusive, equitable, and quality education for all. More than ¼ of a billion children are out of school, millions more are in school yet not learning the basics, and there is a shortage of trained teachers. This is considered a global crisis that will result in more than 825 million children—which make up half of all young people in the world—lacking basic skills necessary to be engaged and working citizens in 2030.

The largest group affected by this "learning crisis" is that of LMICs. A considerable part of the challenge to overcome this crisis concerns the lack of funding. The Education Commission describes, "even if LMICs substantially increase domestic revenues for education to international benchmarks and spend their resources more effectively, they will still face a significant education finance gap (around USD 70 billion per year by 2030)." Affordable international funding for education in LMICs is also constrained. One reason for that may be the exclusion of most LMCIs in receiving concessional financing (low-interest loans, below market rates) from MDBs. Another reason may be the prioritization of low-income countries (LICs)—rather than low-income people—by many bilateral development agencies. As an unintended consequence, the ability of many LMICs to achieve SDG 4 and, by extension, the delivery of all other SDGs is seriously limited. The Education Commission emphasizes the permanent and irreversible loss of unrealized potential that children from countries such as Bangladesh, Nigeria, Kenya, and Pakistan do incur owing to school deprivation.

Furthermore, the global aid for education is currently only around USD 12 billion—roughly USD 10 per child—barely sufficient to pay for a secondhand textbook. The Global Partnership for Education[1] (GPE) and Education Cannot Wait [2] (ECW) have programs that aim to address this issue but are not designed to address LMICs' large long-term financing needs because they focus on LICs or emergency humanitarian needs. For the education financing challenge in LMICs, new approaches are required.

Mechanism design

The IFFEd intends to complement the existing financing instruments to address a critical gap in the international financing architecture for education, responding to LMICs' financing needs at minimum cost and maximum leverage (Education Commission, 2020b). The idea is to multiply scarce donor resources with a new financing facility that can allow donors to finance LMICs without reducing allocations to LICs or for humanitarian crises (Education Commission, 2020b). The IFFEd is not an implementing agency. It will work by enabling participating MDBs to increase the amount and affordability of funding for education in LMICs.

The IFFEd promises new funding streams for education by multiplying donor resources using leverage and by motivating countries to increase their own investments. This will be done in a three-step process:

1. **Donor guarantee to the IFFEd:** Donors will provide a guarantee to the IFFEd, which would enable the MDBs to increase the amount of funds that they can use for concessional loans to LMICs for education development. A financial guarantee is a contract or commitment by a third party (guarantor) to back the debt of a second party (creditor), who is taking a loan from the first party (investor). The guarantor agrees to pay a portion of the debt to the investor in case the creditor is unable to make the payments. In the IFFEd, for example, a donor can commit to USD 100 million in guarantee, but only 10%–15% of this will need to be paid in cash to the IFFEd.

2. Leverage: The fundamental premise of MDBs' financing models is that they can borrow from the capital market and then make loans to recipient countries. They have AAA ratings that allow them to both borrow and lend at low interest rates. The IFFEd will make the donor guarantee base available to MDBs, which they can then in turn use to leverage additional funds from the capital market and make more concessional loans available to eligible countries. Projections suggest that the IFFEd guarantee value could be multiplied by approximately four times by the MDBs; therefore, for every USD 1 in guarantee, USD 4 can be made available in new financing for education.

3. Grant window: Donors will provide additional grant funding to the IFFEd; this will be used to further reduce the terms of the concessional loan, making it attractive and affordable for educational investment. This will make grant aid to LMICs four times more effective. For example, USD 1 billion in aid channeled through the IFFEd would unlock USD 4 billion in MDB financing, creating a total financing package of USD 5 billion in concessional financing, including both grants and loans.

The IFFEd runs on the following basic set of principles:

Efficiency: Harness the power of MDBs — the African Development Bank (AfDB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), the European Bank for Reconstruction and

[1] GPE functions as a partnership and a fund. As such, it aims to mobilize global and national investments and bring partners together to help governments build strong education systems using data and evidence (Global Partnership for Education, 2020).
[2] ECW was established during the World Humanitarian Summit in 2016 by international humanitarian and development aid actors, along with public and private donors, to help reposition education as a priority on the humanitarian agenda, usher in a more collaborative approach among actors on the ground, and foster additional funding to ensure that every crisis-affected child and young person is in school and learning (Education Cannot Wait, 2020).

Development, and the World Bank—to mobilize additional financing in capital markets and implement programs. The IFFEd requires no new actors at the country level.

Scale: Multiply traditional aid by more than four times, double the existing investments from banks, and mobilize USD 10 billion of new investments in education in its first few years of operation.

Affordability: Soften loan terms to make them more affordable and manageable for educational investment.

Sustainable financing for results: Align investments with education sector plans, encourage countries to mobilize domestic funds for education and manage their debt responsibility, and deliver results (Education Commission, 2020a).

Regarding the country's eligibility, the IFFEd considers countries eligible to access this new financing only if they have a strong education sector plan—that is, a planned commitment to prioritize education within its national budget, a low risk of debt distress, and an agreement to use results-based approaches. The number of eligible countries will grow as more countries gain LMIC status over time.

First implementations

Steps are underway to establish the IFFEd and its small administrative unit in the U.K. so that it can be fully operational in 2020. Education initiatives will be implemented by MDBs (the World Bank, ADB, AfDB, and IADB) that have extensive experience developing and implementing education programs and have been heavily engaged in IFFEd's design. The IFFEd will foster greater collaboration and coordination among the MDBs and complement the work of other entities, including GPE and ECW. The IFFEd will also have a robust results framework with key indicators aligned with SDG 4 (Education Commission, 2020b).

References

Education Cannot Wait. (2020). The fund. Retrieved April 04, 2020, from https://www.educationcannotwait.org/about-ecw/

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