

Innovative financing for education: New actors and approaches

Day 1 - Plenary 1: Setting the Stage: Philanthropy in Education Series

Arushi Terway

Senior Lead Research Associate, NORRAG

Outline

- Global education financing gap and innovative finance
 - Philanthrocapitalism as an innovative financing approach
 - Existing models
 - Need for engagement and partnership
-

Global education financing need

- Low and middle-income countries will need to increase spending on education from the current \$1.2 trillion per year to \$3 trillion by 2030 (Education Commission, 2016)
 - Funding sources: Increase domestic budget and international aid, reduce *household expenditure*
 - Innovative financing can potentially unlock additional financing at both domestic and international levels
-

What is innovative financing?

1. Using existing funds in an innovative manner to improve results and to make the funds go further
2. Raise additional funds from new sources that require new financing mechanisms (Bellinger, Terway & Burnett, 2016)

Potential

- Innovative financing in development is estimated to have raised \$121 billion between 2000 and 2013 (Dalberg, 2014)
 - OECD estimates that between 2002 and 2010 innovative finance schemes raised approximately \$5.5 billion in for health and \$31 billion for climate/environment (UNDP, 2012)
 - Limited use in education - Between 2000 and 2008, innovative finance funds raised by the World Bank: Education = 1.6% and Health = 12.2% (Girishankar, 2009)
-

Some examples...

- **Loan Buy-Downs** – Third party buying the principal and/or interest from the borrowing country. Islamic Development Bank has pledged \$400 million for the loan buy-downs for GPE countries.
 - **IFFIm** - The International Finance Facility for Immunisation has raised \$5 billion from vaccine bonds since 2006
 - **Green Bonds** - Green bonds have experienced outstanding growth in 2014, with \$35 billion issued (compared to \$11 billion in 2013)
 - For more see: [Bellinger, A., Terway, A. and Burnett, N. \(2016\). Innovative Financing Recommendations: International Commission on Global Education Financing. Washington, DC: Results for Development.](#)
-

Philanthrocapitalism – Blurred lines

- A new way of doing philanthropy, which mirrors the way that business is done in the for-profit capitalist world
- Capitalism itself can be philanthropic, work for social issues
- Harnessing financial innovation for social impact
- Departure from traditional grant-giver/grantee relationship and mechanisms. More hands-on approach using financial and non-financial resources to focus on results and impact
- Combination of social and financial return

Rationale:

- Markets and morals are not distinct phenomena
 - Harnessing the power of the market for social impact
 - Claim to be more results-oriented and more efficient than traditional philanthropies with charitable giving
 - Financial innovation allows them to take on higher level of risk towards innovative solutions than the government
-

Some models

- Corporate social responsibility/Corporate philanthropy
- Venture Philanthropy
- Development Impact Bonds
- Impact Investment

Social return



Financial return



Corporate Social Responsibility (Corporate Philanthropy)

A corporation's initiatives to assess and take responsibility for the company's effects on environmental and social wellbeing. Also referred to as "Corporate Citizenship" which can involve incurring short-term costs that do not provide an immediate financial benefit to the company but instead promote positive social and environmental change.

India – Companies Corporate Social Responsibility Policy 2013

Education and skills development is the top sector for investment.

FY2016-2017 – 35% of CSR funds (\$432,000) to 1598 education and skills development projects (NGOBox, 2017)

Venture Philanthropy

Application of principles of traditional venture capital finance and business management to achieve social development goals. It is not explicitly seeking profit but making investments to promote social good. High degree of investor non-financial support (management oversight, technical assistance, market development, etc.) along with innovative financing models (blending grants, loans, equity, etc.). Investment in high-risk models.

Omidyar Network – a philanthropic investment firm

Provides investments and grants to both non-profit and for-profit companies to support market-based approaches with the potential for large-scale, catalytic impact. Transcends typical boundaries that separate for-profit investing and traditional philanthropy.

Acumen

A non-profit global venture fund that makes investments – loans or equity, *not grants*- to build financially sustainable organizations that deliver affordable goods and services to the poor (social and financial return).

Development Impact Bond

Development Impact Bonds provide upfront financing for development programs by *private investors*, who are remunerated by donors or host-country governments – and earn a return – if evidence shows that the programs achieve pre-agreed outcomes.

Educate Girls in Rajasthan India (\$994,282 over three years)

Expected outcome – 18,000 girls enrolled and learning

Investor – UBS Optimus Foundation

Outcome Payee – Children's Investment Fund Foundation (CIFF)

Independent evaluator – IDinsight

Impact Investment

Are intended to deliver both financial returns and social return. Offers a middle way between pure philanthropy (grant-making) and pure financial investment (maximizing financial return). Potential to mobilizing large pools of private capital from new sources to drive financial value and social impact simultaneously.

- JP Morgan also estimated the potential for impact investments in primary education to be \$10 billion in this decade (O'Donohoe, 2010)).
 - In 2013, globally, Edtech startups received approximately \$1.3 billion in funding through venture funds and other sources (Winters & McNally, 2014).
 - Global Impact Investor Network surveys show very high levels of interest in social impact investment in education in emerging markets.
 - Highly attractive to businesses in general - Merrill Lynch-Bank of America calculated in 2014 that the value of the education sector, globally, is \$4.3 trillion (Robertson and Komljenovic, 2016).
 - Business in Africa report – Private education investment opportunity in Sub-Saharan Africa in the next 5 years:
 - 13-15 billion in direct service provision in K-12.
 - 3-4 billion in ancillary services
-

Impact Investment - Examples

- **IDP Foundation** – Profitable microfinance lending to low-cost private schools in Ghana that are serving populations not reached by public schools. Includes extensive training in financial literacy and school management.
 - **Kiva** – Non-profit microfunds that allows individuals to directly lend money via the internet to students and low-income entrepreneurs
 - **Education bonds** – Inter-American Development Bank launched the Education, Youth, Employment Bond that raised over \$600 million (2014-15) from Wall Street, of which 81% was allocated to education projects.
 - **Educate Global Fund** - raised £25m to invest in grassroots social businesses that significantly improve education outcomes
-

Need for engagement and partnership

- Increasing appetite for private sector engagement – hybrid of social and financial return
- Need to ensure responsible engagement, especially to provide equity

Partnership - Bring together businesses, philanthropists, non-profits, governments, civil society, social entrepreneurs, researchers, and aid agencies – maximize comparative value added

Avenues to engage

- Further debate on why and how philanthrocapitalists and impact investors participate in the education sector
 - Rigorous research on both engagement processes and outcomes
 - Help define desirable outcomes and outcome indicators – especially for equity
 - Regulation – private sector could contribute to public benefit but with the state regulating the industry and safeguarding public interest.
 - Development and provision of guidelines for responsible investment and engagement
 - Be open to and transparent about failures as well as successes (Higher risk-taking/innovation)
-

References

- Bellinger, A., Terway, A. and Burnett, N. (2016). Innovative Financing Recommendations: International Commission on Global Education Financing. Washington, DC: Results for Development.
 - Dalberg. (2014). Innovative financing for development: scalable business models that produce economic, social, and environmental outcomes, Global Development Incubator, The Citi Foundation & AFD
 - O'Donohoe, N. Leijonhufvud, C. Saltuk, Y. Bugg-Levine, A. and Brandenburg, M. (2010). Impact Investments: An Emerging Asset Class. New York: J.P. Morgan Global Research.
 - Education Commission. (2016). The Learning Generation: Investing in education for a changing world.
 - Girishankar, N. (2009). Innovating development finance-from financing sources to financial solutions. World Bank Policy Research Working Paper Series, 5111
 - Inderst, G. and Stewart, F. (2014, February). Institutional Investment in Infrastructure in Developing Countries: Introduction to Potential Models. Policy Research Working Paper 6780. The World Bank, Financial and Private Sector Development, Global Capital Markets and Non-Bank Financial Institutions
 - Kidney, S. (2014). First-ever public green bonds data list launched. Includes basic bond ref data & 2nd party opinions. <https://www.climatebonds.net/2014/12/first-ever-public-green-bonds-data-list-launched-includes-basic-bond-ref-data-2nd-party#sthash.JgYNNkfr.dpuf>
 - NGOBox. (2017). CSR analysis of BSE big 370 companies (FY2016-17). India CSR Outlook Report. <http://ngobox.org/media/India-CSR-Outlook-Report-2017-NGOBOX.pdf>
 - UNDP. (2012). Innovative Financing for Development: A New Model for Development Finance? Discussion Paper. United Nations Development Program New York
 - UNESCO. (2011). Debt Swaps and Debt Conversion Development Bonds for Education. Final Report for UNESCO Advisory Panel of Experts on Debt Swaps and Innovative Approaches to Education Financing. Paris: UNESCO.
 - World Bank. (2009). Innovative Finance for Development Solutions. Initiatives of the World Bank Group.
-