

Innovative Finance in Education

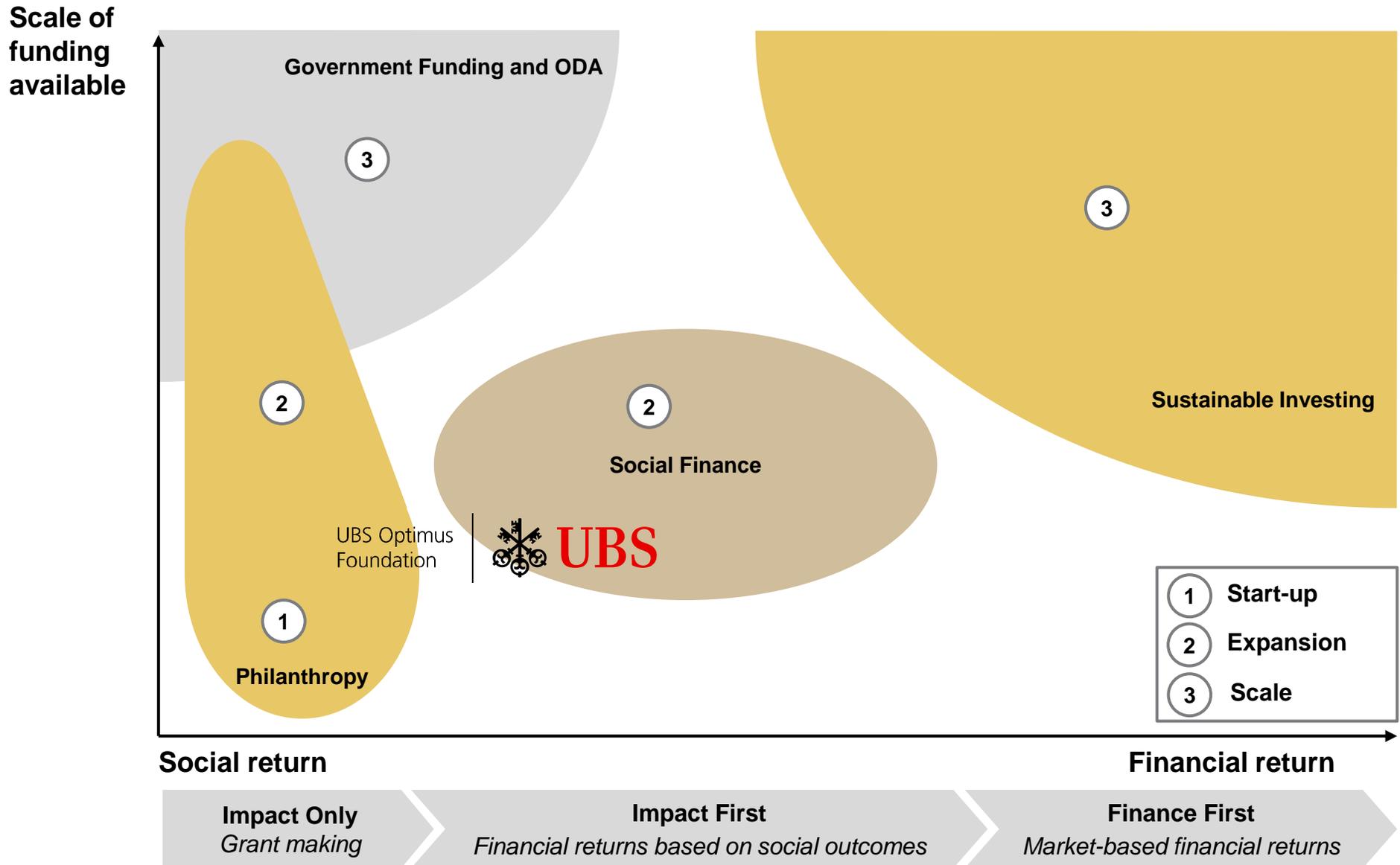
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From Giving to Investing

	PHILANTHROPY			SUSTAINABLE INVESTING		
	Charitable giving	Strategic Philanthropy	Social finance	Impact Investing	Integration	Exclusion
Description	Making donations to nonprofits to enable them to achieve their vision. Hands off, no/low strategy, low resource intensity	Strategic donations into a variety of solutions to help achieve their philanthropic vision. Hands on, robust strategy, high resource intensity	Investing with the explicit intention to generate a measureable social impact, alongside a financial return	Investing with the intention to generate social impact alongside a market-based financial return	Integrating ESG factors into traditional investment processes to improve portfolio risk/return	Excluding companies or industries from portfolios where they are not aligned with an investor's values
Desired primary outcome	Perceived positive E&S impact	Demonstrable positive E&S impact	Priority E&S impact plus some financial return	E&S impact plus competitive risk adjusted returns	Competitive risk adjusted financial returns, outperformance	Market returns, non-underperformance
Financial return						
E&S outcomes						

Impact First



Why it makes sense for Optimus Foundation

- 15 year track record in strategic philanthropy
- Access to some of the world's wealthiest clients – 90% of which are philanthropically active
- Draw on expertise of a global financial institution
- Experience as the investor in the world's first Education Development Impact Bond (DIB)

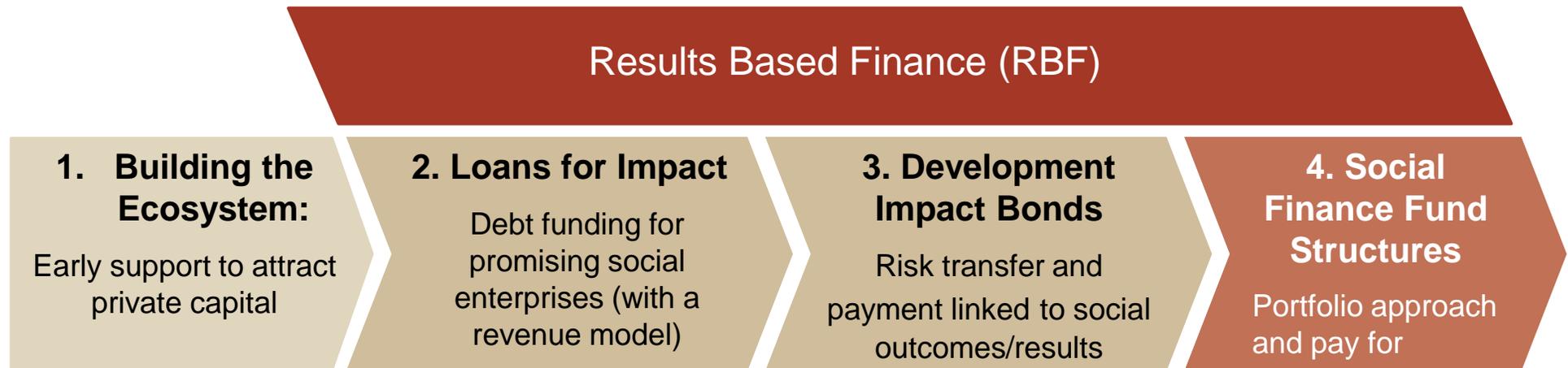
Why innovative finance in education?

- 1. Bridge estimated \$2.5 trillion annual funding gap** to achieve the UN Sustainable Development Goals (SDGs).
 - Current funding through foreign aid and traditional philanthropy only adds up to billions rather than the trillions of dollars needed
 - Private philanthropy can play a catalytic role in closing this gap by linking development and financial sectors and unlocking private capital
- 2. Improve the effectiveness and equity of educational spending** by increasing access to information and instill transparency and accountability focused on outcomes.
- 3. Raise the profile and make the case for investing in education:** it is critical for long-term economic growth and essential for the achievement of all of the SDGs. A dollar invested in an additional year of schooling generates \$10 in benefits in low-income countries.
- 4. Promote innovation in education** – private sector can test new implementation models and help build the ecosystem for innovative finance by piloting new financing instruments.

Challenges for innovative finance in education

- Potentially longer timeframes for investment
- Complex value chain – strong interdependency between different parts of the education system
- Disagreements about measurement amongst education experts versus need for simplification for investors
- Governments remain main funders and providers of education – off limits for private (social) investors?

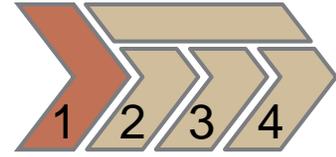
Elements of Social Finance at Optimus Foundation



II.

Building the Ecosystem

Building the ecosystem

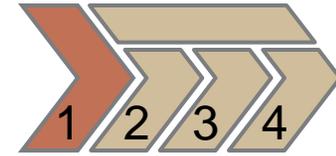


Increase financial viability with flexible (grant) capital to reduce upfront transaction costs and uncertainty

Create the appropriate enabling environment, which will incentivize investment without distorting functioning markets:

- Build local capacity via technical assistance
- Enable sharing of market knowledge and best practices
- Build evidence needed to shape policy and regulatory reform
- Support to intermediary and accelerator organizations

Building the ecosystem

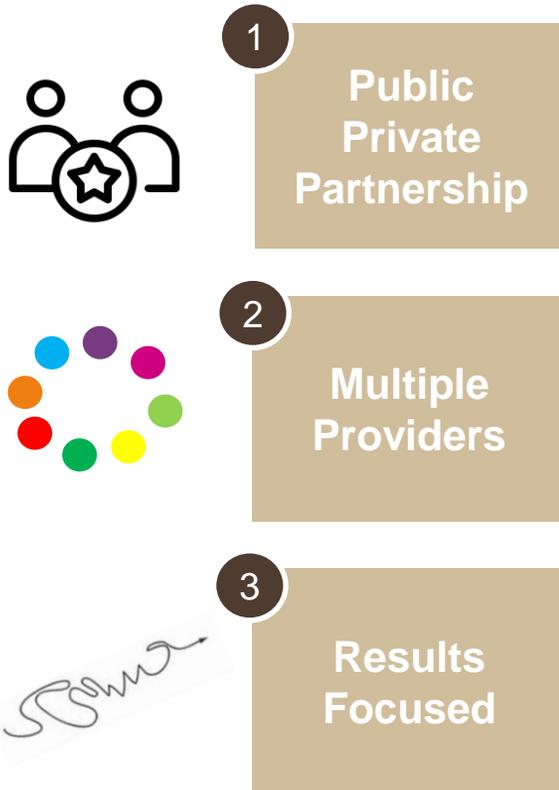


Example: Partnership Schools for Liberia (PSL)

PSL is a form of public-private partnership where non-state operators take over management of public schools but teachers remain on government payroll, balancing efficiency and public accountability

The PSL Model

Three core elements



- This partnership structure is a the first of its kind in the world

- PSL is delivered by multiple providers with different models of education delivery

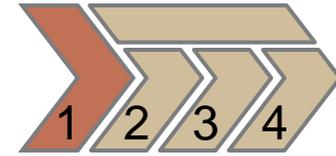
- PSL aims to transition to a results based model where providers are financially accountable for delivering quality

PSL Impact

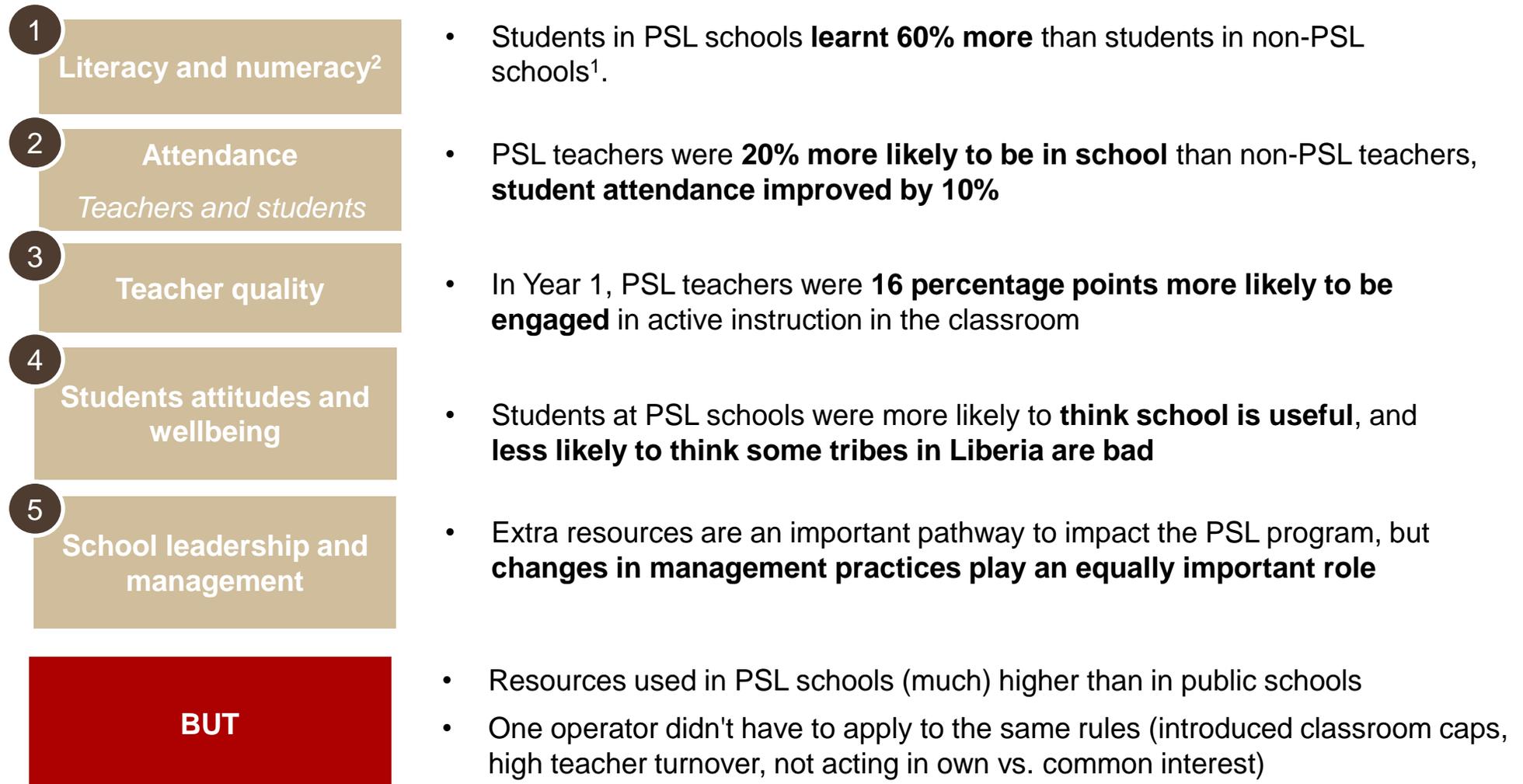
Sustained quality at scale

- **PSL as a catalyst:** replication of innovation in PSL schools across public system
- **PSL as an innovator:** potential for innovation as delivery is tailored to local context
- **PSL as sustainable solution:** incentive to improve delivery and accountability for government and funders

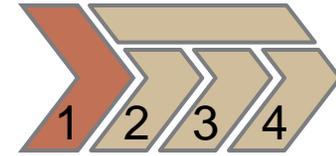
Building the ecosystem



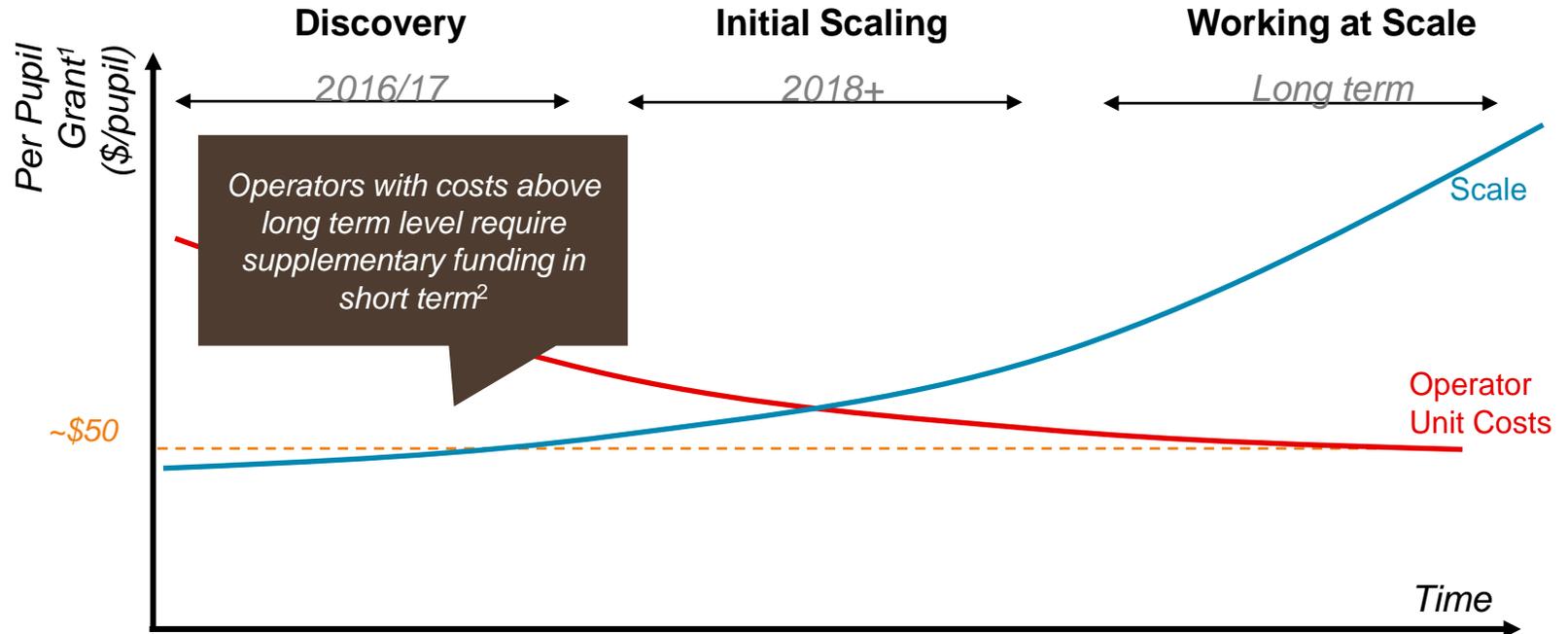
Example: Partnership Schools for Liberia (PSL) – Year 1 results



Building the ecosystem



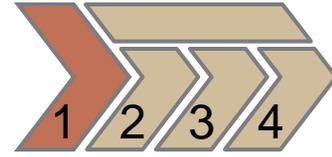
Example: Partnership Schools for Liberia (PSL)



Funders	Philanthropic Donors ¹	Funds + Aid Agencies	Liberian Government
Contracting	Per pupil grant	Results-based funding <i>e.g. use of results-based financing or impact bonds</i>	Results-based funding

Notes (1) Grant to cover non-teacher costs; (2) Some operators with higher costs will require supplementary funding from internal or external sources of finance

Building the ecosystem



Other examples

I. Global Schools Forum

- Enable sharing of market knowledge, best practices and experience via networks to focus on quality and equity (in this case non-state actors in education)

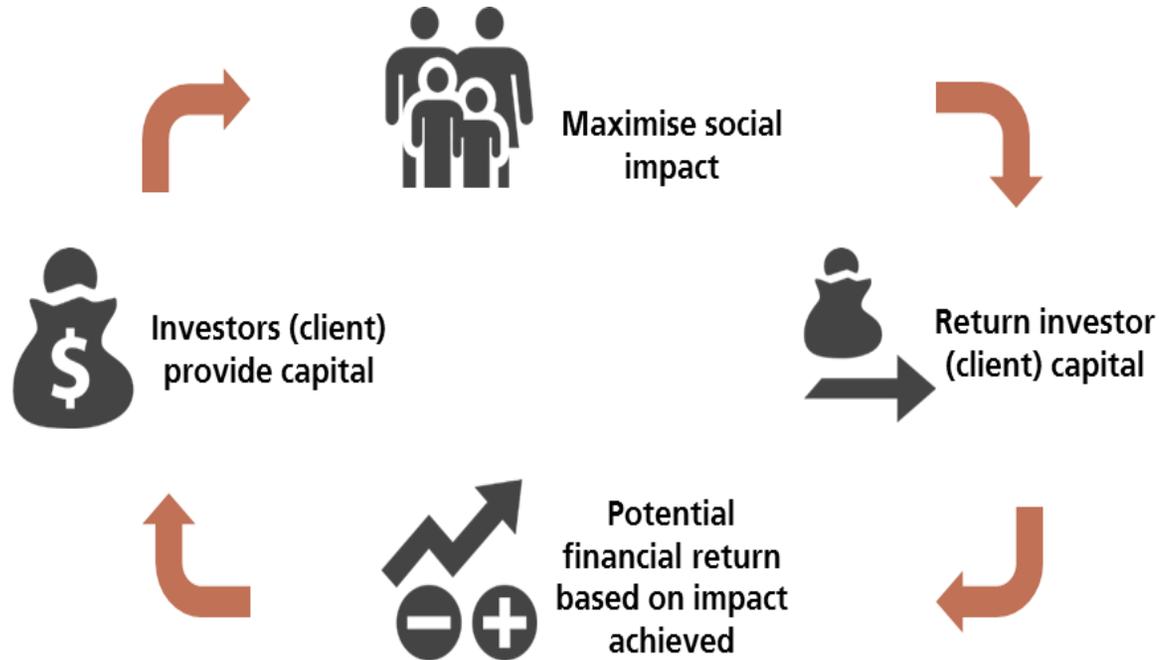
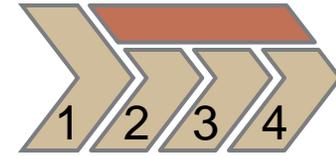
II. Innovation Edge

- Innovations in Early Childhood Development. Providing grant making support to intermediary and accelerator organizations incubating or otherwise developing social business and results-based funding models

III.

Results Based Finance

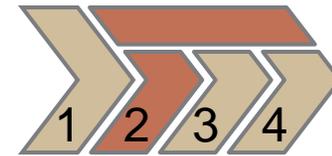
Results based Finance



Allows philanthropic investors to maximize social impact, recycle their capital, and potentially generate a result-based financial return

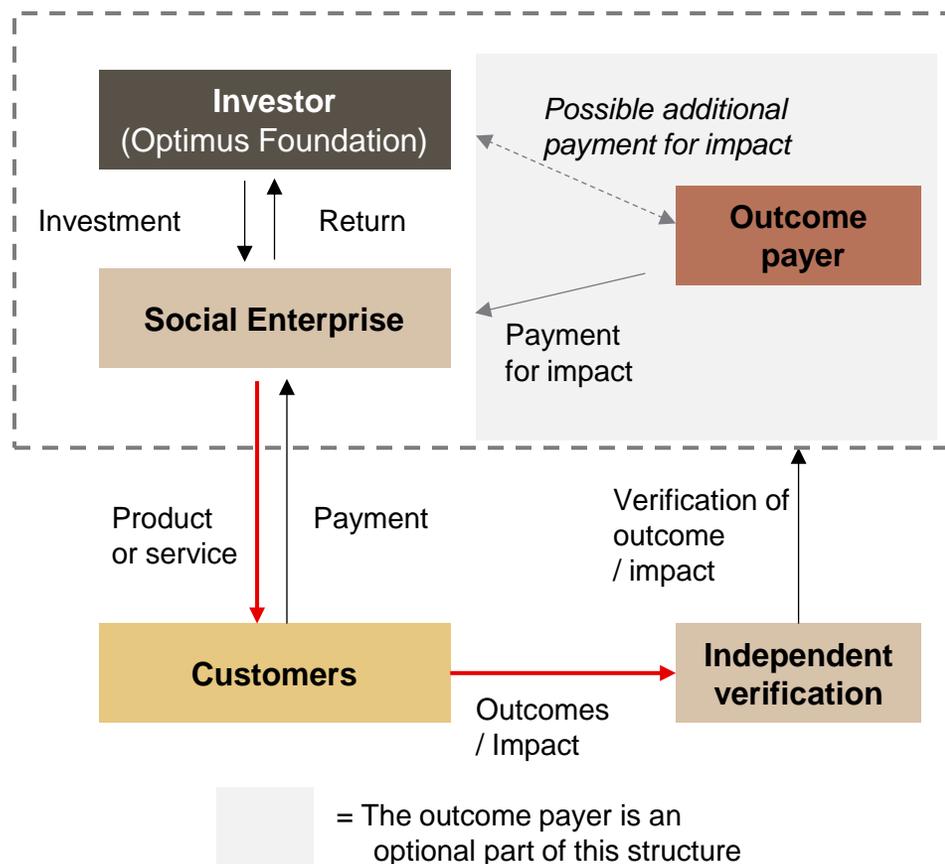
Loans for Impact

Loans for Impact – The model



Debt financing where realizing impact lowers interest rates

Generic structure

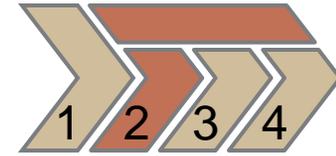


Why use Loans for Impact?

- Designed to seed and scale debt funding for promising **social enterprises**
- Targets **beneficiaries in low-income settings** and that can pay for some products and services.
- Can **reconcile tensions** between the financial requirements of investors and the impact motivations of the social entrepreneurs

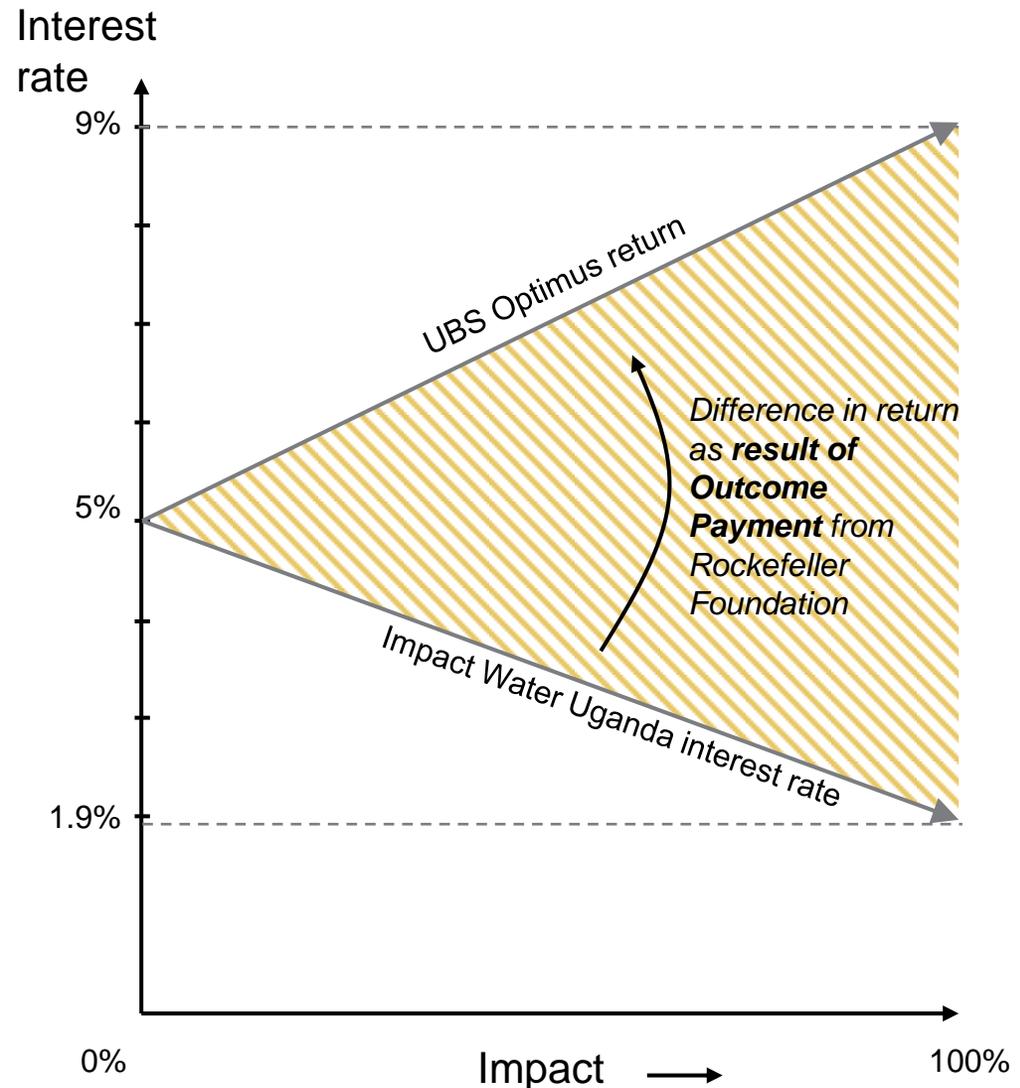
Pilot program to be expanded if successful

Loans for Impact – example



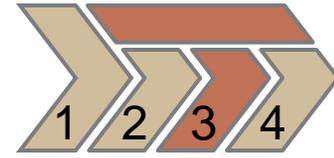
Returns based on increased provision of clean water in schools

- Impact Water Uganda (IWU) is a social business dedicated to scaling safe drinking water solutions for schools
- Optimus Foundation (lender) and the Rockefeller Foundation (outcome funder) aim to support the accelerated roll-out of IWU's water systems.
- Optimus Foundation will provide a loan for impact structured as a USD 500,000 5-year loan
- The Rockefeller Foundation will pay an outcome payment depending on IWU's ability to meet outcome targets
- The better social outcomes IWU achieves, the more their interest rate will decrease, and
- The better social outcomes IWU achieves, the higher the return for Optimus Foundation rising up to 9%



Development Impact Bonds

Development Impact Bonds



Development Impact Bonds are not Bonds

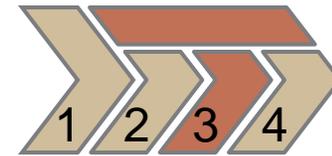
Development Impact Bonds are:

- Results-based contracts in which working capital is provided upfront by investors
- Outcome funders (donors or government) only pay for results

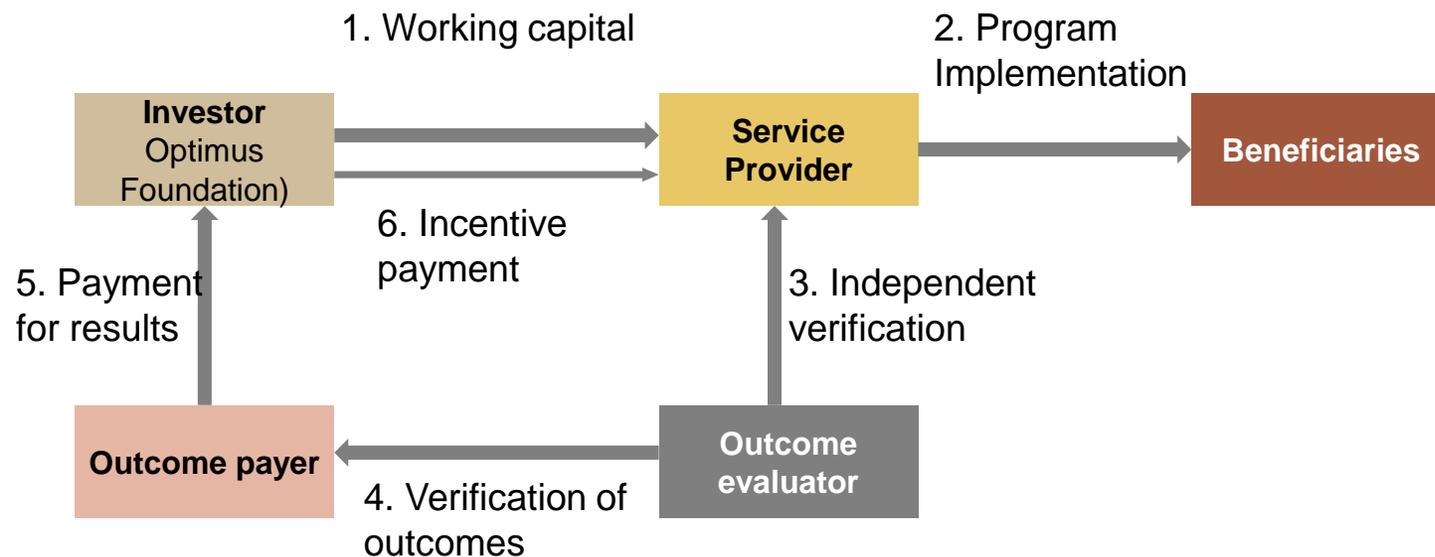
Benefits of a DIB structure

- Transparency & accountability
- Risk (financial) transfer to investors
- Flexibility and innovation in program execution

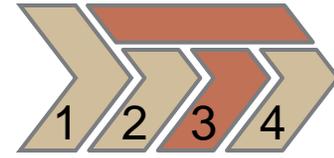
The Development Impact Bond structure



The investor assumes execution risk, whilst the outcome payer only pays for results



When to use Development Impact Bonds



DIBs are NOT a silver bullet

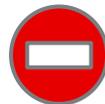
An impact bonds works well for...

- Complex problems – but a clear outcome
- Innovative (but previously demonstrated) interventions needed
- Optimal sequencing of inputs unknown (or unknowable) ex-ante
- Need for external risk capital
- New collaborations or partnerships are needed



...when these conditions are met...

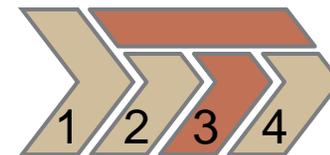
- Outcomes measurable and simple
- Reliable and timely data flow (including baseline data)
- Outcomes attributable to inputs
- On-the-ground delivery & iteration capacity
- Availability of social investment
- Government and donor priority



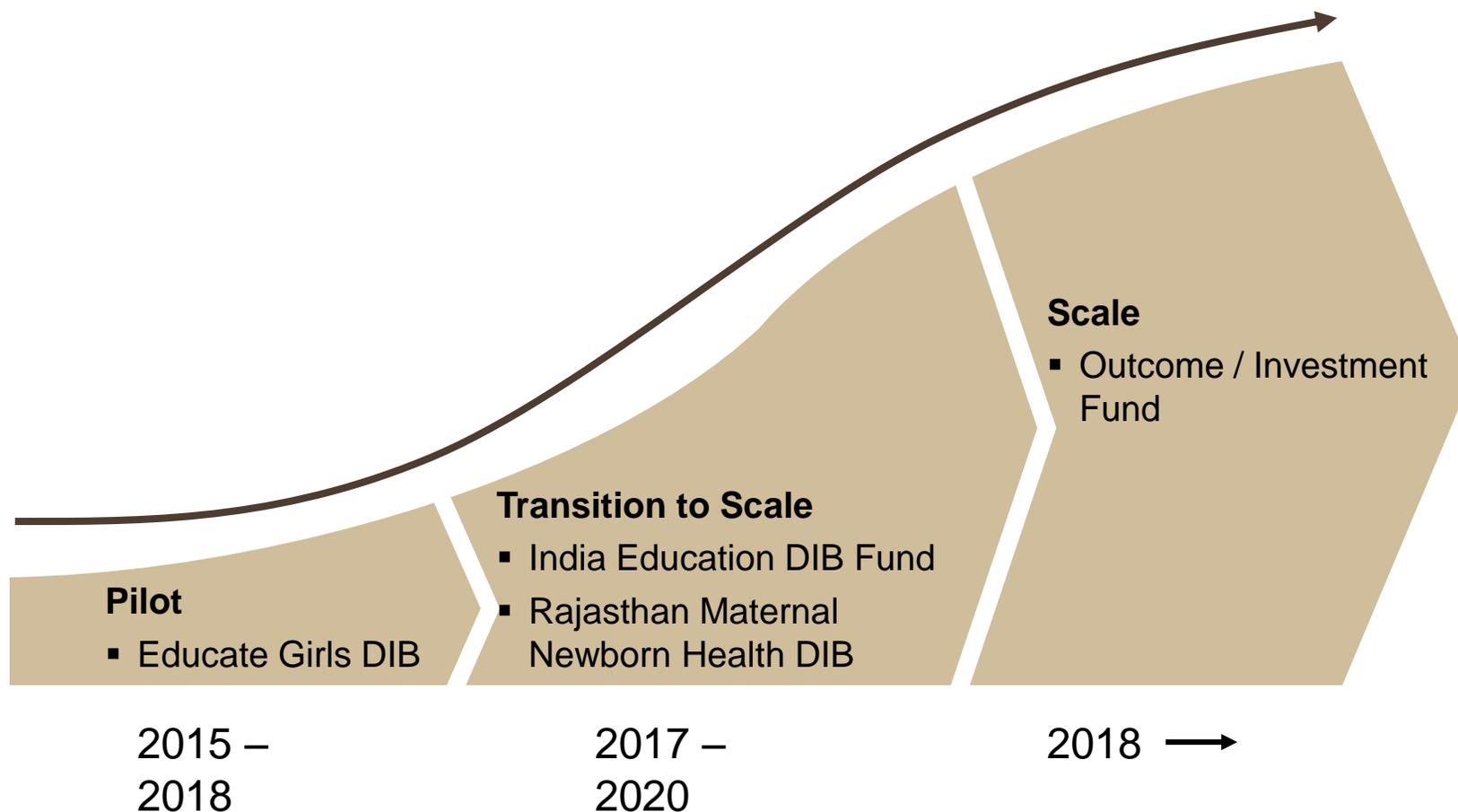
...but works less well when ...

- Outcomes are almost certain from paying for the activity (e.g. rural roads)
- Limited opportunity for innovation – such as where there are strong statutory obligations
- Difficult to attribute impact to the intervention rather than external factors

The Development Impact Bond structure

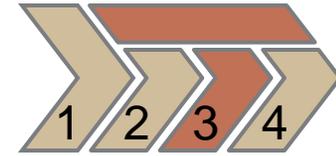


UBS Optimus Foundation is in the process of bringing DIBs to scale





Educate Girls DIB



Aim of pilot

- Launched in 2015 to provide, and improve, education in rural India by increasing girl enrolment and improving learning in rural Rajasthan

Key information

Target population

- c.18,000 children in 166 government schools

Key performance metrics

- Learning outcomes across girls and boys in Grades 3-5
- Enrolment of out-of-school girls into government primary schools

Duration

- 3 years (mid-2015 to mid-2018)

Payment

- 10% expected IRR,
- 80% outcome payment for learning and 20% for enrollment

Participants

Risk investor

UBS Optimus Foundation

Outcome funder

CIFF

Service provider

Educate Girls

Outcome evaluator

IDinsight

Project manager

Instiglio

Year 2 results

- On track to recoup initial investment
- Enrolment targets exceeded (88% of out-of-school girls enrolled), continued learning gains delivered for Indian children (53% of total 3 year learning target achieved).

"The DIB has led to a shift in our organization's DNA and had a positive ripple effect across our entire organization"

- Safeena Husain, Executive Director of Educate Girls

Education DIB Fund in India



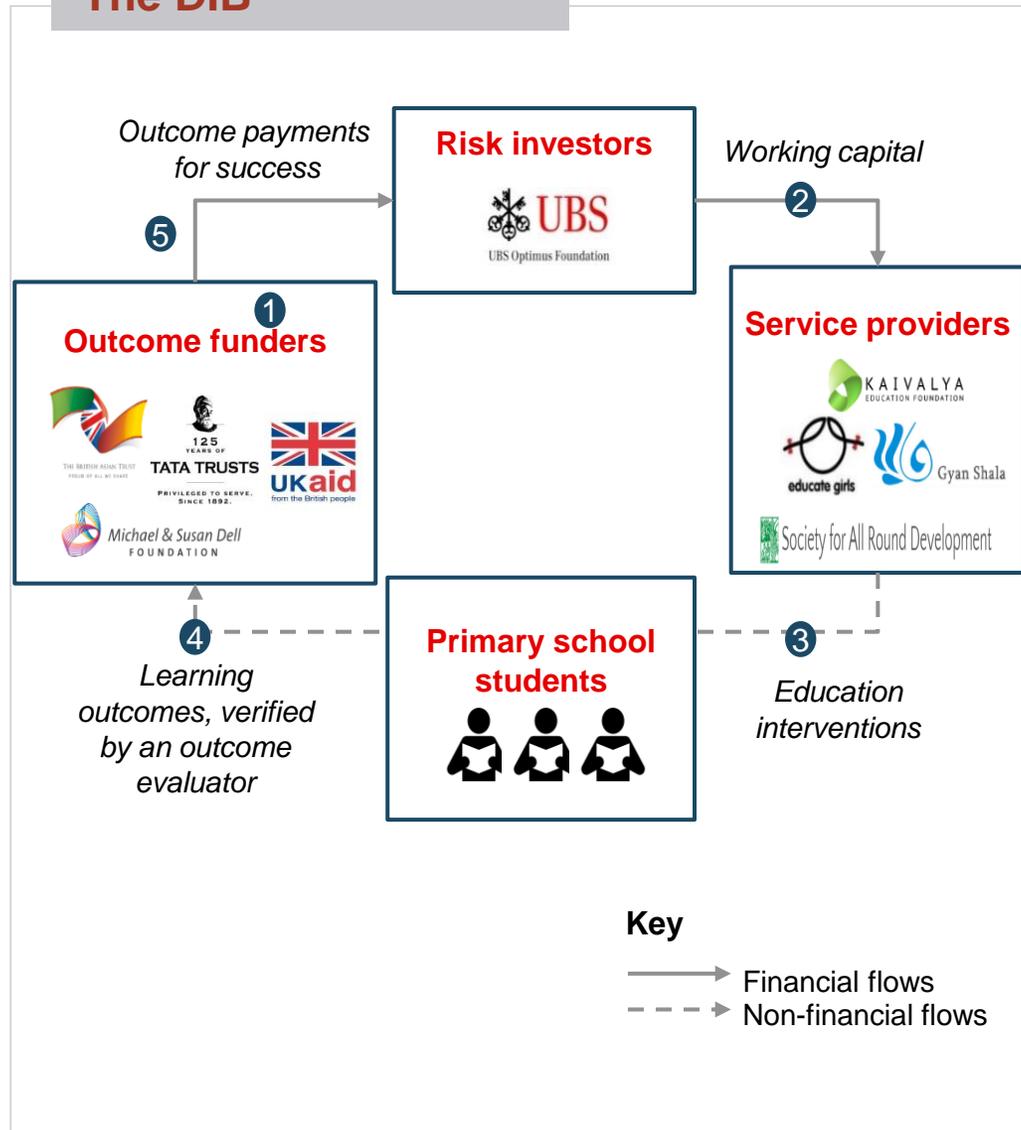
Description

- The Education Development Impact Bond (DIB) Fund is a **performance-based fund** that supports education providers in India to **improve learning outcomes for over 200,000 primary school students** in India.
- The DIB Fund is developed through a partnership between UBS Optimus Foundation, British Asian Trust and Michael and Susan Dell Foundation.

Objectives

- Increase financial flows to high-quality programs** that deliver improvements in learning outcomes
- Maximise educational outcomes** by establishing robust monitoring frameworks and accountability mechanisms
- Demonstrate the benefits of innovative financing mechanisms and operating models to government to **create a systemic change in the Indian educational system**

The DIB



Education DIB Fund – key terms



PRELIMINARY

OVERALL FUND CHARACTERISTICS

Target outcome funding pot	USD [10] million
Tenure	[4] years
Payment schedule	Annual, based on outcome targets
Funding recipients	[4] shortlisted service providers: Educate Girls, Kaivalya, SARD, Gyan Shala

Use of funds

- **Service delivery costs:** USD [7.6] million; [78%] of total outcome funds
- **Interest rate:** USD [740,000], based on [8%] p.a. on investment amount if outcome targets are met
- **Service provider incentive:** USD [740,000] if outcome targets are exceeded
- **Operational costs:** USD [700,000], including outcome evaluation costs

SUMMARY CAHSFLOWS



INVESTORS

- **Commitment to invest** up to a maximum of USD [3] million (including contingency funds)
- **Deployment of USD [2.4] million** if 100% outcome targets achieved each year (expected scenario)
- **Expected IRR** of [8%] p.a. on invested capital if outcomes are achieved / overachieved
- **Max investment returns** of USD [740,000]



SERVICE PROVIDERS

- **Total program budget** for each service provider USD [1.5-2.5] million
- **Performance is reviewed annually** through learner outcome measurement
- Eligible for up to USD [740,000] of **incentive payments**, paid at the end of funding period



OUTCOME FUNDERS

- **Total outcome payment** of USD [10] million
- **Tailored annual payouts** between USD [1.5] and [2.5] million in expected scenario
- **Range of total outcome payment** between USD [1-10] million based on performance, including incentive payments and investor returns

Education DIB Fund – 4 shortlisted NGOs



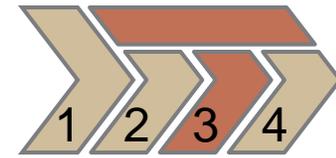
The DIB Fund’s portfolio includes service providers with a proven track record of delivering improvements in learning outcomes across a range of operating models

Operating models	Direct school management	Supplementary programs	Principal/teacher training
	Whole-school management including delivery of education services	Supplementary remedial programs to close learning gaps for children performing below grade-appropriate learning levels	Principal and teacher training to improve the quality of school leadership, and the quality and motivation of teachers
Service providers	 Gyan Shala	 educate girls	  Society for All Round Development
Track record	1.0–1.5x improvement above control schools	0.3–0.4x improvement above control schools	0.5–0.75x improvement above control schools

TARGET IMPACT

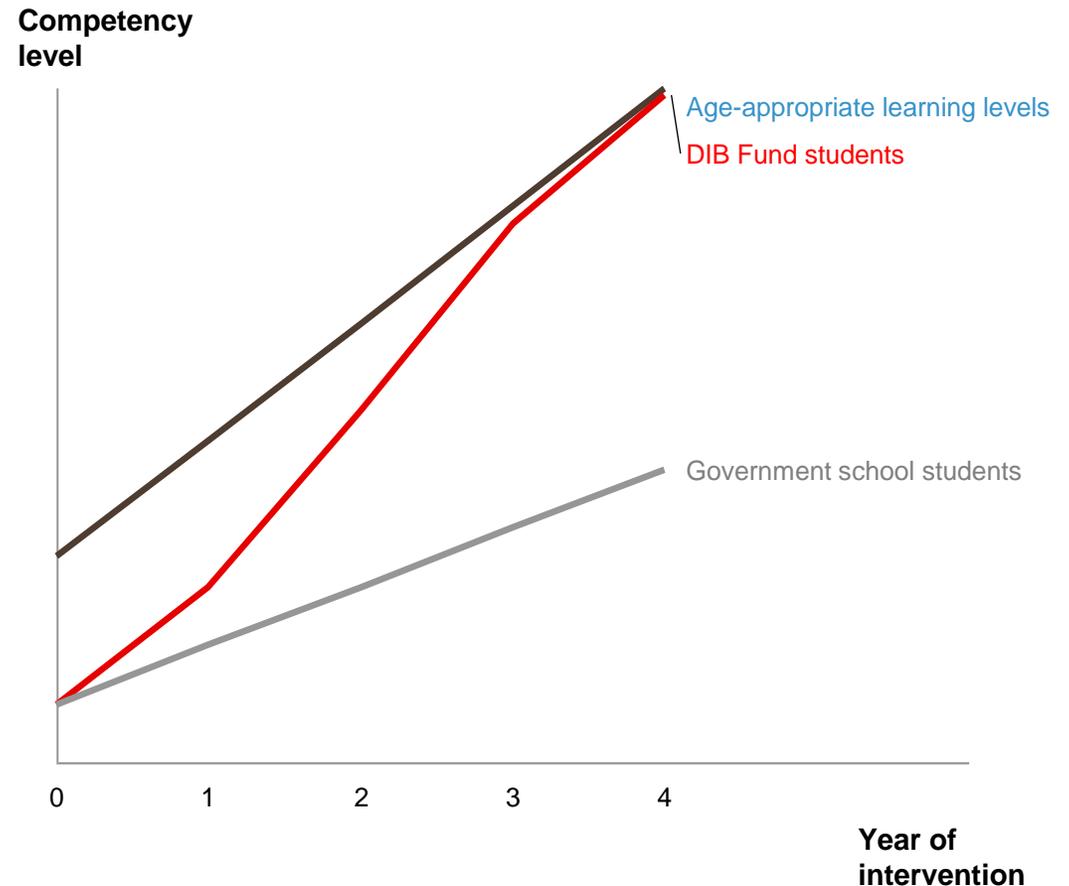
The Education DIB Fund will improve **literacy and numeracy outcomes** for over 200,000¹ primary school children in **Gujarat and Rajasthan**, allowing them to **achieve grade appropriate learning levels**

...help students catch up to their age-appropriate learning levels

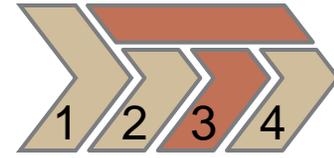


- A typical student in government school is performing at least 2 grades behind their age-appropriate learning level
- The DIB Fund will **fund interventions that allow a catch-up of between [1 to 2.5] grades** over the course of four years, moving children towards their age-appropriate learning levels
- The DIB Fund will provide **4 years of continuous support** to service providers to allow sustained learning outcomes at age-appropriate learning levels
- The DIB Fund is focused on improving the **learning outcomes in primary school children**, which will increase the likelihood of sustained impact due to compounding effects and the larger relative gains that can be achieved in the early years of a child's education

Evolution of student learning outcomes

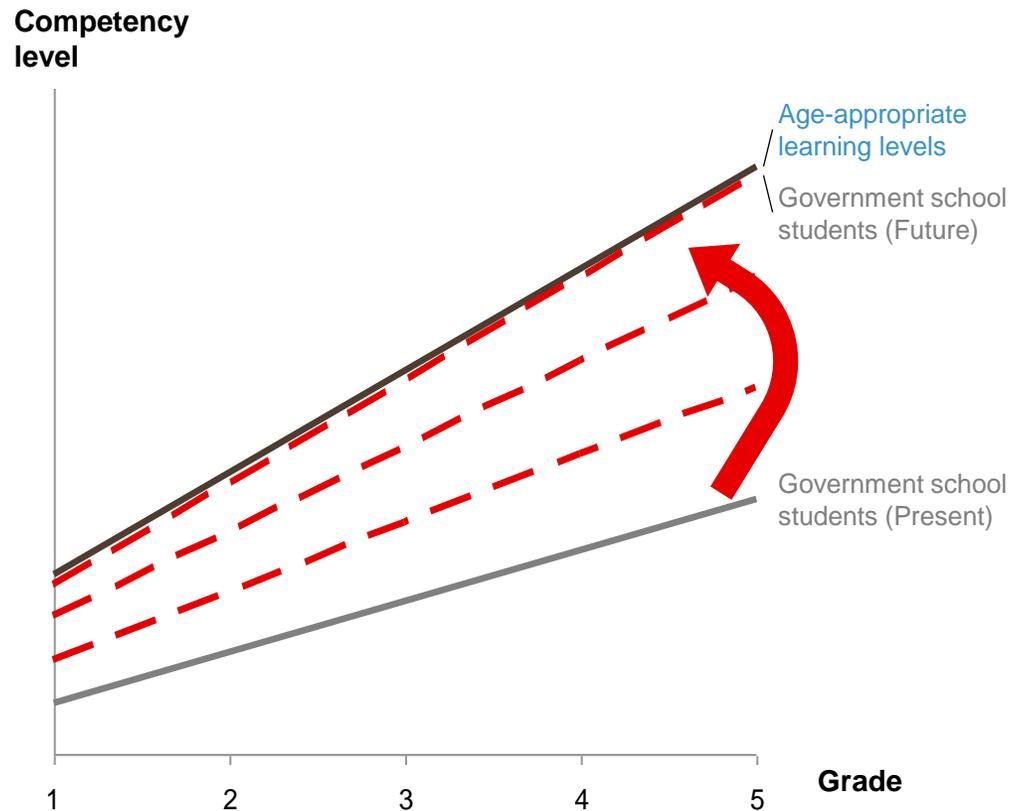


...to positively influence systemic change in the Indian government school system in the longer-term.



Evolution of student learning outcomes

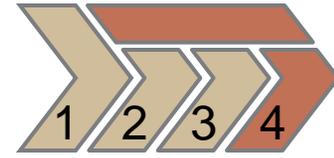
- By funding across a range of operational models, **the DIB Fund will build up a track record of effective interventions** that improve quality of education in schools
- In the longer term, the DIB Fund aims to **influence state governments through targeted advocacy** to enable achievement of age-appropriate learning levels for a broader group of children
- This approach has already demonstrated success with the state governments of Haryana and Rajasthan requesting the support of high-performing NGOs for their education reform programs



In the longer term, the DIB Fund aims to move Indian children towards their age-appropriate learning levels

Pathways to scale for Results Based Financing

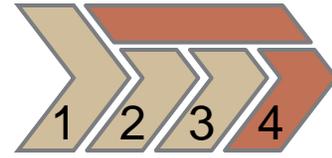
Pathways to scale



Current obstacles for undertaking DIB programs

- High transaction costs and complexity of individual deals
- Lack of coordination between supply and demand:
 - Demand: securing outcome funding (which outcomes, at which cost and for what total amount)
 - Supply: DIB ready projects based on established criteria
- Capacity levels of different stakeholders
- Focused on individual projects rather than organization or system

Pathways to scale



Rationale for scaling Results Based Finance

- Move away from a shorter-term "project-by-project" approach to a longer-term system approach
- Focus on (and pay for) outcomes rather than input regardless of final impact
- Lower transaction costs
- Pool funding
- Increase overall program cash flow efficiency

- January 18th conference to further explore the theme of "Impact Bonds - Pathways For Scale" co-organized by Swiss SECO (and SDC), Inter-American Development Bank and UBS Optimus Foundation