SAVE OUR FUTURE

Background Paper 7:

COVID-19 and Options for Financing Education

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About the campaign

Save Our Future is a global coalition of diverse voices - from CSOs to the private sector, youth to researchers, media to multilaterals, foundations to influences and more - all uniting to deliver a simple, yet powerful message amidst the COVID-19 crisis: **Save Our Future.**

This campaign, supported by hundreds of organizations worldwide, is driving awareness and emphasizing the connection between education and advancing the other UN Sustainable Development goals; showcasing education solutions and innovations backed by evidence-based research; bringing together communities and diverse stakeholders to promote collaboration; and engaging people around the world in a dialogue around education to ensure all children can learn.

As part of the Save Our Future campaign, the Save Our Future white paper *Averting an Education Catastrophe for the World's Children* was developed and launched on October 22, with key actions and recommendations for global decisionmakers on protecting and prioritizing education amidst COVID-19.

For further information, please contact campaign@saveourfuture.world. To learn more about the Save Our Future campaign, please visit www.saveourfuture.world.

Background paper prepared for the Save Our Future white paper *Averting an Education Catastrophe for the World's Children*

COVID-19 and Options for Financing Education

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Reflecting on the pre-COVID education finance crisis

Prior to the pandemic we were already facing a learning crisis. By 2030, more than 800 million of the 1.6 billion young people in the world - over half of the youth population – were projected to not achieve basic secondary level skills unless drastic measures were taken (Education Commission, 2016). According to UNESCO, 258 million children were already out of school and nearly 16 million more students from pre-primary to secondary school are at risk of not returning (UNESCO, 2020c).

An important determinant of the schooling and learning crisis is adequate financing. Pre-COVID projections by UNESCO estimated that the cumulative cost to achieve the headline targets of SDG 4 by 2030 in low- and lower-middle-income countries was over USD $5 trillion.[1][2] This represents an annual financing gap (the shortfall between total cost and available government expenditure) of $148 billion between now and 2030, a gap that has grown from 12 percent to 29 percent of the total cost as compared to 2015 estimates (See Figure 1).

Taking into account the availability of household financing as well as assumptions related to higher education, the Education Commission projected the average annual *external* finance gap (the amount needed from aid and other sources of external financing) to be $89 billion between 2015 and 2030 to achieve a 'Learning Generation' by 2030 – an ambitious but achievable path where all children are in school and learning within a generation (Education Commission, 2016). This gap exists even under the most optimistic scenario of domestic resource mobilization, where countries engage in efficiency reforms and invest the maximum possible amount from domestic public sources.

Regardless of different assumptions underpinning projections, both scenarios estimate large gaps that far exceed current levels of aid. In situations of crisis and forced displacement, which cannot be captured by global projections, needs are often even greater and resources more constrained.

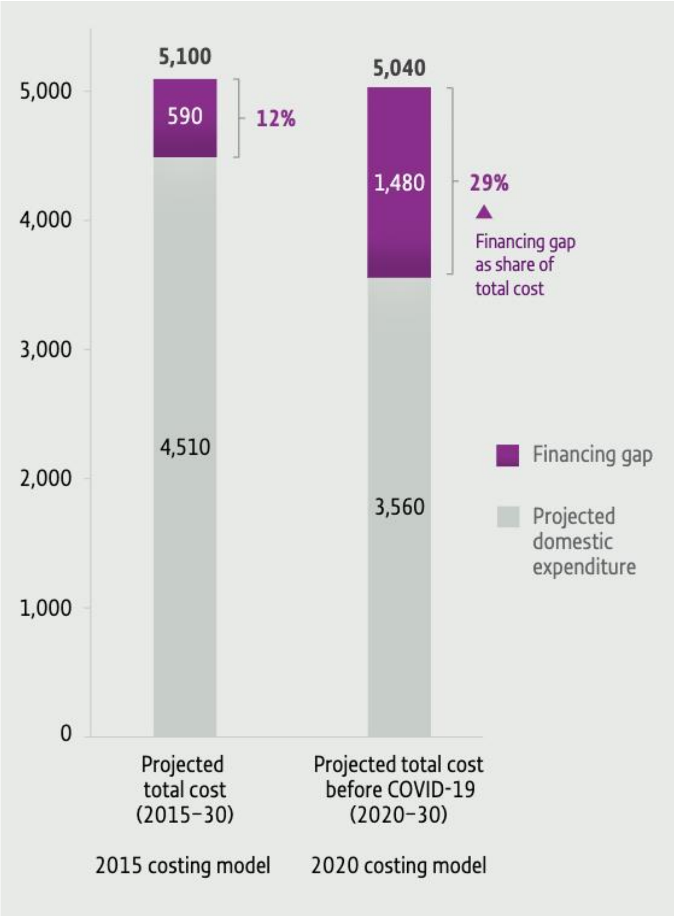
Education budgets are further constrained by inefficiencies and the lack of strong public financial management and accountability systems in many developing countries, which contributes to economic instability, weak alignment between public resources and policy priorities, corruption, and waste (Fritz et al., 2014). The Education Commission estimated that about 2 percent of GDP spending on education in low- and middle-income countries is lost due to inefficient spending and management (Education Commission, 2016). Common obstacles hampering well-executed education funding allocation are attributed to constrained data collection, capacity challenges, low budget priorities, weak financial accountability, and limited coordination between education and finance ministries (UNICEF, 2017).

[1] Projections estimate the cost of achieving universal pre-primary, primary and secondary education objectives in SDG targets 4.1 and 4.2 by 2030, as well as additional costs of achieving equity targets in terms of interventions for marginalized students and decreasing pupil/teacher ratios.

[2] All financing figures and estimates used in this paper are calculated and/or provided in US Dollars

Inefficient funding is also associated with poor learning outcomes (UNICEF, 2017). When funding is not adequately tracked, teacher deployment is mismatched with the number of students in a school, the number of textbooks manufactured do not match the amount in schools, and funds disappear due to corruption (Bashir et al., 2018). For example, in 2014 in Zambia, there was a 32 percent disparity between what the Ministry of Education dispersed and what schools actually received (African Economic Outlook, 2020). Further, in a survey analysis on seven countries in sub-Saharan Africa, over 50 percent of salaries and materials that are paid for are not being used appropriately in teaching (Bold et al., 2017). This type of leakage frequently delays teachers' salaries, often the bulk of the education sector budget, which leads to high teacher absenteeism and deteriorates student learning in the classroom (Bashir et al., 2018).

Figure 1: Cumulative total cost of achieving SDG 4 in low- and lower-middle-income countries by 2030, disaggregated by projected domestic expenditure and financing gap, 2015 costing model and 2020 update, USD $ billions



Source: UNESCO (2020a)

How COVID-19 impacts education financing

Just as governments need to take urgent action to reopen schools, provide alternative pathways for learning, and target much-needed resources to ensure no child is left behind, education budgets are threatened by three compounding crises: (1) slow or negative growth will undermine government revenues and scarce domestic resources may be shifted to prioritizing health and economic recovery; (2) household budgets and remittance flows are falling due to lockdowns and job losses; and (3) fiscal pressures on donor countries and multilaterals will lead to reductions in aid flows to education.

Domestic budgets

The precise impacts of the crisis on government budgets will not be known for many months, but several preliminary estimates offer useful starting points. In the best-case scenario, education budgets remain constant. However, due to projected drops in GDP, this will likely mean that there is less money for education in absolute terms even if budget allocations as a percentage of GDP are maintained. According to an analysis by UNESCO, drops in GDP and fiscal revenue may result in public education expenditure being 8 percent, or $210 billion, lower than in 2019 (UNESCO, 2020).[3] This drop will hit some countries harder than others. Large commodity exporting countries, for instance, face large drops in GDP growth due to drops in commodity prices (Al-Samarrai, 2020a).

More comprehensive estimates suggest that the cumulative government funding shortfall in low- and lower-middle-income countries could increase by somewhere between $150 and $460 billion, taking into account the effects of slower GDP growth on government budgets and increased financing needs for remediation, re-enrollment and second-chance programs, and infrastructure costs (see Figure 2). In the likeliest scenarios, this increases the pre-COVID annual financing gap to between $178 and $193 billion for the 2020-2030 period (UNESCO, 2020a).

[3] Estimates use data from the IMF and the UNESCO Institute for Statistics (UIS) and are based on a globally representative sample of low, middle and high-income countries representation about 60% of the world's GDP.

Figure 2: Additional financing need, decrease in domestic budget and additional financing gap due to COVID-19 in low- and lower-middle-income countries between 2020 and 2030, by school closure duration and GDP scenarios, US$ billion

Source: UNESCO (2020a)

While these estimates take into account the effect of slowed economic growth and the potential for a sustained recession, domestic budgets are also threatened by pressure to re-allocate scarce funds to other sectors. More pessimistic estimates predict that education as a share of total budgets will drop by 10 percent due to a reprioritization of spending toward other sectors (Al-Samarrai, 2020a; Warren & Wagner, 2020). This scenario could lead to a drop in public education spending of over $83 billion in 2020 and $109 billion in 2021 (Warren & Wagner, 2020). There is evidence that some countries are already cutting their education budgets to make space for the required spending on health and social protection. In Ukraine, the education budget is set for a cut of around 4 percent in 2020 to release resources to deal with COVID-related shocks. In Kenya, spending on tertiary and basic education curriculum reform are being deemed as necessary cuts to support their COVID-19 response plan, and in Nigeria approximately 45 percent ($130 million) from the Universal Basic Education Commission budget is suggested to be cut (Azevedo et al., 2020).

Falling budgets could further exacerbate existing inequities in domestic spending. Even before COVID-19, the distribution of education spending at the country level was highly inequitable due to a lack of sufficient prioritization of public budgets on the lower levels of education and most marginalized learners. Disparities become even more evident during humanitarian and financial crises *(see* Save Our Future background paper *Unlock Education for All: Focus on Children Furthest Behind).*

Household finances

Pandemic containment measures, while necessary to dampen the spread of the virus, severely restrict economic activity, which impacts low-skilled workers and the informal sector the most. As a result of COVID-19 lockdowns and restrictions on movement, four out of every five workers globally have been unable to work (Al-Samarrai, 2020b; ILO, 2020). By region, the decline in expected earnings is largest in Africa, Northern America, and Latin America and the Caribbean (Omtzigt & Pople, 2020).

These economic shocks threaten to negatively impact household spending on education. Previous economic crises in low-income countries, for instance, have generally lowered household education spending and led to lower rates of school participation (Rogers & Sabarwal, 2020). The biggest impact will be felt in lower-income countries, where household spending represents a significant share of total education spending (for further analysis, see *Save Our Future background paper Unlock Education for All: Focus on Children Furthest Behind)*. Declining household incomes may also lead to shifts in enrollment from private schools to public schools, adding further pressure on stretched public education budgets. In Indonesia, evidence suggests that enrollment rates in private secondary schools fell after the Asian financial crisis, while government schools increased enrollment rates (Strauss et al., 2004).

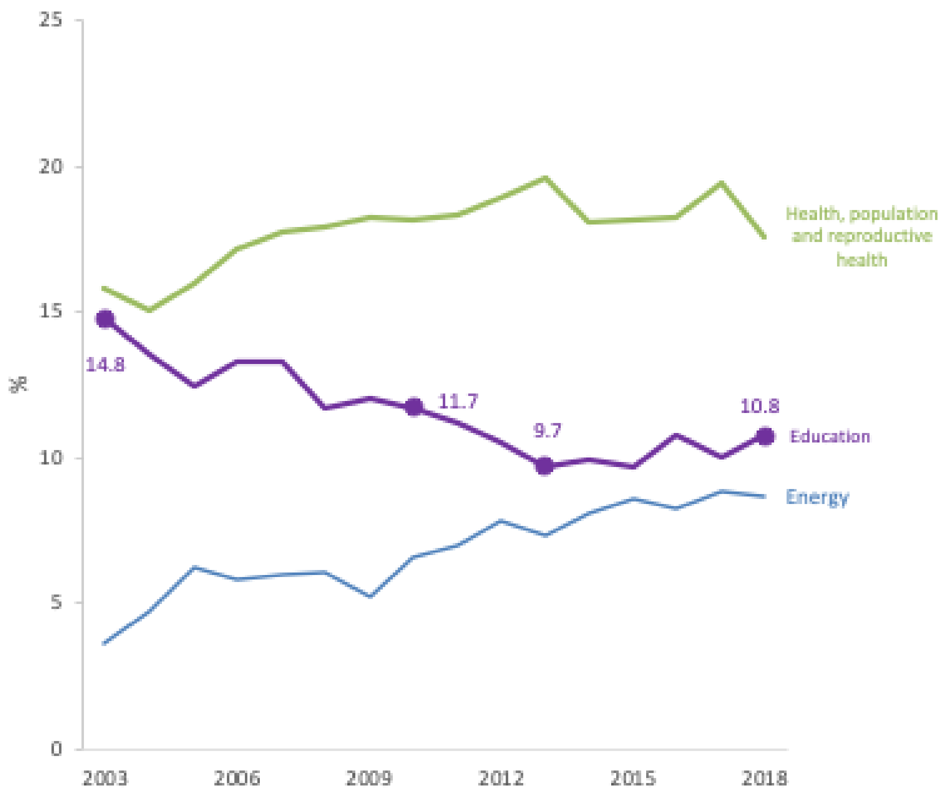
A knock-on effect of job losses is that remittances – an important source of household education resources in many countries – are likely to decline. The World Bank projects that remittances to developing countries will decrease by 23 percent this year – down to $445 billion, compared with the $574 billion it had projected before the crisis (Ratha et al., 2019; World Bank, 2020c). Many poor families which are on the receiving end of remittances tend to invest those funds in better health and education, especially for children (Clemens, 2020). In Mexico, for instance, a 20 percent cut to remittances in the 2009 economic crisis almost doubled the rate of school dropout among 12- to 16-year-olds in remittance-receiving households (Alcaraz et al., 2012). Similar outcomes may play out in other countries, especially those with important remittance-sending diasporas. For Tonga, South Sudan, Kyrgyz Republic, Haiti, Tajikistan, and Nepal, for instance, remittances equaled over 25 percent of GDP in 2017 (Omtzigt & Pople, 2020).

External financing

Resource constraints at the national and household levels make development aid all the more pivotal, particularly in low-income countries where development assistance makes up around 12 percent of total education financing. Official Development Assistance (ODA), however, is also likely to contract given economic pressures on major bilateral donors. According to an analysis by UNESCO, the forecasted GDP growth rate for the eight largest donors to education will fall to -8 percent in 2020 before rebounding to 5 percent in 2021, which may cause a reduction in aid spending. This is especially worrying as just 10 bilateral donors contribute over 85 percent of the total aid allocated to education (UNESCO, 2020d). Recent projections suggest that COVID-19 could result in a loss of up to 12 percent ($2 billion) of official aid to education due to economic consequences of COVID-19 and efforts to reprioritize towards other sectors (UNESCO, 2020d). And there is no indication that recovery will be swift. Following the 2008 financial crisis, aid to education did not catch up with other global aid trends until 2018 (UNESCO, 2020d).

This adds additional challenges to an already constrained financing environment. While ODA to the education sector in 2018 were the highest ever recorded at US $15.6 billion, a 9 percent increase from the previous year, disbursements still fell short of targets needed to fill projected finance gaps. In addition, the share of direct aid to education has fallen over the last 15 years –from 14.8 percent to 10.8 percent (UNESCO, 2020e). This is in stark contrast to other sectors, which have seen increases in their share of ODA (see Figure 3). Similar trends in prioritization exist for philanthropic funds, though this is more difficult to track due to limited reporting. For instance, for the subset of private donors that report to the OECD Development Cooperation Directorate (DAC), nearly half of all funds were directed toward health and population, whereas just 5 percent was earmarked for education.

Figure 3: Education, energy and health, population policies/programs and reproductive health as a share of total sector allocable aid, 2003–2018



Source: UNESCO (2020e)

Aid to education for humanitarian situations is also low, with a 2019 record amount of $700 million. It has slowly increased over the past 10 years due to increased total refugee flows and greater prioritization – increasing from 4.3 percent in 2018 to 5.1 percent in 2019 – yet remains well below need (ECW, 2019).

Actions to enhance resource mobilization and efficiency

Without immediate action, lack of investment in education will have profound ramifications for the global economy and countries' future growth. Conservative estimates suggest that around 230 million people could be pushed into poverty (at both the $3.20 and $5.50 poverty line) (Omtzigt & Pople, 2020). If no further action is taken, poverty traps become permanent and irreversible as families are forced to adjust to income losses by selling productive assets or foregoing schooling.

Similarly, initial estimates from the World Bank predict that even the current period of short-term school closures could result in future loss of earnings totaling more than $10 trillion, equivalent to 16 percent of the investments governments have made in this cohort's basic education (Azevedo et al., 2020). These estimates also suggest that the percentage of students worldwide reaching minimum proficiency levels in reading at the end of lower-secondary education – which is already low at between 40 to 50 percent – could drop by an additional 25 percent following the crisis.

Up-front costs to smooth economic shocks and invest in remedial and re-enrollment programs are far lower than the cost of inaction. It is thus all the more critical to protect and strengthen education budgets in the wake of the crisis. As domestic and international resources become more constrained, additional sources of financing, including public-private partnerships, will need to be part of the solution to ensure that needs across the sector are met while ensuring equitable and realistic solutions. Additionally, as national governments and the international community face tradeoffs, financiers will need to be staunchly committed to ensuring equity and efficiency in all finance decisions to ensure no one is left behind.

The following recommendations build on and reinforce ongoing efforts to safeguard and mobilize funding (for education and more generally) in response to the pandemic, such as the UN Secretary-General's Initiative on Financing for Development in the Era of COVID-19 and Beyond, and civil society's ten point Call to Action on Domestic Financing of Education Post-COVID, coordinated by ActionAid.

1 | Increase the size of the pie

1.1 | Protect and raise domestic education budgets

Domestic spending on education has risen significantly over the past few decades, but recent analysis suggests this is driven largely by economic growth rather than the prioritization of education in domestic budgets (Al-Samarrai, Cerdan-Infantes, & Lehe, 2019). And despite the endorsement of the Education 2030 Framework for Action, which calls on countries to spend 4 to 6 percent of GDP and 15 to 20 percent of total expenditure on education, vast disparities remain in current domestic investment in education. According to an analysis conducted for the most recent Global Education Monitoring Report, one-third (47) of the 141 countries with data available for the 2014-2018 period met neither benchmark (UNESCO, 2020e).

Given that financing available for education will come under increasing pressure as a result of diminishing government revenues due to slow or negative growth as well as pressure to reallocate limited budgets to health and economic sectors, it will be all the more critical to protect and strengthen domestic education budgets and recognize education as essential to the recovery effort. Education is linked to progress in virtually every area of human development – from child survival to maternal health, gender equality, job creation, and inclusive economic growth – and is a critical sector to stem the worst effects of the pandemic and safeguard progress toward the achievement of the Sustainable Development Goals. This recognition has even led to a recent shift in the policies and procedures of the IMF, which recommends countries to protect spending on education (rather than being subject to austerity measures) as the sector critical to the overall health of economies in terms of growth and stability (IMF, 2019).

While the best pathway is for governments in low- and middle-income countries to expand their revenues and increase tax-to-GDP ratios and reassess macroeconomic policies, these efforts may not be politically or technically feasible in the near term. In the meantime, education must be prioritized and recognized as an essential building block for future growth and resilience as Finance Ministers and Heads of State take part in discussions to articulate a comprehensive financial response to address the crisis, including internal discussions and externally coordinated efforts. This includes ensuring that national recovery stimulus packages include allocations for remedial and re-enrollment programs.

Recommendations:

- Governments to commit to maintaining or increasing spending per capita on education at all levels
- Ministries of education to engage in strategic discussions with ministries of finance to prioritize education as part of recovery discussions and planning
- National governments and development partners to develop credible financing plans to fully finance education, including an assessment of macroeconomic conditions and overall fiscal space

1.2| Integrate with efforts to finance the COVID recovery and more generally in long-term financing agendas (ex: tax reform, illicit financing flows, debt relief, humanitarian response)

In a similar vein, actors working on education finance must be engaged as governments and the international community design strategies to reinforce domestic budgets to finance the COVID-19 response and longer-term development agendas – including through debt relief packages, tax reform, and efforts to stem illicit financing flows. These efforts, while technically and politically difficult, have the potential to release substantial sums of money.

For instance, the Debt Service Suspension Initiative (DSSI), which suspends bilateral debt repayments, could provide some liquidity relief amounting to $12 billion in 2020 and $17 billion in 2021, and civil society groups have gone even further to call for the permanent cancellation of all debt repayments, which would free up to $25.5 billion in 2020 (Kharas & Dooley, 2020). At an even larger scale, minimizing corporate tax shifting could gain low-income countries over $200 billion in lost revenue, and stemming corruption leakage and other illicit flows could generate revenues worth many times more the current levels of ODA (Kharas & Dooley, 2020). Education must be considered as essential in these global, regional, and national level efforts to finance the recovery. In the case of debt, for instance, Save the Children has called for international development architecture to create a facility to convert suspended debt service payments directly into investments in children, including education (Warren & Wagner, 2020).

This will also require better integrating education into humanitarian actions responding to COVID-19. For instance, the Global Education Cluster calls for education to be explicitly listed as a priority in all revised Humanitarian Response Plans (GHRPs) and response strategies, as education is one of the most underfunded sectors in humanitarian response plans[4] and is particularly vulnerable to economic shocks as the subsector has limited capacity to reallocate or realign existing funding (Global Education Cluster, 2020). In responding to immediate health needs, the group recognizes that education offers one of the most effective and efficient means of providing children with life-saving health services, information, and life-skills; school-feeding is an integral part of nutrition response; and education plays a critical role in protection and safety measures.

Recommendations:

- Development partners working on education finance to work more closely with other sectors to prioritize action on debt-relief, progressive taxation, efforts to stem illicit financing flows, and humanitarian financing

1.3| Strengthen efficiency and accountability to make education budgets go further

To weather the financing crisis, it will not be enough to generate more money. Strengthening public financial management (PFM) and accountability systems – including budget formulation, approval, execution and evaluation – will be essential to improve efficiency and equity of allocations and ensure financial resources reach their targets. For example, while Togo and Burundi spend approximately the same amount per student ($177 and $186 respectively), systems result in an additional learning adjusted year of schooling in Togo (5.5) compared to Burundi (4.6) (World Bank, 2019b). In another example in Somalia, UNICEF supported subnational governments in Somaliland and Puntland to strengthen their PFM capacities, which contributed to an expansion of investments in education and improved education indicators (UNICEF, 2017).

[4] Prior to the COVID19 crisis, education responses in countries with Humanitarian Response plans were only 4% funded. See: https://inee.org/resources/prioritizing-education-global-humanitarian-response-plan

Greater global efforts to ensure governments – both central and local – have the tools and resources available to better analyze, plan and monitor the equitable and efficient financing of their education systems are urgently needed. The recently launched Global Platform for Education Finance is one effort in this area (World Bank, 2019b). Civil society voices must also have the necessary political space to play a crucial role in tracking budgets, making sure that money allocated arrives, and decisions are made transparently at the appropriate level (ActionAid, 2020).

It will also be essential to build frameworks to estimate and track resources from external partners. Without any type of centralized framework for education expenditure, information collected at the country level tends to be dispersed between an array of organizations because of the capacity constraints and the complexity around collecting enormous amounts of data (Grant Lewis & Montoya, 2016). Oftentimes, this results in grossly underestimating the level of investments needed. To date, National Education Accounts (NEAs) – comprehensive national education expenditure reporting systems – have been established by the UNESCO Institute for Statistics and the UNESCO International Institute for Educational Planning in just a handful of developing countries with funding from the Global Partnership for Education (GPE). These NEAs are integral frameworks that track the flow of education financing from all types of sources at the government, household and external levels. NEAs reveal spending gaps, help governments and donors target resources to areas of high need, and enhance coordination among external partners (Albright & Grant Lewis, 2016). The latter is especially important in countries with large aid flows from multiple development partners (INEE, 2010). Greater development impact can be achieved with better use of these country-wide and country-led frameworks, which would involve enhanced cooperation, consistency and transparency in data collection and sharing; and the adoption around common core standards so that resource allocation and availability to those in need is reliability estimated (Global Financial Governance, 2018).

Recommendations:

- Development partners to support national governments in strengthening public financial management systems
- Donors to support efforts in education (e.g. by UNESCO, World Bank, Education Commission and others) to develop better data on financing, estimate costs and track resource availability from all sources

1.4 | Protect education spending for the most vulnerable households through cash transfers and actions on remittances

The impact of economic shocks on household spending on education could be minimized by compensating households to withstand economic shocks, for example through cash transfers and child grants, and introducing measures to reduce the transaction costs of remittances.

Cash transfers

Social protection services are vital to address the immediate needs of families, provide stability in the face of uncertainty, and stimulate economies, yet 2 out of every 3 children have no access to social protection (UNICEF, 2020b). But in the face of COVID-19, many countries have stepped up efforts to implement cash transfer initiatives. As of March 2020, 58 countries had implemented cash-transfer programs, with 35 introducing new initiatives specifically in response to COVID-19 (Gentilini et al., 2020). For instance, the Ministry of Gender, Children, and Social Protection in Ghana plans to increase cash transfers under the Livelihood Empowerment Against Poverty (LEAP) Program for extremely poor households across Ghana (Jenkins & Winthrop, 2020); the Philippines has introduced five new cash programs alongside its national Pantawid programs; and Colombia has directed cash payments to informal economy workers who do not currently benefit from government welfare programs (Moloney, 2020).

Previous research has indicated how best to implement such programs. Studies from Kenya and Morocco have found that unconditional cash transfers have produced similar outcomes as making them conditional (without added monitoring costs), which could be especially key if a goal of social support is to encourage families to sustain spending on education (Heinrich & Knowles, 2019). Transfers could even be timed to coincide with the start of school years, when fees may be due or when there may be additional pressure for families to involve children and youth in income-generating activities. In addition, governments should use delivery mechanisms already in place for other social programs to deliver aid to citizens as quickly as possible. Many countries, for instance, have cash-for-work programs to aid agricultural workers during off seasons, providing authorities with a possible list of beneficiaries (Datta et al., 2020).

Remittances

To further supplement household budgets, remittance transfer services must also be declared as essential and onerous taxes and compliance measures removed to maintain the flow of fast, cheap and safe transfers to households. Remittances are particularly important to sustain household spending on education. A meta-analysis conducted by the Global Education Monitoring Report found that remittances increased education spending by 35 percent, on average, and as high as 53 percent in Latin America (UNESCO, 2019).

Immediate relief measures include national governments declaring remittance services to be essential – and thus remain open and available during lockdowns – and seeking further reductions in remittance transfer costs. According to the World Bank, the global average cost of remitting is 6.67 percent, varying from 4.92 percent in Southern Asia to 8.71 percent in sub-Saharan Africa (World Bank, 2020c). A conservative estimate suggests that lowering remittance costs to meet the SDG goal of 3 percent would allow households to spend an additional $1 billion on education per year, though this is likely an understatement given that a high proportion of remittances are spent on education in many low- and lower-middle income countries (UNESCO, 2019).

Recommendations:

- All levels of governments to use cash transfers and other targeted programs to ease economic shocks for households, labelled as funding to reduce economic constraints on school attendance

- Governments to declare money-transfer services as essential, ease onerous taxes, and ensure transparency and accessibility of information on costs

1.5| Protect, increase, and optimize aid allocations

While the majority of financing for education will come from governments, aid remains a vital source of financing for low- and middle-income and countries and more marginalized populations worldwide. Recent increases in aid to education are a step in the right direction, but this increase is tenuous in the face of economic contraction. Education's share of humanitarian aid also falls far short of need. Raising this level is essential as refugees frequently do not benefit from domestic finance and are not included in systems approaches supported by international donors.

Delivering on existing ODA targets would make a substantial contribution to closing financing gaps and safeguarding education aid in the near future. Pre-COVID estimates by the IMF found that meeting the 0.7 percent of gross national income target would provide about $230 billion in additional funding to key SDG sectors, including education, health, water and sanitation, transportation and communication, energy (Gaspar et al., 2019). Adding to this, the Education Commission recommends that aid to education should rise to 15 percent of total sectoral aid to mirror targets for domestic budgets (Education Commission, 2016).

Expanding education assistance levels will also require engaging non-DAC and nontraditional donors in education, including increasing funding from philanthropists, corporations and charitable organizations to be in line with other sectors such as health and climate action. Billions in grants and investments are being released at record speed in response to COVID-19, and it will be essential to characterize education as being vital to the emergency response.

Beyond growing ODA volumes, it will be key to ensure aid reaches areas of high need. ODA is most critical for low-income and crisis-affected countries and marginalized populations, yet many donors continue to direct a large proportion of their grants to higher-income countries and to upper levels of education, which are less likely to benefit the most marginalized students. For instance, Germany and France are two of the top three donors to education, but a large share of that aid is directed at scholarships and imputed costs for students to study in their tertiary education institutions (UNESCO, 2019). Similarly, donors primarily support project-based aid rather than channeling investments into system-level reforms that are necessary to improve quality and promote learning.

Bilateral donors must commit to investing in in multilateral grant funds for education rather than favoring their own bilateral channels, which more effectively and efficiently pool and target funding specifically to more marginalized countries and populations. GPE, for instance, mobilizes investments in nearly 70 low-income, lower-middle-income and fragile and conflict-affected partner countries, and Education Cannot Wait (ECW) is a global fund dedicated exclusively to supporting 75 million school-aged children and youth in emergencies and protracted crises. Increasing financing to multilaterals that target funding based on need is crucial for maintaining focus on equity. Bilateral donors, in contrast, tend to spend very different amounts on countries based on priorities other than need, leading to inequitable allocations. For instance, “while about half of children complete primary school in both Liberia and Mauritania, Liberia receives 10 times the amount of aid to basic education per school age child” (Scoping Progress in Education, 2020).

Multilateral initiatives also go further to offer flexible and efficient funding modalities in times of crisis. For instance, GPE has made $500 million available to its partner countries, redirected from previously unallocated resources, and ECW has activated a “First Emergency Response” funding window to redirect current funds as well as raise additional funds to respond to COVID-related education needs. These funds ensure that the most vulnerable countries and populations do not face dangerous shortages in education resources.

Recommendations:

- Bilateral and multilateral donors to increase education’s share in aid portfolios to 15 percent and education’s share of humanitarian funding to 4 to 6 percent
- Bilateral donors to make better use of multilateral channels through full replenishment of GPE, ECW and UN agencies
- Bilateral and multilateral donors, including in the humanitarian arena, to prioritize education funding for programs that reach marginalized groups and countries most in need
- Development partners to increase efforts to engage non-DAC and nontraditional donors

1.6| Offer supplementary IDA and other forms of concessional finance and issue Special Drawing Rights

International financial institutions, including the IMF and multilateral development banks (MDBs), have been working to mobilize substantial financial resources in the face of the crisis. For instance, the IMF has pledged to fully tap its lending capacity (about $1 trillion) to support governments and the World Bank has committed to mobilizing $160 billion and regional MDBs $80 billion in the near term to respond to countries’ immediate needs. However, these efforts may not be enough and there are a number of additional policy actions that could further strengthen response, such as MDBs expanding IDA and other equivalent concessional financing for education, and the IMF issuing Special Drawing Rights.

The International Monetary Fund

The IMF has many options to deploy resources in response to financial crises: providing one-off, rapid assistance, granting debt relief, increasing the size of current IMF loans, and approving new IMF loans. Already, more than 100 of the IMF’s 189 member countries have requested IMF programs (Congressional Research Service, 2020). In addition to already agreed-upon IMF responses, including greater flexibility of lending practices, increased access to emergency assistance, and debt service relief, many have called on the IMF to issue SDRs – requests ranging between $500 billion and almost $4 trillion – to assist countries in addressing immediate liquidity issues (Plant, 2020b).[5]

SDRs are supplementary international reserve assets that can supplement countries' official reserves amid financial crises. When certain conditions are met, the IMF may allocate SDRs in proportion to their quotas (which favor low- and middle-income countries) at a low interest rate. SDRs have been allocated in the past, including SDR 161.2 billion in 2009 following the global financial crisis. However, these efforts have been stalled by geopolitical reasons, as the allocation requires at least 85 percent of total votes held by IMF members for approval. An "interim measure" proposed by the Center for Global Development (CGD) is for high-income countries to reallocate some existing SDRs (valued at around $190 billion) to developing countries (Plant, 2020a). This could provide a needed proof of concept to facilitate the release of subsequent allocations.

Multilateral Development Banks

The World Bank has committed to provide up to $160 billion in financing for the COVID-19 response, including $50 billion in IDA financing (i.e., on grant and highly concessional terms). Regional development banks have issued similar crisis response efforts. But these efforts are a result of frontloading and redirecting existing financing, rather than generating additional funding. To generate much-needed *additional* financing, one option is for bilateral donors to commit new funding to IDA as well as the concessional arms of the regional MDBs. This could be paired with efforts to revise existing criteria that determine access to concessional financing to consider factors beyond per capita income (e.g., vulnerability) and provide temporary support measures to recent graduates to higher-income statuses (UN Background Document, 2020).

Another is to adjust statutory limits established in MDB charters (the level of allowable exposure relative to total capital). A recent CGD analysis estimates that this could free over $500 billion across the major MDBs – even without increasing capital – which is close to double of current exposures (Landers, Lee, & Morros, 2020).[6] By reassessing these statutory limits and capital adequacy calculations, even partially, banks would be able to increase lending while preserving their AAA credit ratings. Importantly, the ability to leverage capital markets is now available for the World Bank's concessional (IDA) window, which previously did not issue bonds, since the introduction of a hybrid financing model during the IDA18 replenishment (World Bank, 2018).

Recommendations:

- MDBs to expand their concessional and non-concessional windows, target increased funding toward education, and adjust access criteria to concessional and grant finance
- The IMF to issue $1.2 trillion in Special Drawing Rights

[5] See call by Gordon Brown and Larry Summers here: https://www.washingtonpost.com/opinions/2020/04/14/national-governments-have-gone-big-imf-world-bank-need-do-same/; and from US Congressmembers and lawmakers in 40 countries here: https://www.sanders.senate.gov/download/ifi-letter?id=D3601AD9-E5CB-4E1E-9FC3-7F1936C70706&download=1&inline=file

[6] Estimated additional headroom, in USD billions: IBRD = $113 billion; IDA $50; AsDB = $85; IDB = $99; AfDB = $184

- Bilateral donors to commit new funding to IDA and other concessional lending arms of the MDBs

1.7| Leverage additional financing through the use of guarantees

It has long been recognized that the scale of existing external financing will be inadequate to fulfill the SDG agenda, giving way to efforts by MDBs and other development partners to turn "billions to trillions" and make balance sheets go further. While often this term has become shorthand for the use of ODA to 'crowd-in' additional financing from the private sector in the form of public-private partnerships and blended finance opportunities, another means is to harness existing mechanisms, such as through contingent financing and guarantees, to leverage additional financing from capital markets.

The unique financial structure of the MDBs allows them to leverage contributions from their shareholders and multiply them into financing at low cost. MDBs can borrow in capital markets and provide loans equal to several times their capital while retaining AAA ratings. Rather than paid-in capital, however, contributors could also pledge callable capital – or guarantees – that can be triggered in cases of non-payments on loans provided by MDBs. When committed by AAA-rated countries, these guarantees carry a similar standing as paid-in capital and can expand MDBs' capacity for additional lending.

But banks may be hesitant to amend policies around capital adequacy calculations and statutory lending limits to take these guarantees into account (Humphrey, 2020). The International Finance Facility for Education (IFFEd), currently being established, could be one way to mitigate this sense of risk and harness quasi-capital specifically to address education challenges. IFFEd will address both supply and demand challenges for education financing by using contingent financing provided by contributors to insure MDBs' loan portfolios to generate additional lending (multiplying by a factor of 4), and also providing grants to make the terms of loans less expensive (more concessional) for developing countries. The Facility will target lower-middle-income countries, which face a structural challenge in financing education – the 'missing middle' – where aid volumes fall faster than tax revenues grow as countries transition away from the levels of concessional financing available to low-income countries (Engen & Prizzon, 2019; ODI, 2014).

An increased appetite to pledge guarantees is also shown by bilateral donors. For instance, the Swedish International Development Cooperation Agency (Sida) views guarantees as an effective mechanism to meet global challenges and reach a wider impact for Sweden's thematic priorities. Similarly, the European Commission (EC) launched the European Fund for Sustainable Development (EFSD), which combines guarantees with blending activities to unblock bottlenecks to investment in the African and European regions. There is also now a unique opportunity to encourage more donors to engage with guarantees as the OECD-DAC's Total Official Support for Sustainable Development (TOSSD) initiative aims to give recognition to countries using guarantees in its statistical framework for monitoring development assistance.

Recommendations:

- Donors to pledge support to IFFEd as a means to generate additional funding for education
- Donor governments to adjust legal and budgetary policies to allow for the use of guarantees in development financing

2| Diversify sources of funding to fully finance education

2.1| Unlock financing for education and skills training through multi-sectoral and SDG-focused development efforts

The education crisis is complex on its own but should also be considered critical as an interlocking element of a wider system in search of sustainable and equitable development. This necessitates moving beyond a 'silo approach' in development to work cross-sectorally. But while the interconnectedness of the SDGs is well-recognized (and has spurred a number of exercises to map and categorize the linkages between the goals), little practical guidance exists on how to leverage synergies and implement coherent policies and programs.

Key to this will be to work within broader national development frameworks and strategies. For instance, the World Health Organization (WHO) has successfully positioned health workforce investments in Guinea and Niger within a broader national development investment plan, enabling these national governments to source and secure significant additional domestic, donor and United Nations Development Assistance Framework funding, as part of a broader 'rural economic development' initiative that includes education (SDG4), health (SDG3), job creation (SDG8) and women's/girls'/youth participation and economic empowerment (SDG5, SDG8).[7] Similarly, WaterAid has called for Sierra Leone to integrate financing for improved WASH facilities and sanitation in schools as part of the country's 'Education for Development' medium-term plan (Cheah, 2019). Similar cross-sectoral opportunities must be identified for education, particularly with billions in funding and stimulus packages being channeled to support post-COVID recovery and resilience efforts. Opportunities for entry include engaging with countries as they conduct Voluntary National Reviews, presented at the annual High-Level Political Forum, when developing Integrated National Financing Frameworks, and while conducting assessments such as the OECD Transition Finance Country Diagnostics. Annex 1 includes an overview of the interactions between SDG4 and the other SDGs compiled by the OECD.

There are also opportunities to integrate education and skills-training opportunities into large-scale development programs implemented in other sectors. For instance, the Asian Development Bank (ADB) and the German Federal Ministry for Economic Cooperation and Development (BMZ) have formed a strategic partnership to provide work-based training in infrastructure investments. The "Build4Skills" project demonstrates how inter-agency cooperation addresses the prevalent lack of industry-driven, practical vocational training – beyond sectoral boundaries. The approach is currently being implemented by GIZ together with contractors and local training providers in Mongolia and Pakistan, generating new

[7] See: https://www.uhcpartnership.net/wp-content/uploads/2019/03/Niger-Rural-Pipeline-article-6-March-WEB-FINAL.pdf

skilling and employment opportunities for the local communities and strengthening the availability of a skilled workforce needed for infrastructure investments. Lessons learned from pilot implementation are being documented in a toolkit to facilitate replication and upscaling of the approach.

These types of multisectoral approaches can help leverage additional domestic sources of funding for investment in education and also open up opportunities to access alternative non-traditional donors and funding sources that a single-sector approach would not.

Recommendations:

- Education actors to engage more deeply with governments as they prepare and present integrated financing plans
- Development partners to engage across sectors to ensure education is prioritized in discussions around SDG financing and project implementation
- Development partners to identify opportunities to integrate opportunities for education or skills training in large-scale projects in complementary sectors

2.2| Attract new funding from non-traditional sources and ensure results through impact bonds or other forms of performance-based financing

There is a growing field of 'results-based-financing' (RBF) mechanisms – an umbrella term describing contracts that make compensation partially or fully contingent on results achieved – that are increasingly being used in the education sector. Institutions such as the World Bank, U.S. Agency for International Development (USAID), and the Foreign, Commonwealth & Development Office (FCDO), formerly known as DFID, are increasingly using results-based contracts in their lending programs, for instance, through such mechanisms as FCDO's Girls' Education Challenge, and the World Bank's Program for Results instrument.

Impact bonds are one of the more promising examples of this trend, given their potential to harness capital from non-traditional sources, front-load investments by borrowing from the future, and allocate risk to those best able to bear it. Social impact bonds (SIBs) (also known as pay-for-success) can use private capital to finance and deliver social services, which is repaid by the government conditional on achievement of a specified outcome. Development impact bonds (DIBs) are similar, except that a donor agency or foundation rather than the government repays the loans once the outcome is achieved. For example, the UBS Optimus Foundation provided upfront capital to get out-of-school girls into the classroom and improve learning outcomes in India. After three years, the *Education Girls Development Impact Bond* has overachieved its enrollment and learning targets and the investment was repaid by the Children's Investment Fund Foundation (Gustafsson-Wright & Boggild-Jones, 2019). In other cases, tax incentives can also be used in place of direct capital repayments. For instance, restrictions on the use of funding in Portugal means that investors cannot be reimbursed directly on outcomes. Instead, investors can receive strong tax incentives, with deductions of up to 130 percent of their investment (Gustafsson-Wright, 2020).

Because impact bonds are relatively new instruments,[8] evidence of better outcomes and sustained impact has yet to be established definitively, but potential benefits include an increased focus on outcomes, the promotion of transparency and accountability in the procurement of social services, reduced risk for government, more collaboration across stakeholders, and drive a market for new providers (Gustafsson-Wright et al., 2015). Recent experiences with DIBs have informed the development of the Education Outcomes Fund, which pools financing from aid agencies, philanthropic donors and foundations, deploys those resources toward pay-for-success education programs, and pays back investors and private sector entities their initial investment plus a return if learning objectives are reached.

Given the potential for impact bonds to address liquidity constraints, these financing mechanisms may be best placed in areas with high up-front costs but with potential for both short- and long-term returns. Second, these mechanisms may be more successful in areas where there is existing experience with public-private partnerships or in areas with a variety of agencies in operation, including non-state actors (Gustafsson-Wright, Gardner, & Smith, 2016). There may also be value in targeting impact bonds to areas without existing grant support – rather than as a means to add conditionality to existing aid delivery – due to the mixed evidence regarding the cost-effectiveness of RBF as compared to traditional grant aid (Lee et al., 2019). As such, particularly promising subsectors for the use of impact bonds include vocational and skills training, early childhood education, and higher education (R4D, 2016).

Recommendations:

- National, regional, and local governments to identify subsectors or services that could benefit most from outcomes-based funding and establish protocols and guidelines for contracting
- IFIs, donors and philanthropists to collaborate with governments to provide funding and support for feasibility studies, technical assistance, and capacity building to expand impact bond investments
- International donors to test design and impact of Education Outcomes Fund and support the organization in fundraising efforts to foundations and companies

2.3| Establish cost-sharing mechanisms for tertiary education

Reflecting the push for universalization of basic education during the 1990s and 2000s, demand for higher education and skills continues to grow as more and more children enter and stay in school. However, many countries have not been able to keep pace with the rapid growth of demand for upper levels of education. Studies in Kenya and Tanzania, for example, show that non-repetitive and cognitive skills are associated with better starting pay, greater job satisfaction, and higher wages over time. Yet, across Africa, less than 10 percent of the population has a university degree (African Development Bank Group, 2020). Limited access to post-secondary also negatively impacts national-level economic growth.

[8] Based on the Brookings Global Impact Bonds Database, 194 impact bonds have been contracted in 33 countries across six sectors, representing over $421 million in upfront investment in social services and $460 million in total outcome funding committed. Of these, 22 bonds have been contracted in the education sector (Gustafsson-Wright, 2020).

A recent analysis finds that "countries that moved up in the World Bank's income group classification during the last 30 years educated a much higher proportion of their populations at the secondary and higher levels by 1990 than countries which remained 'trapped' in their income group" (Thomas, 2020).

The continued diversification of providers for tertiary education, including the spread of private tertiary institutions and alternative technology-enabled models of delivery (i.e., Massive Open Online Courses (MOOCs)), have the potential to reduce costs by in the medium- to long-term by eliminating the need for physical space and supplementing professional faculty with open content (Education Commission, 2016; Salmi, 2016). For instance, open universities and distance education have benefitted large segments of population in many parts of the world, in countries as diverse as India, South Africa, and Thailand (Salmi, 2016).

But in the near-term, however, growth in tertiary enrollment will still be reliant on government budgetary resources, especially considering adoption rates for MOOCs are much lower than previously predicted (Reich & Ruipérez-Valiente, 2019).

Given the relatively high private returns to post-secondary education (Patrinos, 2020), some level of cost-sharing for higher education through tuition fees and accompanying student loans would be acceptable or even warranted. But many student loan models are ineffective or in crisis. In many developed economies, student loan debt has hit unmanageable levels. In the United States, for example, student loan debt has hit $1.2 trillion with the average 2014 graduate owing $33,000 (IFC, 2015). Developing economies face additional barriers, such as high rates of default due to external factors such as high unemployment rates and poor management of the loan recovery function, high administrative costs, and low coverage of student populations (Salmi, 2015). For instance, in Kenya, the default rate has been as high as 80 percent for student loans provided by the Higher Education Loans Board; the average administrative cost in Latin American student loan institutions in the 1980s ranged from 15 to 25 percent, compared to less than one percent in industrialized nations; and loan programs in Colombia, Costa Rica, and the Dominican Republic cover no more than 10 percent of the country's student population (Salmi, 2015). Traditional (mortgage-like) student loan models are also prohibitive for students from poorer backgrounds as they target students with collateral or income records determining "credit-worthiness."

More thoughtful solutions are required. This could include, for instance, developing models of income-based repayment plans that link repayment terms to the borrower's expected future income rather than existing collateral, or income-sharing agreements (also known as human capital agreements) where the borrower commits to pay an investor a fixed percentage of their future income for a fixed period of time, regardless of whether the full amount is paid back (IFC, 2015; Salmi, 2015). International experience suggests that income-contingent loans have a higher probability of success due to higher repayment rates and are more equitable, as enrollment would not be determined by household wealth (Salmi, 2016). These efforts would have the added benefit of diversifying sources of funding to reduce reliance on increasingly limited government financing for higher education as more and more students enter into higher levels of study. Private student loan markets can complement bursaries and needs-based scholarships – provided by either public or private national entities or bilateral donors – and can be designed to target specific marginalized groups.

Recommendations:

- Local, regional, national, and global stakeholders to identify opportunities for income-contingent student loan mechanisms in, for example, countries with conducive legal and private financing environments, high secondary completion rates, and effective higher education programs, but that face financing and equity challenges in higher levels of education
- Governments and donors to facilitate partnerships with financial institutions (ex: banks and microfinance organizations) that have incentives and motivation to treat student finance as a core product. Leaders should make sure to engage tertiary and vocational education institutions as co-designers of student finance products to ensure they are committed partners and define clear roles and responsibility within institutional arrangements
- Donors, governments, and private actors to collaborate to develop market-specific data reporting mechanisms related to graduate employability, trends in labor markets, and demand for certain skills, which could support the expansion of student loan programs beyond traditional credit assessments

2.4| Access private sector investment for skills-training

Tapping into financing resources from the private sector for higher levels of education will allow governments and the international community to focus their efforts on maintaining sufficient resources for the most vulnerable, which are disproportionately concentrated at lower levels of education. This is a non-significant amount of money. In 2016, nine sub-Saharan African countries spent more on post-secondary education than on secondary education (Zubairi & Rose, 2019). Cooperation between the private sector and relevant government agencies also has other benefits, including better alignment between labor markets and education delivery, and ensuring that the curricula of training systems are in line with labor market needs (Bandura & Grainger, 2019).

Several policy options exist for mobilizing resources, improving spending efficiency, and addressing inequality in accessing post-secondary education, thereby easing pressure on government budgets. Governments and training providers can, for instance, partner with the private sector (including business membership organizations, chambers, and clusters of MSMEs) to provide skills training. Such partnerships can correct existing market failures in skills training, where firms are not incentivized to provide skills development for fear that they would incur costs that other employers would benefit from if an employee chooses to leave.

While bringing in additional sources of finance is a key priority for governments in the current climate, and while engagement with employers can bring important benefits in terms of students' employability, public-private partnerships have had a mixed record of success (Languille, 2017; Aslam et al., 2017) and will depend on the structure of economies, the organization of the private sector, and its capacity to engage in this partnership. To be successful, efforts and capacity from all parties are required and a balanced approach needed, with an understanding of governments and public training institutions' responsibility to provide portable skills, leading to long term employability, while balancing industry needs to meet business goals and filling short term skills gaps.

In one example in Rajasthan in India, the business membership organization UWDMA, with 120 member companies, is leading the development of training for modern windows and doors manufacturing. It has established its skills center in cooperation with a state-run Technical Training Institute (TTI) where equipment, material, and industry instructors are fully funded by member companies and while the government provides localities and national accreditation. The main driver for UWDMA's engagement is to support its member companies in pre-employment training of staff, upskilling of existing workforce, and advice in training activities and coordination of national apprenticeship schemes on behalf of its member companies. Through the strong engagement of industry, the students get in-depth understanding of requirements and are industry ready upon completion of training.

Recommendations:

- All actors to work together to harness innovative financing and alternative financing options where possible (including private sector investment) in post-secondary and TVET
- Development partners and philanthropic donors to establish a task force to help identify and test innovative financing options

Annex

Annex 1: Interactions between SDG4 and other Sustainable Development Goals

Goal	Links with SDG 4
SDG1. No poverty	Education that targets marginalised and poor populations can bring change to many of the systemic factors that have contributed to the delay in poor communities' development, preventing the transmission of poverty between generations and increasing the rate of return to the economy (human capital investment). Life-long learning can help older people adapt to a rapidly changing global context and prevent or contain old-age poverty.
SDG 2. Zero hunger	By increasing people's chances to secure an adequate income, education facilitates their access to a sufficiently rich and balanced diet. Education helps find innovative approaches of agricultural production and can foster sustainable use of land and other natural resources.
SDG 3. Good health and well-being	Education creates opportunities for better health. People with access to quality education are more likely to have jobs with higher earnings and access to health services and nutritious food; and acquire knowledge and skills to support healthier behaviours, including knowledge on healthy food. Health education is an important tool to manage, prevent and detect diseases (e.g. HIV, malaria) and to avoid stigmatisation of people due to their illness.
SDG 5. Gender equality	In developing countries, education that provides women with literacy and numeracy skills helps them acquire critical knowledge for everyday life. It also helps them understand and access their social and legal rights, and enables them to participate in economic and political life. In developed countries, education in STEM topics can increase women's participation in male-dominated occupations.
SDG 6. Clean water and sanitation	Education can strengthen efforts to manage, conserve and use water more efficiently. At the same time, in many developing countries, it is often factors related to water, sanitation and hygiene that limit children's' right and access to education in the first place.
SDG 7. Affordable and clean energy	Education and skills support the development and dissemination of cleaner and more efficient energy technologies and solutions. It can also help reduce the use of e.g. coal for cooking and raise awareness of diseases caused by air pollution.
SDG 8. Decent work and economic growth	Education increases an individual's chances to decent and well-paid employment. Education is also key for equitable economic growth and resilience to change. Higher skills are linked to the creation of new technologies, and higher-quality research and development, making economies grow.
SDG 9. Industry, innovation and infrastructure	Education and skills drive research and innovation, including infrastructure development.
SDG 10. Reduced inequalities	Primary, secondary and tertiary education is critical for improving the welfare of disadvantaged populations and reducing inequality, in particular as more and more of the world enters into the global knowledge society.
SDG 11. Sustainable cities and communities	Education can shift behaviours and day-to-day decisions that impact on urban sustainability. Education in fields such as science and engineering can contribute to building cleaner and more sustainable cities.
SDG 12. Responsible consumption and production	Education is critical for raising awareness about the impacts and "footprints" of our consumption and production, both domestically and abroad, and for informing people about more sustainable lifestyles. This includes better waste management of food and chemicals and increased recycling and reuse.
SDG 13. Climate action	Education is an essential element of the global response to climate change. It helps young people understand and address the impact of global warming, encourages changes in their attitudes and behaviour and helps them adapt to climate change-related trends.
SDG 14. Life below water	Over 70 percent of the Earth's surface is covered by oceans. Education is essential for managing them sustainably, as well as for exploring the opportunities offered by marine resources. Education informs people about the need to reduce nutrient pollution, plastic waste, and to avoid overexploitation of ecosystems (e.g. through overfishing).
SDG 15. Life on land	Education and awareness-raising underpin efforts to protect ecosystems and biodiversity, including the need to detect and prevent poaching and to act against invasive species.
SDG 16. Peace, justice and institutions	Education helps people understand and access their legal rights. It increases their understanding of different cultures and values, enabling conversation before conflict.
SDG 17. Partnerships	Means of implementation.

Source: OECD (2019)

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