

Beyond the grant: How philanthropy can rewire education financing

As official development assistance declines, the education funding gap in low-income countries widens. Philanthropy can play a vital role in catalyzing new capital into education.

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Introduction

Education is one of the most powerful long-term investments available to societies.¹ Strong education systems drive productivity, earnings growth, and social mobility—and education investments can often generate sustainable market rate financial returns.²

Despite this, education remains structurally underfinanced by public and private sectors, especially in low-and-middle-income countries (LMICs). UNESCO estimates there is a \$97 billion annual funding gap to meet even the basics of the United Nations Sustainable Development Goal (SDG) 4: ensuring inclusive and equitable quality education and promoting lifelong learning opportunities for all.³ Historically, official development assistance (ODA) played an important role in improving educational access, quality, and equity. But recent cuts threaten to decrease this critical source of funding by nearly a quarter, widening the funding gap by an additional \$3.2 billion, as projected by UNICEF.⁴ If SDG 4 is to be met, the education funding community will need to increase access to education funding and improve the effectiveness of existing capital across education levels.

Private capital, which currently accounts for about 15 to 40 percent of global spending on education,⁵ can provide a vital thread of funding in countries with strapped government budgets. However, in many LMIC markets, a set of market failures, including inaccurate perceptions of risk, results in underinvestment in education by private actors. Private philanthropy can act as a catalyst to derisk private capital and bring in more of this powerful resource. Beyond traditional grant-making, a host of innovative financing mechanisms can address the twin goals of increasing access to capital and effectiveness of existing capital in the education financing system. But the complexity and wide variety of mechanisms often deter philanthropic actors from these types of investments.

This report aims to demystify innovative financing mechanisms (see sidebar “About the research”). Scaling only those mechanisms that have already been proved in education could close \$52 billion of the annual education financing gap as well as improve the effectiveness of existing funding. Additional emerging mechanisms also hold great promise, and with more innovation and research, they could play a part in closing the remaining gap, accelerating progress toward SDG 4 and a quality education for all students.

About the research

In collaboration with the International Education Funders Group, we convened about 30 leaders from philanthropy, the donor community, and the investment community at the Education World Forum in May 2025. The goal was to create an agenda for attracting more private capital into education, critically aligned to development and education goals. We then followed up with in-depth, one-on-one conversations with 25 philanthropists, donors, and investors working on the cutting edge of innovative financing approaches to understand the investments they have made, what has worked well, and where remaining challenges lie.

¹ Sanjeev Gupta, “Funding education as an investment in the future,” UNESCO, February 10, 2025.

² George Psacharopoulos and Harry Anthony Patrinos, *Returns to investment in education: A decennial review of the global literature*, World Bank, March 2018.

³ “What you need to know about education financing,” UNESCO, updated February 2, 2026, estimates the gap for low-income and lower-middle-income countries only (excludes middle-income and high-income countries).

⁴ “Education aid cuts: A broken promise to children,” UNICEF, September 3, 2025.

⁵ *Education finance watch 2024*, UNESCO and World Bank, October 31, 2024.



1

The challenge: Uneven outcomes and insufficient funding

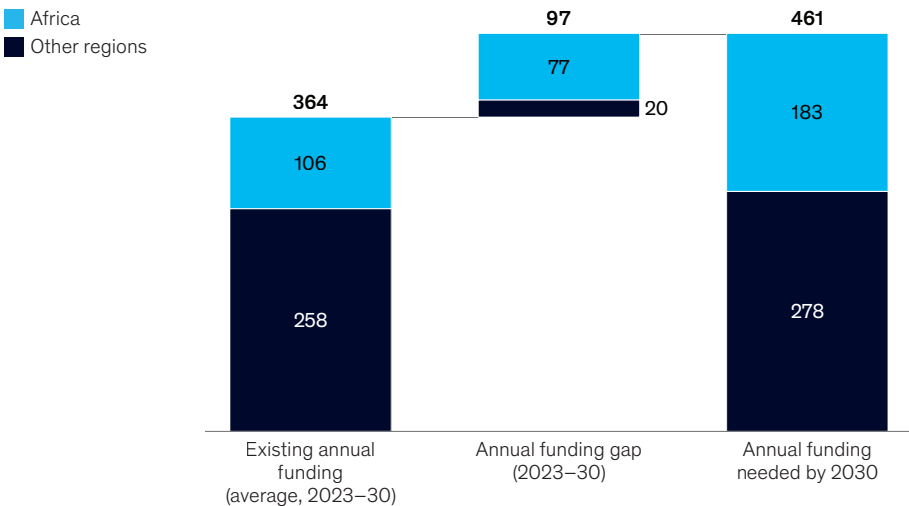
Over the past two decades, global progress in education has been uneven and fragile. Enrollment rates have risen substantially, particularly at the primary level, and major efforts in foundational learning have led to the development of proven practices. In Brazil, for example, the state of Ceará improved learning outcomes by 12 percentage points on the Brazilian national education assessment by applying structured pedagogy approaches.⁶ In Punjab, India, leaders used Teach at the Right Level approaches to improve performance by 13 percentage points on the Indian Annual Status of Education report.⁷

The challenge is implementing these proven practices at scale.⁸ Global learning suffers from a structural financing gap (Exhibit 1). African countries represent 56 percent of low-income and lower-middle-income countries but account for 79 percent of the financing gap.⁹

Exhibit 1

Low-income and lower-middle-income countries face annual funding gaps of nearly \$100 billion per year.

Annual education funding required by 2030 to reach the UN Sustainable Development Goal 4¹ in low-income and lower-middle-income countries, \$ billion



¹Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
Source: “Can African countries afford their national SDG 4 benchmarks?,” UNESCO, Feb 2024; “Can countries afford their national SDG 4 benchmarks?,” UNESCO, Apr 2023; “Closing the global SDG4 financing gap: Accelerating sustainable financing solutions for education,” UNESCO, 2025; “What you need to know about education financing,” UNESCO, updated Feb 2, 2026

McKinsey & Company

Recent trends have further widened the financing gap. Announced cuts to ODA were projected to reduce global education aid by up to a quarter between 2023 and 2026, or roughly \$3.2 billion.¹⁰ These reductions come at a time when many countries are still recovering from pandemic-related learning losses and fiscal stress. The likely consequences are severe: millions of additional children at risk of dropping out,

⁶ “The state of Ceara and the city of Sobral, in Brazil, are role models for reducing learning poverty,” World Bank, July 7, 2020.
⁷ Trends over time: 2006-2014, Annual Status of Education, January 13, 2015.
⁸ “Spark & Sustain: How all of the world’s school systems can improve learning at scale,” McKinsey, February 12, 2024.
⁹ “Can African countries afford their national SDG 4 benchmarks?,” UNESCO, February 2024.
¹⁰ “Education aid cuts: A broken promise to children,” UNICEF, September 3, 2025.

The challenge is implementing these proven practices at scale. Global learning suffers from a structural financing gap.

deterioration in education quality for hundreds of millions more, cuts to school food and gender-focused programs, and long-term losses in lifetime earnings.

Although ODA represents a relatively small share of total education spending, its influence is disproportionate. Aid often finances foundational learning reforms, funds pilots of innovative delivery models, supports fragile and conflict-affected settings, and provides technical assistance that shapes national policy.

At the same time, domestic public spending—the backbone of education finance—faces hard constraints. Many governments in LMICs are grappling with high debt burdens, limited formal tax bases, and competing priorities such as health, energy, and climate adaptation. Even where political commitment to education is strong, ministries often struggle to translate budgets into learning outcomes due to weak procurement and limited management capacity.

The result is a mismatch between ambition and reality: a global commitment to education as a human right and economic necessity, but a financing architecture that is fragmented, input-focused, and increasingly under strain.



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The imperative:
Increasing access to
capital and effectiveness
of existing capital

Addressing the education financing crisis requires both mobilizing more capital—from governments, households, corporations, and investors—and increasing the effectiveness of every penny spent.

Globally, governments account for most education spending, with private expenditures of employers, households, and investors ranging from roughly 15 to 40 percent.¹¹ In OECD countries and parts of Asia, private providers and investors operate across a wide range of segments, from direct provision of education to learning and administrative software and services. By contrast, in many developing countries, private capital remains heavily concentrated in higher education and urban markets, leaving basic education and rural areas underserved. Ideally, governments could cover the foundational educational needs of all their citizens to preserve equity across income levels. But government systems are often overstretched, and private capital can help to bridge the gap.

Impact investing, defined as investments that aim to realize both financial and social returns,¹² has grown rapidly over the past decade, nearing \$100 billion in assets under management.¹³ Education accounts for only a small fraction of these allocations—about \$5 billion globally, equivalent to about one-third of 2024 ODA spending.¹⁴ While nearly a third of impact investors say they plan to increase their exposure to education, they consistently cite barriers such as unclear revenue models, regulatory risk, limited deal flow, and challenges in measuring impact.¹⁵ Some of these barriers can be readily overcome; for example, low-cost approaches to measuring learning outcomes are increasingly available. Others may be tougher to tackle.

This is where innovative financing models become essential. Redesigning how capital from a wide variety of sources flows into education—and under what conditions—makes it possible to both expand the pool of available funding and align spending more closely with learning results.

Just as traditional financing can be categorized as coming from public, private, or philanthropic sources, innovative financing mechanisms can be similarly categorized as relating primarily to public expenditures, coming from private finance, or including philanthropic or donor finance as a catalyst. Some innovative financing mechanisms only focus on increasing the effectiveness of funds; others focus primarily on increasing access to new capital. A subset do both. Four of these mechanisms have shown evidence of success in education at some scale, with promising examples from several countries. Others are emerging but hold great promise (Exhibit 2).

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¹¹ *Education finance watch 2024*, UNESCO and World Bank, October 31, 2024.

¹² "What you need to know about impact investing," Global Impact Investing Network, January 24, 2025.

¹³ Dean Hand et al., *State of the market 2025: Trends, performance and allocations*, Global Impact Investing Network, October 8, 2025.

¹⁴ Dean Hand et al., *State of the market 2025: Trends, performance and allocations*, Global Impact Investing Network, October 8, 2025.

¹⁵ Dean Hand et al., *State of the market 2025: Trends, performance and allocations*, Global Impact Investing Network, October 8, 2025.

Exhibit 2

A broad range of education financing mechanisms exist; four have shown evidence of success in education.

Traditional and innovative education financing mechanisms

Evidence of success in education		Innovative financing		
	Traditional financing	Increase effectiveness	Increase access to capital and effectiveness	Increase access to capital
Public finance	Government education budgets	Results-based financing	Debt swaps	
	Multilateral and bilateral donor grants	Conditional cash transfers	Social-impact bonds ¹	
		Consortium purchasing	Sovereign grant multipliers (eg, GPE)	
Private finance	Household expenditures		Public–private partnerships for education delivery	Diaspora bonds
	Commercial debt			
	Commercial equity			
Philanthropic or donor finance	Philanthropic grants	Effective philanthropy (eg, milestone payments)	Development impact bonds	Endowment impact investing
	Corporate social responsibility		Corporate matching funds	Blended debt to governments
			Advance market commitments	Microfinance to low-cost private schools
			Prizes and competitions	Diaspora-matching funds
			Income share agreements	Blended equity (subordinate terms)

¹These require philanthropic or risk capital alongside public and private finance.

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3

The role of private philanthropy: Catalyzing new funding through innovative financing mechanisms

Private philanthropy occupies a distinct position in the education financing ecosystem. Unlike governments, it is not bound by electoral cycles or rigid procurement rules. Unlike commercial investors, it can accept below-market returns or take first losses. And unlike multilateral lenders, it can move relatively quickly and experiment with new approaches. These characteristics make private philanthropy uniquely suited to act as a catalyst.

Currently, much philanthropic capital in education goes to traditional program grants—funding that helps nonprofits achieve specific educational goals during a specific period for a specific geographic population. Such grants can have great impact, but a host of additional mechanisms are available to help philanthropies multiply their impact by catalyzing and influencing much larger sources of funding.

Four of these mechanisms have been tested and have proved effective in education. One, development impact bonds (DIBs), focuses primarily on improving the effectiveness of existing funds. The remaining three—endowment impact investing, blended debt to governments, and microfinance to low-cost private schools (LCPSs)—are more focused on bringing net new capital into the system. McKinsey estimates that if private philanthropists diverted approximately \$3.3 billion of grant funding and aligned a portion of their endowments to impact, they could catalyze an additional \$52 billion into education in LMICs annually (Exhibit 3).

Exhibit 3

Scaling tested mechanisms could close the education financing gap by \$52 billion annually.

Potential impact of scaling mechanisms

Financing mechanism	Philanthropy's potential role	Philanthropic capital aligned to impact, \$ billion	Additional private capital raised, \$ billion	Deployment implications
Development impact bonds	Provide \$1 billion as outcomes funding for Education Outcomes Fund	1.0	--	\$20 million outcomes funds in each of 50 African countries
Endowment impact investing	Carve out 5% of their \$525 billion endowments for impact investing	--	26	5× existing impact investments in education globally
Blended debt to governments	Provide guarantees against 1% of their \$525 billion endowments and put in 40 cents of grants per \$1 of guarantee (IFFEd model)	2.1	21	\$420 million per country lending to government ministries of education across 50 countries
Microfinance to low-cost private schools (LCPSs)	Offer technical assistance of \$1 for every \$22 of loans; total investment of \$200 million	0.2	5	All 510,000 remaining bankable LCPSs could be reached with \$9,000 loans
Total additional capital accessed or aligned to impact		3.3	52	

Note: Figures may not sum, because of rounding.

Source: Education Outcomes Fund; Global Impact Investing Network; International Finance Facility for Education; Jacobs Foundation; Opportunity International; Ursimone Wietlisbach Foundation; McKinsey analysis

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Other emerging mechanisms, such as income share agreements, diaspora-matching funds, social-impact incentives, advance market commitments, prizes, and blended equity, hold great promise but need innovation and research to scale in education (see sidebar “Emerging mechanisms hold great promise”).

Below, we explore the proven mechanisms in detail.

Development impact bonds: Enforcing outcomes and showing what works

DIBs are the mechanism most closely associated with innovative financing. They fundamentally align donor and government funding to outcomes achieved rather than inputs.

DIBs typically involve four sets of partners:

- *An outcomes funder* (such as a philanthropy) funds projects designed to deliver specific outcomes, such as student attendance or reading outcomes. The funder pays only if outcomes are achieved.
- *Risk capital* (for example, an impact investor) pays for initial delivery costs. If the outcomes are achieved, the outcomes funder repays the investor, who can recycle capital into new projects.
- *A delivery partner*, such as a nonprofit organization, delivers the project. Scaling is dependent on achieving outcomes.
- *A third-party evaluator* manages performance and verifies outcomes.

DIBs don't fundamentally add new money to the system, because the risk capital is eventually repaid if outcomes are achieved. But by aligning incentives toward desired educational outcomes, they improve the effectiveness of existing funding. And though they are often criticized for their complexity, the work done up front to define outcomes and measurements can uncover potential issues earlier in the process than in more traditional grants.

Notable success stories

Most DIBs to date have been of small to moderate scale, but several have seen notable success.

Quality Education India (QEI): Between 2018 and 2022, this DIB invested \$11 million to improve foundational literacy and numeracy outcomes for about 200,000 primary school children in multiple states across India.¹⁶ Outcomes funders included the Michael & Susan Dell Foundation and a consortium of donors convened by the British Asian Trust, while risk capital was provided by the UBS Optimus Foundation. Work was carried out in close partnership with state education departments, and service providers delivered interventions such as direct classroom teaching, remedial instruction, adaptive learning technology, and leadership training. Despite disruptions from the COVID-19 pandemic, the DIB exceeded its targets, and the UBS Optimus Foundation recovered its investment with a capped return.

Education Outcomes Fund (EOF): EOF was founded in 2017 to scale this outcomes-based approach, aggregating donor and philanthropic contributions and deploying them systematically across multiple countries and projects. The organization has supported multiple education and skills outcomes programs across Africa and Asia, mobilizing more than \$170 million in outcomes-based funding to date. Projects

¹⁶ “World's largest education development impact bond results released: students learn 2.5 times more than those in other schools despite COVID-19*,” QEI, September 29, 2022.

include foundational learning initiatives as well as youth skills and employment programs across Africa and the Middle East, including in Ghana, Nigeria, Rwanda, Sierra Leone, South Africa, and Tunisia.

Lessons learned

Conversations with those who have worked closely with these programs point to several lessons about scale and sustainability:

- While DIBs are not a magic bullet for mobilizing capital, they can be powerful tools for reforming how education systems pay for results—if philanthropies use them to strengthen public systems rather than substitute for them.
- Investment in government capacity is critical. Defining outcomes, commissioning providers, and managing performance-based contracts require new skills within the public sector.
- The ultimate measure of success is not the number of DIBs launched but the extent to which philanthropic outcomes funds act as a bridge to government financing, with governments adopting outcomes-based financing using their own budgets.

Endowment impact investing: Supporting private sector education assets

Endowment impact investing enables foundations to allocate some or all of their endowment assets to mission-aligned investments that target competitive financial returns alongside measurable social impact. Capital is typically deployed through specialist asset managers into private equity, private debt, and fund investments across education, skills, and enabling services.

Unlike grant-making and DIBs, endowment impact investing fundamentally expands the pool of capital available to education while preserving or growing philanthropic assets. A foundation's endowment is an order of magnitude larger than its annual programmatic spending, making it a large but often underused lever for education impact. Critically, this approach avoids the split-brain model common in philanthropy, in which grant-making pursues social goals while endowment assets are invested without regard to impact, sometimes even undermining social goals.

Notable success stories

Several organizations have proved the viability of this approach.

Ursimone Wietlisbach Foundation (USWF): This foundation provides a leading example of full endowment alignment. Beyond its programmatic grant-making, USWF has invested 100 percent of its 325 million Swiss franc endowment through its affiliated asset manager, Blue Earth Capital, a private-markets platform purpose-built to deliver market rate returns and measurable impact. Over more than a decade, this foundation's portfolio has generated average annual returns of around 10.5 percent while simultaneously supporting education, health, financial inclusion, and climate outcomes across emerging and developed markets.¹⁷ By acting as a strategic, long-term anchor investor in Blue Earth Capital, USWF has helped build an open-architecture platform that now manages more than 1.7 billion Swiss francs for other foundations, family offices, pension funds, and asset owners—crowding in capital far beyond its own balance sheet.¹⁸ Education-related investments span private debt and equity in areas such as affordable schools, education services, and skills development, with impact measured independently through third-party systems.

¹⁷ Interview with Marko Roeder, CEO of USWF, November 11, 2025.

¹⁸ Elisa Bortoluzzi Dubach, "Urs Wietlisbach: Capital must do good," *Ticino Welcome*, March 1, 2026.

Jacobs Foundation: Other philanthropies and impact investors illustrate how endowment strategies vary by context. The Jacobs Foundation, for example, has acted as a limited partner (LP) in education-focused venture and growth funds primarily in US and European markets, where education technology and services can support commercial risk–return profiles. Rather than accepting concessionary returns, the Jacobs Foundation uses its LP position to influence investment discipline by embedding evidence, learning outcomes, and impact measurement into due diligence.

Kaizenvest: In South and Southeast Asia, where there is more robust government education spending and consumer demand, Kaizenvest deploys commercial equity into scalable education and skills platforms. For example, in the Philippines, Kaizenvest has invested equity into university network PHINMA Education to provide a low-cost, employability-focused alternative to traditional university for more than 163,000 low-income learners across 13 schools in the Philippines and Indonesia.¹⁹ In Africa, by contrast, it relies more heavily on debt financing, primarily lending to LCPSs instead of pursuing high-growth equity returns.

Lessons learned

Taken together, these examples highlight several lessons:

- Endowment impact investing is most powerful when foundations align a meaningful share of their assets, shifting their mindset from a purely “program impact” model to a “holistic impact” model.
- Capital type and return expectations must be matched to context: Market rate equity may be appropriate in mature markets, while patient capital, debt, or blended structures are often better suited to frontier contexts.
- Philanthropies can amplify their influence by serving as active, value-driven asset owners, using their capital to shape markets, set standards, and crowd in co-investors.

The new-capital opportunity

McKinsey analysis finds that if education-related philanthropies globally carved out just 5 percent of their endowments for mission-aligned investments, they could mobilize \$26 billion for education and human capital development while making impact investing the norm rather than the exception.²⁰

Blended debt to governments: Reshaping incentives

Reducing the risk of default makes lenders more likely to make loans to LMIC governments. Meanwhile, LMIC governments are more likely to take out education loans if the terms are favorable (for example, with lower interest rates). Blended debt to governments solves both of these problems through the use of philanthropic capital, usually in the form of loan guarantees and sometimes additionally through paid-in capital.²¹

The mechanism usually involves three core actors:

- **Risk capital providers**, such as a foundation or donor government, offer guarantees, first-loss capital, or both to absorb downside risk.

¹⁹ “PHINMA Education secures Kaizenvest investment to bring affordable quality education to more underserved communities,” PHINMA Education, August 16, 2025.

²⁰ This estimate is based on total philanthropy endowments of about \$1.5 trillion, of which 35 percent focus on education given about \$525 billion in education endowments. Carving out 5 percent of this for impact investing results in about \$26 billion of additional funding.

²¹ Loan guarantees provide a guarantee that the loan principal will be repaid, usually made against a philanthropic endowment. Paid-in capital is money put aside up front to help back the loans and to cover first losses if a government cannot repay in full.

- **Lenders**, typically multilateral development banks that raise commercial funds on capital markets, provide larger volumes of concessional debt to governments.
- **Recipient governments** borrow on improved terms and allocate funding to priority education investments.

Small amounts of philanthropic risk capital can unlock significantly larger volumes of sovereign borrowing and redirect government spending toward education, particularly where education is underprioritized relative to other sectors. In effect, guarantees increase both the supply of capital (by increasing lender appetite) and demand (by providing concessional terms that make governments more willing to borrow for education).

A notable success story

International Finance Facility for Education (IFFEd): One of the most prominent examples is IFFEd. Philanthropic and donor guarantees—such as a \$60 million guarantee from the Jacobs Foundation—are enabling IFFEd to unlock up to hundreds of millions of dollars in loans from development banks for education in LMICs.²² At its initial announcement in September 2024, more than \$300 million in guarantees were provided by Canada, Sweden, and the United Kingdom, with a commitment to unlock around \$1.5 billion in education financing. They have subsequently been joined by South Korea. In the IFFEd model, a \$1 cash contribution backed by guarantees can create \$7 in concessional financing.²³

Lessons learned

IFFEd's experience with blended debt highlights several lessons:

- Additional financing delivers impact only when governments have credible education strategies and the capacity to deploy funds well.
- Blended debt works best in locations that have borrowing headroom but face high costs of capital or political barriers to education investment.
- Philanthropy's role is catalytic and brings in commercial capital; guarantees fall at the low end of the risk spectrum, so they can be recycled for new loans over time.

The new-capital opportunity

If education philanthropies globally provided guarantees equivalent to just 1 percent of their endowments—around \$5 billion of the total \$525 billion of education philanthropy endowments (85 percent in guarantees and 15 percent in paid-in capital)²⁴—they could unlock as much as \$21 billion in additional concessional loans for education in low- and middle-income countries.²⁵ This would also require \$2.1 billion of grants to make the loans more affordable to countries. There is flexibility in the model for any individual philanthropy to come in with just the guarantee or just the grant component. IFFEd has developed a public–private partnership model that will allow philanthropy to unlock funding from governments to amplify financing available to multilateral development banks. This partnership will enable philanthropic actors to use their balance sheets to generate social impact while preserving capital, enhancing their ability to deliver on their philanthropic purpose.

²² "Unlocking opportunity for the world's underprivileged children and youth: International Finance Facility for Education (IFFEd) commits to \$1.5 billion for global education and skills in LMICs," IFFEd, September 26, 2024.

²³ "Unlocking opportunity for the world's underprivileged children and youth: International Finance Facility for Education (IFFEd) commits to \$1.5 billion for global education and skills in LMICs," IFFEd, September 26, 2024..

²⁴ McKinsey analysis based on Paula D. Johnson, *Global philanthropy report: Perspectives on the global foundation sector*, Hauser Institute for Civil Society, 2018.

²⁵ In the IFFEd model, every \$1 of guarantees generates \$4 of additional loans.

Microfinance to low-cost private schools: Providing an alternative to overstretched public systems

Microfinance to LCPSs addresses a persistent gap in education financing in many LMICs, where fee-charging schools educate millions of children but lack access to affordable capital to improve infrastructure and learning. Valid concerns exist about whether funding should support private schools over public systems, but in overstretched systems, private schools provide important choices for parents. In addition, improving the quality of the many current LCPSs can significantly improve education for low- and middle-income students.

The mechanism typically involves four sets of actors:

- *Philanthropic capital providers* offer guarantees, technical assistance funding, or outcomes-linked incentives to reduce risk and transaction costs.
- *Local microfinance institutions (MFIs)* provide working capital and capital expenditure loans to school operators, as well as fee loans to parents.
- *School operators* invest in infrastructure, teacher development, and learning materials and repay loans from fee revenues, which are relatively predictable.
- *Technical assistance providers* help school leaders improve financial management, governance, and educational quality.

This mechanism brings new private capital into the system in the form of commercial microfinance, but its core contribution is improved intermediation, not risk transfer. Many LCPSs have stronger credit risks than financial investors assume, with high repayment rates for loans that are appropriately structured.²⁶ The primary constraint is a lack of tailored financial products and institutional support rather than a lack of willingness or ability to repay.

Notable success stories

Two examples demonstrate the potential of this mechanism.

IDP Foundation's Rising Schools program: This program in Ghana and Kenya demonstrates the commercial viability of lending to LCPSs. Initially, the IDP Foundation provided a fully guaranteed loan portfolio based on the assumption that these small schools would struggle to repay. The opposite proved true: Repayment rates exceeded 90 percent, validating the creditworthiness of the sector.²⁷ Building on this evidence, IDP shifted from a guarantee model to simply lending money at commercial rates to local MFIs, encouraging them through technical assistance and incentives to lend to private schools—a market they were not previously serving. Each loan was accompanied by mandatory training for school proprietors on financial literacy, school management, safeguarding, and teacher supervision. Now, the IDP Foundation is pioneering incentive-linked loans that reward schools for measurable improvements in learning outcomes through reduced capital costs. With Save the Children and Global Ventures, the foundation is launching a new Generation Empowerment Fund to scale this model across sub-Saharan Africa.

Opportunity International: Opportunity International has scaled this approach through leveraging the local balance sheets of regulated financial institutions. Their EduFinance model works through local financial institutions to expand access to tailored financial products across the education ecosystem. This includes loans to schools (to improve infrastructure, for example), school fee financing for households (smoothing

²⁶ "Rising Schools Program," IDP Foundation, accessed April 2, 2026.

²⁷ "Rising Schools Program," IDP Foundation, accessed April 2, 2026.

families' income peaks and troughs), and financing for tertiary and skills providers. Their EduQuality model provides complementary technical assistance that strengthens school leadership, governance, and financial management, improving both learning outcomes and loan performance. Every \$1 provided in technical assistance unlocks more than \$20 in commercial loans by making schools more likely to repay loans.²⁸ As of 2026, the organization has deployed EduFinance and EduQuality in more than 211 financing institutions across 32 countries, benefiting more than 21 million children—showing these models are viable at scale.²⁹

Lessons learned

Several lessons emerge from these examples:

- Finance alone is insufficient: Technical assistance to school leaders materially improves loan performance and education quality.
- The model works best for schools serving lower-middle-income families rather than the poorest households. It complements, but does not replace, public provision.
- Local ownership is critical, including working through trusted intermediaries, designing for context, and avoiding branding schools as “donor funded.”
- Philanthropic capital is most effective when it focuses on derisking and building capacity rather than on long-term subsidies.

The new-capital opportunity

If tailored microfinance options were available to all LCPSs that can repay loans at commercial rates, these schools could unlock approximately \$5 billion in additional capital to improve education quality for more than 35 million children in underserved communities.³⁰

²⁸ Interview with Atul Tandon, CEO of Opportunity International, November 25, 2025.

²⁹ Interviews with Atul Tandon, CEO of Opportunity International, November 25, 2025.

³⁰ Opportunity International estimates there are 510,000 unreached bankable LCPSs. Providing each with a \$9,000 loan would result in \$4.6 billion of loans. Every \$1 of the EduQuality program unlocks about \$22 of loans. Thus, this loan portfolio would require a grant investment of \$212 million.

Emerging mechanisms hold great promise

Several emerging financing approaches show significant promise for education but remain underdeveloped, undertested, or difficult to scale. Some of these mechanisms have demonstrated success in adjacent sectors, such as global health, agriculture, or workforce development, but they may require further adaptation to the institutional, political, and outcomes-measurement realities of education systems.

Advance market commitments (AMCs) aim to stimulate private investment

by guaranteeing future demand for products or services that meet predefined specifications. AMCs have been used effectively to accelerate vaccine development and reduce prices for low-income countries by providing certainty of demand at scale, but large-scale AMCs have not been implemented in education. The potential lies in defining clear outcomes-linked product profiles for education interventions (such as curriculum, assessments, or learning

technologies) and aggregating sufficient purchasing power across governments or donors to credibly guarantee demand.

Inducement prizes and challenge funds crowd in private R&D by rewarding innovators for solutions that solve a clearly defined problem. For example, the nonprofit XPRIZE Foundation funds innovations on a global scale through large-scale incentive competitions. In education, prizes could be offered for initiatives such as AI-powered lesson-

Emerging mechanisms hold great promise (continued)

planning applications that are aligned to local curriculums and languages and that work in low-power and low-connectivity environments. While these mechanisms can stimulate innovation and attract new entrants, their impact in education has typically been limited to pilots. Scaling requires stronger pathways from prize-winning solutions to government procurement, adoption, and sustained financing.

Income share agreements (ISAs) provide investor financing for a student's postsecondary education or workforce training, linking repayments to a percentage of that student's future income. Models such as Lumni, which has financed tens of thousands of students through income share agreements in Latin America, have demonstrated that ISAs can expand access to higher education for low-income students in contexts with formal labor markets and reliable income tracking. However, the applicability of ISAs in education is constrained in countries with large informal sectors, weak data on earnings, or limited consumer protection frameworks. Further research is needed to assess where ISAs can be responsibly scaled and how risks should be shared among students, investors, and providers.

Diaspora-linked mechanisms, including diaspora bonds or remittance-matching schemes, seek to direct some migrant remittances toward public education and community development. While such mechanisms have been used in infrastructure and community projects, there are currently no large-scale education examples. Proposed pilot approaches, such as opt-in matching mechanisms at the point of transfer, potentially through money transfer organizations and matched with donor

or corporate funding, could unlock new sources of flexible capital but would require careful design to ensure alignment with national education priorities and avoid fragmentation.

Blended equity uses impact-first equity to absorb first losses (for example, if equity value goes down, the philanthropy or impact investor takes that first loss) and to crowd in commercial investors to education and skills enterprises. Funds such as Kaizenvest illustrate how blended equity can enable private investment in education businesses in emerging markets by aligning patient capital with strong governance and operational support. The model remains relatively small in education, however, reflecting challenges around exits, valuation, and scaling businesses that serve lower-income learners.

Corporate matching mechanisms seek to mobilize employer capital beyond fragmented corporate social responsibility (CSR) projects and align it to system-level reform.¹ Philanthropy plays a catalytic role by providing seed funding, convening firms and governments, and establishing shared governance and outcome frameworks. In Ghana and Côte d'Ivoire, the Jacobs Foundation convened cocoa companies and governments to pool funding into national platforms focused on foundational learning, teacher quality, and system capacity in cocoa-growing regions, addressing root causes of child labor and low productivity. In the Philippines, the Philippine Business for Education coalition pooled funding and partnered with the government to strengthen foundational learning, senior high school pathways, and work-based learning. While promising, scaling beyond CSR into corporate HR and operations budgets is likely to work only in areas with strong felt needs or existential

reputational concerns (for example, child labor) to provide durable incentives for corporate participation.

Social-impact incentives (SIINCs) provide outcomes-based premium payments to existing enterprises for verified social results, improving unit economics and unlocking commercial investment. SIINCs have been used in health and agriculture to reward verified outcomes and crowd in private capital. In education, early examples include providing interest breaks to low-cost private schools receiving loans if they meet certain learning targets, but these are hard to scale given the cost and complexity of measuring learning outcomes.

Taken together, these emerging mechanisms highlight the opportunity and the challenge ahead. They offer powerful tools to reshape incentives, stimulate innovation, and mobilize additional private capital—but only if accompanied by sustained experimentation, rigorous evaluation, and institutional learning. Philanthropy has a critical role to play in funding this learning curve by underwriting early pilots, absorbing design risk, building the evidence base, and translating promising models into scalable, system-aligned solutions.

¹ Note that corporate matching funds bring in both CSR funds and potentially additional corporate HR and operations budgets. We counted CSR funds as additional private capital for the purposes of this analysis because this report focuses on how private philanthropy can increase capital in education.



4

Where to start: Tailoring education financing strategy to context

There is no single entry point into or optimal mechanism for philanthropic engagement in education financing. What works in one context may fail in another. As they consider different mechanisms, philanthropies will need to trade off the leverage their investment provides with the ability to target funds toward the sectors and populations they care most about, as well as the ability to guarantee specific social and learning outcomes. In practice, effective strategies are shaped by a small number of underlying choices that determine which tools are appropriate, feasible, and credible for a given philanthropy and a given context. Four contextual factors are particularly important in choosing a path forward.

Willingness to innovate versus preference for trusted mechanisms

The first differentiator is appetite for innovation and tolerance for risk. Some philanthropies are willing to fund experimentation, tolerate failure, and accept uncertain returns. These organizations are well positioned to invest in mechanisms that are still unproved in education but that might hold great future promise—such as advance market commitments, social-impact incentives, or diaspora-linked financing.

By contrast, philanthropies seeking predictable returns tend to focus on more mature segments of the education market or on mechanisms with a stronger track record. For these organizations, instruments such as blended debt to governments, microfinance to LCPs, or corporate matching funds anchored in national priorities may offer a more appropriate balance between innovation and execution risk.

Desire to use program budgets versus endowment capital

A second factor concerns which part of the balance sheet is deployed. Philanthropies relying primarily on program budgets may naturally gravitate toward DIBs, providing technical assistance to enable commercial debt to LCPs, or coordinating matching funds with corporate donors. These tools are often best suited to shaping incentives, building capacity, and derisking systems rather than financing delivery at scale.

Philanthropies willing and able to deploy endowment capital unlock a different set of options. Mission-aligned endowment investing can mobilize orders of magnitude more capital than annual grants, particularly when used to anchor funds, crowd in co-investors, or build market infrastructure. Foundations such as USWF illustrate how full or partial endowment alignment can transform a foundation's role from project funder to market shaper while still preserving financial sustainability.

Developing versus developed contexts

Geography matters enormously. In developed markets, where public education systems are well funded and private spending power is high, education investments are more likely to support commercial equity and venture models. Philanthropic capital in these contexts often focuses on shaping market behavior—embedding evidence, equity, or outcome measurement into otherwise commercial investments.

In developing and low-income contexts, the constraints are different. Revenue models are thinner, risks are higher, and public systems are often underresourced. Here, philanthropic capital is most effective when it reduces risk, improves intermediation, or reshapes public finance through instruments such as blended debt, guarantees, outcomes-based payments, or technical assistance layered onto private capital. Attempting to import developed-market investment models wholesale into these contexts is less likely to succeed.

Rather than asking which mechanism is ‘best,’ philanthropies should begin by clarifying their own constraints and ambitions across these dimensions.

K–12 versus higher education and skills

Last, the appropriate financing strategy depends on which part of the education system is targeted. In K–12 education, particularly at the basic and foundational levels, public finance will remain dominant. Innovative financing in this space is therefore most effective when it expands the use of public funds, enforces accountability for outcomes, or enables complementary provision, such as through outcomes-based financing, matching funds, or microfinance to LCPSs.

In higher education and skills, private returns to education are clearer and more easily monetized, making a wider range of financing mechanisms viable. Income share agreements, private credit, equity investments in training providers, and employer-linked financing models are more feasible in this area, particularly in contexts with formal labor markets and reliable earnings data.

Taken together, these four factors provide a practical starting framework. Rather than asking which mechanism is “best,” philanthropies should begin by clarifying their own constraints and ambitions across these dimensions. Doing so helps narrow the field to a small set of tools that fit both the context and the institution.

The education financing challenge is too large—and too urgent—to be met through grants alone. While grant-making will remain essential, particularly for advocacy, innovation, and equity, it can be complemented by a broader tool kit. By deploying innovative financing mechanisms, philanthropy can punch far above its weight: mobilizing new capital, improving accountability for outcomes, and accelerating progress toward universal, high-quality education.

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