

2021 GLOBAL EDUCATION SUMMIT

Side Event hosted by Opportunity EduFinance

“Exploring alternative sources of finance to fund the global education deficit”
28 July 2021



TRANSCRIPT OF INTRODUCTION & KEYNOTE SPEECH

Moderator, Andrew McCusker:

Thank you for everyone for joining this session.

To introduce myself, my name is Andrew McCusker and I'm the head of EduFinance at Opportunity International. The purpose of today's session is to explore some alternative sources of financing that may be out there to fund the global education deficit. And so, we've put together a great panel today to cover some various suspects of some potential solutions, hopefully covering the global education deficit and the funding gap. And then to explore some specific alternative sources of financing.

Many of you on the call will be aware that the funding gap is large and that it's increased over the last couple of years as a result of COVID. In addition to that, we are seeing an increased demand for access to education on the back of increasing school aged populations in many markets. And yet, in many of the countries we are focusing on, we are already seeing high rates of education spend.

So, the purpose of this session is really designed to explore some of the potential other sources of capital out there that can come alongside public funding to close this funding education gap.

And so, what I would like to do is introduce the keynote speaker for today's event – Liesbet Steer. For those of you that haven't met Liesbet, she is the Director of The Education Commission, which is chaired by the former UK Prime Minister, Gordon Brown. And through this role she was the Commission Director of the report, *The Learning Generation, Investing in Education for a Changing World*. And so, we are hopeful today that Liesbet can talk us through the findings of this report, as well as her experiences through the Education Commission, and really set the scene for our conversation today. Liesbet, welcome to the event and delighted to hand over the microphone to you.

Keynote Speaker, Liesbet Steer:

Great. Well thank you so much and thank you for putting this important event together today. It is a real honor for me to be here. The question you are asking here in this panel is really an important one and one we have all thought about a lot, including Justin here who actually was part of the Education Commission when we released the report and knows it very well.

Maybe to start thinking about the problem we are addressing today, there is one question that has actually continued to puzzle me, and I think it puzzles all of us. And that is if you go to any country in the world and ask people what is the most important influence on their future, the answer is education. And we've done so many surveys, including the UN, which has confirmed this – so education is the real priority. But then when we look at investments in education they are often not in line with this prioritization.

So the question is why do we find ourselves so short of the necessary funding for education, if we believe education is so critical for our future and the future of our children, and the recovery from the pandemic? We need to make a much stronger case for investment in education but also, related to that take a much harder look at innovative solutions to address resource scarcity. And that was one of the key messages of The Learning Generation Report, as well as other reports that we have been responsible for since then, including *The Save our Future* white paper, which was released last year in response to the pandemic.

So, the key thing here is that pre-Covid we already struggled to fund education and make the case for investment alongside other priorities, like health and climate. And now we are in a Covid/post-Covid era, where this has become even more difficult. And I don't know to what extent people on the line are familiar with these numbers but a review of education financing earlier this year showed that because of Covid likely two-thirds of the poorest countries are going to reduce their national education budgets, and that reduction in budget will be particularly problematic for inequities because we already knew – and that's also one of the findings of the Commission – that 10% of resources are reaching the poorest 20%, versus 40% of all resources are reaching the 20% richest children. So, there is a huge skewing in the expenditure and if that budget gets cut even further we have even greater inequities.

And on top of that we now see households are spending less because they are going through economic hardships and that is affecting our ability to invest. And finally, to top it all off we have the donors cutting back. Estimates are showing we could lose about \$2 billion dollars compared to the pre-pandemic high levels. So, there are out there a lot of estimates of the funding gap and they kind of vary, but even the kind of conservative estimates place the gap around \$75 billion and Justin will explain this because he's just done a great report clarifying this gap. And that

already includes some very optimistic assumptions around government and household spending. UNESCO actually places this gap even bigger.

But whatever this external funding gap is, what is really clear is that the budget we have right now could fill that gap which consists of ODA [Official Development Assistance] of about \$16 billion, and recently actually – my last check of the OEC [Open Education Consortium] deck aid from private donors is about \$600 million – at least that is the recorded amount – compared to \$8.5 billion in total. So it is only 7%. So tiny, tiny amounts compared to the total gap.

So, what we know is that we will need to innovate and need to get everybody involved. So what the Commission said is that governments need to step up their investments to increase mobilization of domestic resources, prioritization of education and through better spending. We said that international aid needs to increase and that is now really problematic issue in the current context, and it should be at least 15%, and that already includes needing to replenish GPE. We are all here this week because of that.

But none of this – even if we do all that – we still don't have enough. And the very best we can do is maybe close a quarter of that gap we were talking about, or a third, depending on how big it is. **So we need to think about new solutions and need to bring in the private sector and the public sector.** And it will need us all to come together in new ways to work together in ways we just haven't been used to.

So, to set the scene a little bit for the conversation I've come up with five key questions that we should try to answer today, which could help us come to some of these solutions in terms of the additional investments.

So the first question is – What are the promising examples that exist out there, and what can we actually learn from other sectors, and what is ready to be operationalized?

We've done some reviews of financing in other sectors recently and what we found is there's a much greater awareness there of the different instruments are out there and which instruments show the most promise for specific needs. Which ones can provide direct and immediate funding, and which ones will take longer to develop. We actually lack a framework like that or a serious comparison of various innovative instruments in terms of their leverage potential, expected cost to donors, types of instruments such as debt versus grants, what's the potential to be restructured, how close are they to market, etc. Actually, Justin's playbook that he will talk about is a big step in that direction because he and his team did look at the big global funds out there and made that kind of comparison in terms of added value, leverage, capacity and cost to donors. But there are many other instruments out there that are very innovative that include the private sector as well that we need to look at again. We did some of that at the time of the Commission when we produced a report, we actually did a mapping of about 18 instruments and one of the recommendations that came out of that review is for the International Finance Facility for education.

The International Finance Facility for Education is actually an interesting instrument because it provides public funding, but it mobilizes private capital. It uses official donor guarantees in a totally new way to unlock private capital – or private financing from capital markets through the

multilateral development banks. And the multilateral development banks have this great ability to mobilize funding from capital markets and then turn it into public financing, which is kind of a real trick they have up their sleeves because they are a bank. They issue bonds, they get the money, and then they on-lend it to countries. So IFFEd has designed an instrument that really captures that capacity of the MDBs using this guarantee scheme. And we know that this could unleash billions of dollars and give countries affordable money for education. But it has not been realized. And that's a real shame and we think it should be. Maybe I'll leave it to others to assess how other sectors – and other examples of how it features.

There are actually a number of other things out there that I've come across recently. I've recently been in contact with a group of private philanthropists and high net worth individuals and private equity funds that are trying to get philanthropic money into charitable organizations in a new and very innovative way. We haven't seen much of that either. It has happened more in other sectors as well, so we should be having these more promising examples and try to map them. That's point number one.

Second question we need to answer is - Who can do what?

Who can do what in all of this? There is a need for greater clarity around how different actors can contribute to filling the financing gap because that could help clarify what can be funded publicly and what can be funded privately. When we did the Education Commission report we came up with this concept of 'progressive universalism', where we said public resources need to be invested in a way that prioritizes the lower levels of education and the most marginalized – the poorest. So, prioritize with public finance early childhood education, early learning – that is why some of us have been working so hard on that agenda as well - to try to get more public funding into early learning. Last year we highlighted these points again in the Save our Future campaign in terms of public funding – raise it through prioritizing it within recovery packages, and then spend it in a way that really has this prioritization and progressive universalism.

But then again, we need to recognize that governments can't fill the gap completely and others will need to step in, whether they are philanthropists, private sector donors or households themselves. So, there are a number of questions we need to ask ourselves about that remaining gap that needs to be funded by the private sector, so how do we get them involved? How do we get the philanthropists involved in these new solutions? How could we incentivize them and have them engaged in unlocking bigger sources of finance? For example, blending their money with loan finance or providing guarantees.

Same with private financiers who can put up money for impact investments, perhaps for student finance, and so on. We really need to look at all those options.

And then obviously the official donors – where do they fit in? And should they just use their grants to put them straight into grant giving – which is great – in low-income countries, or should they combine their money and leverage it to sort of have bigger pots of money, which is the whole idea of IFFEd.

And then finally **household** spending. We cannot deny that households will spend on education, but we need to figure out what is the appropriate way for them to spend and how do we capture that?

The third question is about an attitudinal issue. So how can we change the attitude in the sector when it comes to engaging the private sector in education financing?

I recently wrote a piece asking the question why in climate, the sector has been so much more successful at mobilizing action and getting greater investment in the sector. And one of the key conclusions actually is that the corporate sector has played a big role in this. Many of the forward leaning international corporations now recognize that in terms of climate, it is really important for their bottom line, and they have been responsible for not only setting their own targets but actually leaning on national governments to invest. **So where are the private companies that are leaning on national governments to invest in education?** I think we could learn a lot from that.

So how could we as a sector adopt a less adversarial approach - a more positive, open and solutions driven approach to challenges?

My co-author and I conclude that education has not successfully tapped into innovative financing solutions. The attitude of some key organizations towards major stakeholders, such as private sector or multilateral development banks has been very damaging. And it is a question that we need to address.

So how could we have a much more grown-up conversation between the private actors and the public sector to talk about this, because private corporations are totally dependent on an educated workforce and they have expressed interest in engaging, but often they are kept at bay. And that's primarily due to the fact that we confuse the conversation around private financing with the conversation around private education. And that needs to be disentangled and we need to look at that separately and in a much more analytical way. So how could we do that in a way that has happened in other sectors and is now really seeing the private actors as part of the solution. We don't have that yet.

The fourth question we need to answer is – How can we create a culture of impact?

Again, really important to engage private actors and donors and anybody else that is really about this impact piece. And creating a culture of R&D and mobilizing actors around evidence, and evidence-based policy.

Again, if I take an example around climate, there is an initiative called the Global Innovation Lab for Climate Finance which brings together 70 institutions and government, development funds, philanthropy, and the private sector. And this initiative – public-private – drives billions of dollars to climate mitigation and adaptation in developing countries.

By looking at promising ideas and really thinking about how these ideas could be scaled. Identify, develop, pilot, and then scale them. And this group has been quite successful using small amounts of money and multiplying them in ways that we haven't.

In true combination of different types of finance, whether its grants or debt, or equity, etc. **Where is that kind of initiative in education? Could we create that?** And it has to be really driven by that impact piece.

And then finally, I would say the final question is around how do we better coordinate and bring these different actors together in whatever platform is appropriate? I think we need to create new spaces to bring actors together because the sector as you know has been very fragmented. When we come together, we often come together with our peers. For example, in the Commission we do have the Global Education Forum that brings together the bilateral and multilateral donors, but we know that is not enough. That's the public and the official donors. But we need to bring others into this.

So we are organizing our work around these priority areas of health and nutrition, foundational learning, digital learning and the education workforce. **It would be really great to get the private sector and private philanthropists and so on to also start thinking around these same priorities and how they could add value.** So having this multi-sector approach is still something we are trying to figure out.

Some examples – obviously we have the Global Business Coalition as a great example of bringing businesses together. Generation Unlimited is bringing together public and private around digital learning, and Suezan has been doing some work on trying to create communities of practice that are also mixed, but we need a lot more of this. And the question is how do we create a language to talk to each other and understand each other and not get into ideological fights.

I would say there is no time to waste. Let's answer these five questions...