Using innovative finance to reach out-of-school children

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Overview

- Trends in out-of-school children (OOSC) populations
- The economic and social costs of OOSC
- Resource needs for the OOSC challenge
- Innovative financing to reach OOSC
- Keeping international attention on OOSC
Trends in out-of-school children (OOSC) populations
OOSC Trends

- The global number of children and young adolescents not enrolled in school has stagnated for nearly a decade.

- The 124 million OOSC can only be reached with targeted interventions that address the range of barriers faced by marginalized youth.
The economic and social costs of OOSC
The Costs of OOSC

Economic

Health and Social

Political

Photo credit: World Bank Photo Collection
A Major Source of Economic Loss

Benchmarking the Economic Costs of OOSC (Thomas and Burnett 2015)

- Economic cost of OOSC as a % of GDP (micro method)
- Required additional spending on primary education as % of GDP
A case study of Colombia

- **Fertility Rate**: 2.5% reduction in the fertility rate. Estimate based on UN Millen. Project (2005).
- **Infant Mortality Rate**: 27% reduction in the infant mortality rate. Estimate based on UNICEF (1999).
- **Poverty headcount ratio**: 11% reduction in the poverty headcount ratio. Estimate based on Zulaga (2010).

Source: Thomas and Burnett (2015)
Political & long-term costs

- Individuals who have completed primary education are **1.5 times more likely to vote** (UNESCO 2005).

- Primary education has **positive effects on post-conflict reconstruction and peace-building**.

- Recent research establishes the **link between education and reduced vulnerability to climate shocks**.

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Resource needs for the OOSC challenge
Resource needs for the elimination of OOSC

Evolution of Costing Models...

- **Linear cost models**
  - Last decade, linear cost models estimated global annual funding gaps ranging from $6.5 billion (Bruns et al. 2003) to $17 billion (Delamonica et al. 2001).

- **Supply-side cost models**
  - Glewe et al. (2006): Supply-side focused models only capture part of the OOSC challenge.

- **Needs of marginalized youth**
  - EPDC and UNESCO (2009) account for the needs of marginalized children and estimate an annual funding gap of $24.1 billion (US constant 2007 dollars) for primary and lower secondary school in all low-income countries.

- **Our model**
  - Thomas and Burnett (2015): focus on the needs of marginalized youth.
  - Annual cost of enrolling out-of-school children = [Public Expansion cost] + [Household Expansion cost] + [Targeted Interventions cost]
The estimated total cost of achieving UPE is $82 per OOSC per year, compared to $47 per child per year currently spent.

$111 million is equivalent to one-quarter of DRC’s total education budget in 2011.

After the bulk of OOSC pass through basic education, the annual per pupil cost would fall, because capital expansion spending would no longer be required.
Innovative financing to reach OOSC
Innovative Finance Mechanisms

Innovative financing can be used to address the OOSC challenge by:

**Improving access**

- **Debt instruments**
  - Loan buy-downs, education bonds, DCDBs, diaspora bonds
  - To enable governments to borrow capital to provide access to physical schools

- **Instruments to increase revenue**
  - Remittance funds, Corporate levies, DIBs and SIBs
  - To spend on getting hard to reach OOSC into school e.g. hardship allowances for teachers, alternative education provision

**Governments**

**Service Providers**

- **Instruments that tie funding to access & learning targets**
  - Results-based financing, DIBs
  - To encourage service providers to enroll OOSC and support them to achieve academic outputs

- **Instruments that catalyze school finance market**
  - Debt, equity, patient capital
  - To support low-cost nonstate schools in areas where public delivery is weak or missing

- **Social impact investments**
  - Impact investing
  - To support social entrepreneurs developing innovative solutions for reaching OOSC (e.g. technology, alternative education, etc.)

**Households**

- **Instruments that reduce household costs**
  - Scholarships, conditional transfers
  - To reduce direct and indirect household costs of education for households
Example: Loan buy-downs

**Definition:**
- A third party buys down all, or a part of, either or both the interest and the principal of a loan between a country and a lending organization.
- Savings can be invested in development projects with agreed outcomes.

**Summary assessment**
- Can encourage governments to take out a loan to improve access, equity and quality of education.
- Can encourage a focus on results with education outcome based triggers.
- Provides predictable funding as long as outcomes are met.
- Risk that countries will increase their indebtedness.
- Ease of implementation is unknown.
Example: Remittance funds

**Definition:**
- Funding raised through remittance transactions whereby the online remittance company donates a proportion of remittance fees to education.

**Summary assessment**
- Funds can be used to directly impact education outcomes and the most marginalized; funds are sustainable and predictable.
- Need to be able to convince online remittance companies to donate some of their profits when there is considerable pressure to reduce fees. Limited to countries with high levels of remittances.
Example: School financing for LCPS

**Definition:**
- Financing (debt, equity) invested in affordable nonstate schools which provide an alternative source of education supply for OOSC, particularly in areas with low public school reach.

**Summary assessment**
- Several existing examples in Asia: Indian School Finance Company provides infrastructure loans to for-profit school; DFID provides cash-flow based loans to for-profit schools in Pakistan; Pearson Affordable Learning Fund invested in a low cost secondary school chain in the Philippines.
- Still relatively few models which have proven to be investment-ready.
Example: Village savings and loans for school expenses

**Definition:**
- A Village Savings and Loans Association enrolls mothers of out of school children with their agreement that their savings and interest will be used to cover school expenses.
- VSLA can also be used for outreach regarding school and its benefits and the responsibilities of parents.

**Summary assessment**

- Has been tried on small scale in several African countries.
- Has to be tightly coordinated with school supply – once parents have the funds, there have to be schools for their children to attend.
- Not clear what happens when external NGO or other promotion ends.
- Need to pay attention to financial returns, not just education.
How to select the appropriate innovative finance mechanism?

**Key financing constraint to unblock**

*Different innovative financing mechanisms address different constraints:*

- If the government lacks revenue to build schools or invest in education, the appropriate mechanism may be loan buy-downs, DCDBs, diaspora bonds, etc.
- If schools lack access to finance, the appropriate mechanism may be equity or debt for LCPS.
- If households lack financing to enroll their children in school, appropriate schemes may be scholarships, cash transfers, etc.

**Contextual or country factors**

*Not all innovative financing mechanisms are possible in every context*

- Remittance funds or diaspora bonds will only work for countries where there are high levels of remittances or who have sizeable diaspora communities.
- Debt conversion development bonds will only work for countries with significant debt.
Keeping international attention on OOSC
Innovative financing can also be used to keep attention on OOSC

These schemes may not raise a lot of money, but can help to keep public attention on the issue. Examples include:

**OOSC Fund**

An Asian OOSC fund or financing facility to channel funding from multiple sources to address the issue of OOSC (using a variety of mechanisms as necessary).

**Tax or product premium**

A UNITAID style tax or product RED style premium on education related products or services such as books or education-related technology to be used to finance OOSC interventions in Asia.

**Crowdfunding Campaign**

To encourage individuals to give to programs targeting OOSC in Asia (crowdfunding could target middle class and above).
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