The International Finance Facility for Education (IFFEd): Key Features and Preliminary Questions

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Context

There are an estimated 800 million children who will not have the basic secondary education skills needed by 2030. The reason largely stems from a global financing gap estimated to reach 90 billion dollars by 2030. Estimates show that, even once additional domestic funding is factored in, traditional grant aid from donor agencies or multilateral organizations will be insufficient to fill the gap. This is particularly true in lower-middle income countries (LMICs) where external donor resources are scarce.

The idea is to have the Global Partnership for Education deal with low income countries, and to have the Facility deal with low middle income countries, where 50-60% of the children not achieving secondary level skills live.

This would be in addition to countries themselves increasing their domestic funding for education.

Background:

The establishment of a Multilateral Development Bank (MDB) investment mechanism for education is a key recommendation of the International Commission on Financing Global Education Opportunity (the Education Commission).

The proposal dated July 1, 2018 was developed after a wide range of consultations. It is not final and is subject to specific arrangements…:

- To establish the Facility (perhaps on the model of Gavi or the Global Fund – see our fact sheets)
- To establish its relationships with the various Multilateral Development Banks

The International Financing Facility for Education (IFFEd) is a proposed alternative education financing mechanism that would work to incentivize LMICs to take loans from Multilateral Development Banks (MDBs) to finance access to quality secondary education.

The Mechanism

"The central purpose of IFFEd is to increase the capacity of Multilateral Development Banks to provide more financing for education." The idea would be to increase the pool of financial resources available to MDBs. IFFEd would then offer eligible LMICs a package of low interest long-term loans, blended with grants to fund an agreed upon package of education programming.

“IFFEd will provide grants as a share of an education financing package (grants and loan), making the financing more attractive and affordable for educational investment.” Indeed, LMICs lose access to concessional loans and grants that are available to low-income countries, and they hesitate to take commercial loans in the absence of short term guaranteed returns.

“Initial estimates suggest that one dollar of guarantees could generate four to five dollars of additional funding for education. When combined with an agreement with the host country to increase its own financing for education, which is part of IFFEd’s eligibility criteria, leverage ratios of 50 to 1 are possible.”

The principle underpinning the functioning of the Facility is rather simple (especially compared to the actual implementation considerations):

- Donor countries will issue guarantees (for $2-3 billion) that will serve as insurance for the multilateral development banks to increase their capacity to offer more loans in general
- Donor countries provide grant funds to make sure that the additional capacity is absorbed by countries seeking education loans. “Currently, about $3 billion is committed annually by MDBs in nonconcessional financing (‘other official flows’ in OECD terminology) for education. A target of at least $10 billion in additional financing (grants + loans) delivered to LMICs during the first replenishment period is proposed”. The amount of grants funds required is currently estimated between $1.2 and $3.1 billion, but there is at this time no consensus on the methodology for determining the size of the grant component.

Outstanding Questions

Principles:

How to make sure there is additionality:

There is a double issue of additionality :
IFFEd-supported loans must be in addition to donor aid to education. For donors, there is a need for a system to track education resources and that loans should not divert grants away from other education funding (otherwise risk of movingfrom LIC to LMIC.
And they must be additional to domestic spending on education in recipient countries. Actually, they should incentivize increases in domestic funding (a la GFF).

. However, there is no provisions to track donor countries’ contributions to ensure that their contributions to IFFEd are additional to their aid to education. Without systematic monitoring, there is a risk that aid is diverted away from low-income countries to finance blended loans to LMICs.

How to make sure there is equity:

Any mechanism for education funding should prioritize the needs of the most marginalized children, as these are the ones most likely to be deprived of quality education, and for whom a case for increased funding can most convincingly be made. This must a requirement for IFFEd loans not simply a recommendation. For equity to truly be at the core of IFFEd, it must be reflected in the facility's eligibility criteria and monitoring system. An assessment of equity challenges and concrete, verifiable, equity targets and should be an explicit requirement in applying for IFFEd and proper results tracking must be put in place.

In practice, there are several questions:

a) How does the insurance mechanism work: is it just like WB capital subscriptions? Would it be viewed as a "contingent liability"? Would a percentage be earmarked in the fiscal framework? Would any of it be a hit against the deficit (i.e. would it compete against an ODA increase)?. What are Finance Canada's views?
b) How does the grant component work? How will it be accounted for? In Canada, contributions to IDA are 100% considered an ODA expenditure, not <u>just their grant component (i.e. the principal is considered an expenditure for Canada)</u>. This is fundamental, because it means that there may no leverage whatsoever. On the contrary, Canada may have to give $100 million to be able to offer, say, a $60 million dollar grant subsidy. This is the exact opposite of what we want to do. This needs to be verified with Finance Canada
c) Assuming only the grant component will count as an expenditure, and that Canada's contribution is assumed to be 4% of the total (as is the case for IDA), is it correct that what is being sought from is roughly US$ 120 million over 3+ years? It this is the case, it would be very affordable, something that could be earmarked for secondary bursaries for girls …
d) Finally, 2 simple questions regarding coordination: a) how do we make sure that are no competing proposals from the WB and the regional development banks? B) how do we reconcile that a lot of LMICs are also GPE countries (Bangladesh, Bhutan, Kenya, Ghana ….)

Key Self-Directed Learning Questions

What is the purpose of the International Finance Facility for Education?

Why is it important to make sure there is additionality?

Why is it important to insist on equity?