

OVERVIEW OF EDUCATION FINANCING MECHANISMS



TO REACH THE SUSTAINABLE DEVELOPMENT GOAL FOR EDUCATION (SDG4), GLOBAL SPENDING ON EDUCATION MUST RISE FROM \$ 1.2 TRILLION ANNUALLY TO \$3 TRILLION ANNUALLY BY 2030.

The world is facing an alarming education crisis. Without immediate action, over half of the upcoming youth generation – 825 million of the 1.6 billion young people in 2030 – will be left behind and shut out of opportunity through education, failing on the promise of SDG4. The costs of this crisis – unemployment, poverty, inequality, instability – and the skills gap will stunt economic growth, with social, security and political repercussions. Only 1 in 12 young people in low-income countries will be on track to gain basic secondary level skills while hundreds of millions will remain out-of-school.

Current levels of investment in education are critically low. Governments must reverse this trend and substantially increase public investment in education - 97% of the total global education budget is financed domestically while the remaining 3% needs to be drawn from external sources. Yet, education's share of sector allocable ODA has fallen from 13 percent to 10 percent since 2002 and stands at just over \$12 billion, while less than 2% of humanitarian funding is spent on education.

A STEP-CHANGE IN FINANCING & AN ARCHITECTURE FIT FOR PURPOSE

We need a step-change in education financing from both domestic and external sources. Collectively, by increasing resources and their effectiveness through the combined efforts outlined below, we can mobilize the necessary financing to achieve SDG 4.

Domestic Resource Mobilization

Governments must substantially increase public investment in education by devoting more of the proceeds of growth to education, reallocating spending to education, developing and implementing strong national education sector plans. It is expected that governments themselves raise their spending on education as a percentage of GDP from an average of 4% to approximately 5.8% by 2030.

Bilateral Aid

OECD-DAC and non-DAC donors must increase ODA and dedicate a larger share of their total spending to education (15%). It is recommended that donors allocate an increasing share through multilateral channels in order to maximize the efficiencies from pooling resources while bringing education in line with other sectors such as health where more than 60 percent of financing is delivered multilaterally (in education it is just one third).

Three complementary and important multilateral efforts include:

The Global Partnership for Education (GPE):

GPE strengthens the delivery and finance of education in the 89 low and lower middle income countries that are farthest away from reaching SDG4. GPE works closely with governments and other partners to secure sustained domestic and external resource commitments to finance and implement strong national education sector plans. GPE's finance is results-based and funds implementation, knowledge sharing, innovation and enhanced social accountability

to improve the equity and quality of education. GPE's "Leverage Fund" will also crowd in non-traditional financing into the education sector (e.g., rewarding every \$3 of private sector investment or MDB financing with \$1 of GPE grant funding) and increase the affordability of concessional finance for low and lower middle income countries.

Education Cannot Wait (ECW): ECW is a catalytic fund designed to transform the delivery of education for countries in emergencies and protracted crises. It provides support and funding to prioritize education at the onset of a crisis; joining up governments, humanitarian actors and development efforts to deliver education. ECW protects development funding by providing rapid emergency support, helps countries get back on track to longer-term planning and finance, while collaborating with organizations such as GPE to build resilience into education systems.

Even if all parties increase education financing to the recommended levels, there will still be a significant gap.

The International Financing Facility for Education (IFFEd):

The IFFEd will bridge the gap and create attractive financing packages for low- and middle-income countries, and emergencies. In lower-middle income countries, IFFEd will multiply the international resources allocated to education through innovative capital leverage of the MDBs, and create demand for borrowing for education through buy-downs of non-concessional loans. In low-income countries, IFFEd will work with its donor and implementing partners to help ensure a better distribution of scarce resources and a higher allocation of grant and concessional sources to education. The IFFEd will provide financing for the implementation of education sector plans based on compacts between countries and international partners that are focused on increased investment and commitment to reform.

Complementarity in the architecture

GPE supports the development, implementation and funding of strong education plans and systems, around which all partners crowd in external financing, including GPE, IFFEd and ECW. ECW incentivizes and supports actors to coordinate accelerated education responses if there is a "shock to or gap in" the system, providing a bridge back to development and longer-term financing solutions. IFFEd would complement GPE and ECW by mobilizing financing currently not accessible to the education sector. Collectively, these mechanisms would work together to rebuild and strengthen education systems by supporting countries' education sector plans and emergency response on a coordinated basis while securing the resources necessary to achieve SDG 4. Civil society plays an important role across all initiatives, in particular through participation in the development of the national plans at the country level and ensuring strong accountability of stakeholders to deliver on quality, inclusive and equitable education.

KEY ACTIONS IN 2017:

- Increase domestic budgets for education by expanding their tax base to reach to 5.8% of GDP
- Increase ODA and commit 15% of aid to education, targeting countries most in need.
- Fully fund the Global Partnership for Education by providing \$2 billion a year by 2020.
- Fully fund Education Cannot Wait by providing \$3.85 billion by 2021.
- Establish an International Financing Facility to unlock more than \$10 billion a year by 2020.