ECW Cash for Learning Bonds

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Cash for Learning Bonds is a proposal for an innovative finance instrument for Education in Emergencies that would provide a financing framework that goes beyond encouraging school attendance and focuses on learning. Access to schools, enrollment, attendance and lower drop-out rates are important, but insufficient to ensure learning. Learning is essential for individuals for creating access to job opportunities and reducing poverty, and for societies to lead to peace and stability through equitable growth. Learning also requires prepared students, effective teaching, learning-focused inputs and skilled school management and governance.[1]

Cash for Learning Bonds build on and combine two recognized financing models – cash transfers[2] and Development Impact Bonds (DIBs). Cash for Learning Bonds would provide a financing framework for going beyond school attendance, which is what cash transfers usually focus on, by applying principles of outcome investing in order to achieve real learning outcomes.

Cash transfers can be designed to elicit specific behavior outcomes, in the case of education, most often this is regular school attendance. They can also address gender inequalities and overcome social norms when they provide an additional incentive for girls to attend school. The financial incentive aims to provide children's families with the financial means to support their livelihoods and cover their basic needs without the need to work informally to support the family. In case of a conditional cash transfer, the outcome is supported by linking transfers to behavior change, most often school attendance. Cash transfers have been implemented successfully in development and also in humanitarian contexts.

However, while cash transfers have proven to be an effective intervention to encourage increased school participation, there is no clear evidence of their direct impact on improving learning outcomes. A 2016 meta-analysis of 50 studies concluded that cash transfer programs improve school enrollment and attendance and reduce early drop out in most contexts; but, according to 11 studies, do not appear to improve learning outcomes such as math and language skills.[3] The Oversees Development Institute, in a 2016 review of conditional cash transfers, found that these can affect access to education by removing financial barriers to school attendance.[4] The effect is the highest where overall rates at baseline are the lowest. Out of these studies, five reviewed learning outcomes and found inconclusive evidence of the effect of cash transfers on improving math, language and composite test scores: Four of these studies

[1] See World Bank. "World Development Report 2018: Learning to realize education's promise. (2018)

[2] Depending on country and target population these could be conditional or unconditional cash transfers or other forms of cash such as vouchers, etc.

[3] Snilstveit, Birte, Jennifer Stevenson, Radhika Menon, Daniel Phillips, Emma Gallagher, Maisie Geleen, Hannah Jobse, Tanja Schmidt, and Emmanuel Jimenez. "The impact of education programmes on learning and school participation in low-and middle-income countries." (2016).

[4] Bastagli, Francesca, Jessica Hagen-Zanker, Luke Harman, Valentina Barca, Georgina Sturge and Tanja Schmidt, with Luca Pellerano "Cash transfers: what does the evidence say? A rigorous review of programme impact and of the role of design and implementation features." (2016). https://www.odi.org/sites/odi.org.uk/files/resource-documents/11316.pdf

reported some impact, but only two at a statistically significant level. Similarly, a 2013 meta-analysis of 32 studies on the effect of cash transfers on enrollment and 16 studies of the effect on attendance concluded that they influence enrollment and attendance. It found that the more closely linked the payment to attendance (the higher the intensity of the conditionality), the higher the effect on enrollment and attendance.[5] The same analysis of a subset of five studies found no or a small effect on standardized test scores at best.

The lack of evidence of cash transfers contributing to learning outcomes relates to the way in which cash transfers have traditionally been designed and monitored. Development Impact Bonds (DIBs) can help overcome this shortcoming by shifting the focus and adding learning indicators to the equation.

<u>Development Impact Bonds (DIBs)</u> emphasize qualitative outcomes such as learning instead of the often-prevailing focus solely on inputs like attendance. Because they are a binding contract between various parties, DIBs can help introduce results-based project management practices, demand rigor and good data for monitoring and evaluation (thereby often achieving high standards in design and delivery) and they require clear and deliberate preparation and planning. They also can support new and innovative interventions traditional donors feel uncomfortable financing.

In a DIB, Impact Investors provide the upfront cash.[6] If the program achieves learning outcomes, which is assessed and confirmed by an independent evaluator, Outcome Funders such as Education Cannot Wait (ECW), bilateral donors or other philanthropic partners repay investors their capital, interest and potentially a risk premium. (Impact Investors may agree to “soft” conditions where they would provide capital below market rates.) If the intervention does not achieve learning results, impact investors lose (part) of their investment. This means Outcome Funders only pay when learning results are achieved and Impact Investors carry the risk of a failed intervention. In this way, the implementation risk is born by investors who may have a different risk appetite and follow different methods of assessing risk than traditional donors.

<u>The Case for Cash for Learning Bonds</u>: A Cash for Learning Bond would “wrap” a DIB around cash transfers. As a financing package, a Cash for Learning Bond can help increase school attendance <u>*and*</u> ensure that children learn. It would create a financing package of a more holistic intervention. It would finance <u>supply-side interventions such as teacher training and continuing education, teacher incentives for improved attendance, improvements to school infrastructure, text books and learning materials, other school supplies and other supplies in addition to the cash transfers</u>. This is in line with experience that cash transfers are significantly more “impactful and cost effective” when they accompanied by programs that “attempt to expand supply through grants, infrastructure or other resources for schools”.[7]

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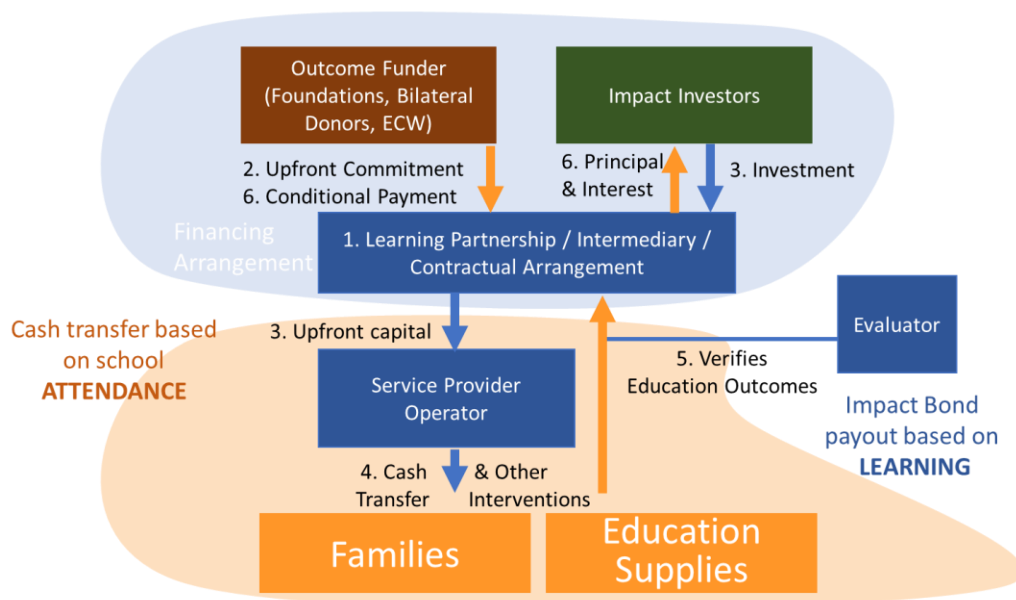
[5] Baird, Sarah, Francisco HG Ferreira, Berk Özler, and Michael Woolcock. "Relative effectiveness of conditional and unconditional cash transfers for schooling outcomes in developing countries: a systematic review." Campbell systematic reviews 9, no. 8 (2013).

[6] On Impact Bonds see Gustafsson-Wright, Emily, Izzy Boggild-Jones, Dean Segell, and Justice Durland. “Impact Bonds in Developing Countries: Early Learnings from the Field.” (2016). https://www.brookings.edu/wp-content/uploads/2017/09/impact-bonds-in-developing-countries_web.pdf

A Cash for Learning Bond would create a financing framework that is strictly outcome-oriented and brings together partners from different sectors, including private Impact Investors and government partners, to work together towards a substantive social goal (see Figure 1):

- Children living in humanitarian emergencies caused by wars and/or natural disasters would get a real opportunity to learn. Additional emphasis can be given to prioritize the underprivileged– often girls, refugees and internally displaced, or those with learning disabilities.
- School and teachers would benefit from investments in teacher training, teacher incentives and pay, improved infrastructure and school supplies.
- Outcome Funders – bilateral donors, ECW, foundations, and other funders – would pay only if learning outcomes are achieved, which is particularly significant as interventions in volatile and difficult emergency contexts are prone to high implementation risks.
- Service providers – implementation partners on the ground, which could be governments or non-profit organizations that administer the cash transfers – would receive upfront funding, a severe bottleneck in many more traditional results-based funding arrangements.
- Impact Investors that care about learning outcomes and at the same the economic returns on their investment have a new mission-related investment opportunity with risks likely not correlated to the rest of their portfolio and the opportunity to make a return on their investment.

Figure 1: Cash for Learning Bonds



<u>A Cash for Learning Bond would work as follows</u> (see Figure 1):

First, all stakeholders would form a Learning Partnership – a public-private partnership that brings together the different partners, defines roles and responsibilities, and manages the financial flows (therefore set-up as a Special Purpose Vehicle or SPV). Outcome Funders would define goals and priorities of their prospective grants and partners would agree on outcome metrics and payment schedules.

Second, Outcome Funders – ECW and partners such as foundations, bilateral or multilateral donors, and others – would either make deposits or legally binding commitments to the Learning Partnership to pay for learning outcomes achieved.

Third, Impact Investors – for example banks, socially responsible investment funds, or foundations through their program and mission-related investment activities – would provide upfront funding for paying out cash transfers, administrative expenses, and potentially accompanying supply-side investments (teacher training, school materials, facilities, etc.).

Fourth, the Service Provider(s), which could be the government, a non-government organization, or a UN Agency, would implement the program. This would include setting up the program on the ground, administering the cash transfers, monitoring school attendance, paying out the cash, and provide accompanying supply side services such as teacher training, facility upgrade, learning materials, etc.

Fifth, an Independent Evaluator – for example an academic impact evaluation specialist or think tank or an audit firm – would monitor and report periodically on learning outcomes of children whose families are participating in the Cash for Learning Bond. Monitoring could take place once every six months or once every year.

Lastly, following each monitoring report, the Impact Partnership would make payments to Impact Investors if learning outcomes were achieved. (Or, if so agreed, partial payments if learning outcomes were partially achieved). If learning outcomes were not achieved, the Impact Partnership would return the funds to Outcome Funders.

<u>In conclusion, Cash for Learning Bonds would be an innovative financing instrument designed to get beyond school attendance and achieve real learning outcomes by using an outcome investing structure.</u>

<u>Next steps</u>: Implementation of Cash for Learning Bonds will require identifying a country, program and potential implementation partner as well as a feasibility study and consultations as a first phase. For the next 3 up to 6 months, the next steps are:

- Identification of countries, programs, target populations, and implementing partners on the ground (see Annex for criteria). First consultations with potential implementation partners (Service Providers).
- Consultations with stakeholders, including potential Outcome Funders and Impact Investors as well as with ECW institutional stakeholders.
- Conducting a feasibility study, including design and initial structuring of the financial product and project.

Annex: Criteria for Selecting Countries, Interventions, and Service Providers

ECW will use the following criteria to identify interventions and programs to be financed with a Cash for Learning Bond:

- Clearly defined and measurable outcomes: As payments from Outcome Funders to Impact Investors will be contingent on outcomes, the intervention needs to lead to clearly defined and measurable outcomes.
- Attribution to outcomes: Outcomes can be attributed to inputs. The intervention must have a clear theory of change that describes how inputs lead to outputs and outcomes. Ideally, evaluations have proven the validity of this theory of change and it is intuitively understandable for funders and investors. [Conversely, complex coordination and systems interventions would be hard to finance though an impact bond.]
- Clearly defined target population: Attribution is supported by a clearly defined target population.
- Computability/predictability of success and existing experience: An intervention that would, with reasonable confidence, deliver learning gains. Impact investors are willing to take risks as long as they can calculate them. This requires data on the success rate of similar interventions in similar operating environments. This criterion points to an extension of existing projects or extending projects geographically.
- Service provider/implementing agency has a track record in implementing similar interventions.
- Simple evaluation: An intervention that can be evaluated relatively simply, to ensure the feasibility of verifying conditions for payment:
    - An intervention that is expected to deliver impacts on educational outcomes that can be measured cheaply.
    - A program model where expected effect sizes are large enough so that modest sample sizes are sufficient to detect impacts.
- Safety: Impact bonds and outcome investing require independent third party evaluations. The operating environments need to be safe enough for third party evaluators to collect data and verify outcomes.
- Protracted crisis situation (as opposed to active conflict) where investors can evaluate the country risk.
- An ECW priority country: Afghanistan, Bangladesh, Burundi, Cameroon, Central African Republic, Chad. Democratic Republic of Congo, Ethiopia, Haiti, Iraq, Jordan, Lebanon, Libya, Mali, Myanmar, Niger, Nigeria, Pakistan, Palestine/West Bank Gaza, Somalia, South Sudan, Sudan, Syria, Uganda, Yemen.