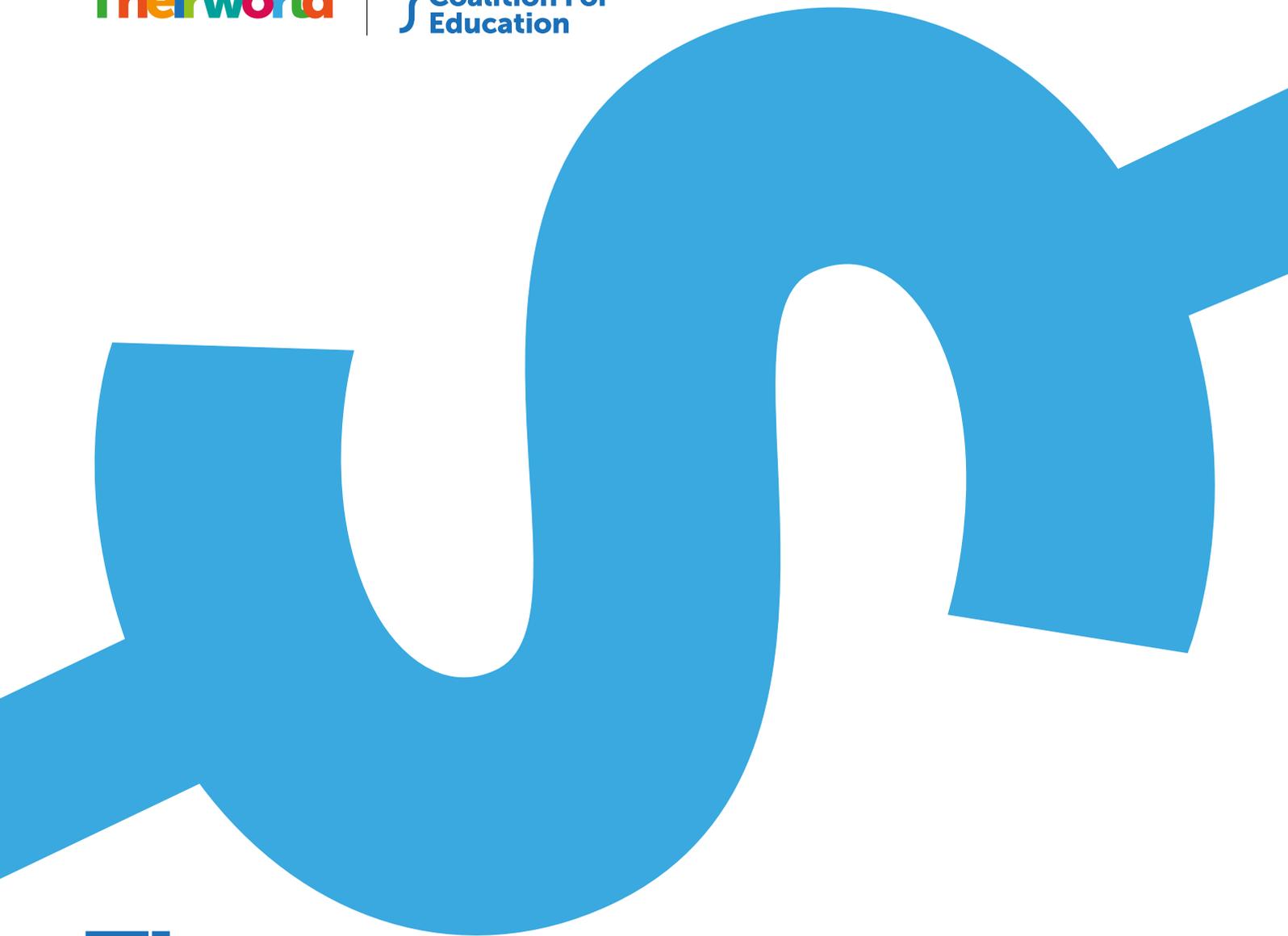


**Theirworld**

} Global Business  
Coalition For  
Education



# The Education Finance Playbook

A practical guide for governments, donors  
and philanthropists to fund quality, inclusive  
education for all by 2030

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The Playbook draws on outstanding research and reports by peer organisations outlined at the end of this document, including projections by the Education Commission, UNESCO, the Global Education Monitoring Report, UNICEF, Save the Children, the World Bank, UNHCR, and others. The authors would like to thank all of the organisations who provided data, clarification on their activities and additional insights to support the development of the organisational profiles. In particular, thank you to Brajesh Panth at the Asian Development Bank; Yasmine Sherif, Michael Corlin and Christian Stoff at Education Cannot Wait; Liesbet Steer, Lana Wong, Katherine Kullman and Pedro Alba at the Education Commission; Anninca Floren at the European Commission; Josephine Bourne and Pdraig Power at the Global Partnership for Education; Robert Jenkins and Nicholas Reuge at UNICEF; and Eirik Kollsrud at UNRWA. We are grateful to all of the organisations providing public reports and to those individuals commenting on drafts. Any omissions are that of the author.

# Introduction

The scale of the global education crisis is mind-boggling. Even before Covid-19 struck, there were 258 million children who did not have a place in school. It was forecast that more than **50 per cent of young people would not have the most basic reading and maths skills by 2030.**<sup>1</sup> Millions would either never set foot in a school or would drop out early.

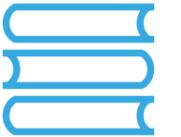
The impact of pandemic, which at its peak locked 1.6 billion children out of school, has made the challenge of providing quality education even more acute, with an estimated 24 million children at risk of never returning to education. The most marginalised and underserved – children with disabilities, minority populations, low-income families and girls – have been pushed further to the margins.<sup>2</sup>

Contracting economies mean many government budgets will be smaller at a time when the need for investment in education has increased dramatically. Without quality education, the next generation faces the threats of child labour, poor health, early marriage and intergenerational poverty. Drastic action is needed.

Major recovery efforts and stimulus packages are underway to invest trillions of dollars into the global economy in response to Covid-19. Making education a central pillar of global and national recovery packages is a surefire way to reap the greatest financial and social benefits possible, ensuring longer-term equitable and sustainable development. Education is a strategic investment with phenomenal returns, a proven solution which leads to sustained economic growth.

Education is the key to unlocking opportunity for the next generation. Data shows that education unlocks economic recovery, innovation, and climate action. It improves inclusion, antiracism, peace and security, and much more.

It has been shown that:

**12%** 

Each additional year of schooling helps a woman increase her wages by about 12%.<sup>3</sup>

**↓51.48**  
**gigatons**

Closing the education financing gap in low- and lower-middle-income countries could reduce emissions by 51.48 gigatons (equivalent to five times the annual emissions of advanced economies) by 2050.<sup>4</sup>

**171 million**

If all students in low-income countries acquired basic reading skills, 171 million people could be lifted out of poverty.<sup>5</sup>

Yet for development ministries, overseas aid departments and philanthropists searching for the most impactful way to invest resources in the education of the next generation, making sense of the different funding mechanisms and organisations, the costs, and where to invest, can be overwhelming.

# Introduction

The Education Finance Playbook provides that much-needed clarity, and shows how Sustainable Development Goal 4 – **equitable and inclusive quality education for all by 2030** – can be achieved. It will require nothing less than a Marshall Plan for education recovery across the globe.

Putting every child on track for education by 2030 will require a comprehensive, unrelenting mobilisation of political will, innovation and resources by as many partners as possible.

The challenge is far greater than any one institution's efforts. It is clear that the current collective efforts of the international community, while well-intentioned, are insufficient for the task at hand. The playbook demonstrates that the current strategy for funding education will leave hundreds of millions of children behind unless we act differently – starting now.

This playbook outlines the scale of the education crisis, the current status of funding and the price tag needed to put the world on course to provide quality education to every child. It maps the global education architecture and identifies the relative importance of various funds as well as their efficiency in delivering money to children's education.

The playbook identifies a price tag of \$75 billion a year, on average, that the international community needs to mobilise to put the world's children on track for universal education.

It recommends a three-point plan to fund education post-pandemic, showing that Sustainable Development Goal 4 is within reach if it is taken seriously and if stakeholders innovate.

**It calls for bold action from brave leaders:**

**1 National governments to mobilise domestic resources through equitable taxation, and meet globally agreed budget targets for education.**

**2 Donors, philanthropists and businesses to step up and meet or exceed funding target.**

**3 Donors, multilateral banks and recipient countries to innovate, by backing the new International Finance Facility for Education. The playbook demonstrates that \$6.25 billion contributed by donors could make \$50 billion of new finance available for education at a time when resources for recovery efforts are at a premium.**

**The current plans and proposals by world leaders lack ambition and the numbers just don't add up to the scale of the challenge.**

The Education Finance Playbook puts the challenge in perspective, drawing on the best evidence and synthesising information into a digestible format to provide a roadmap and detailed agenda for action to inform governments, donors and philanthropists about how best to make an impact over the next 24 months and beyond. The first milestone is the G7 in June where a more comprehensive and bold vision for the future of education finance is imperative.

**The Education Finance Playbook is:**

**A practical guide**

This playbook summarises the headline figures and draws on many reports by our colleagues and peer organisations working to support governments around the world – particularly in lower-income countries – fund and deliver education.

**An overview of the different ways to fund education**

The playbook draws on empirical analysis about effective ways to support education, priority areas for action in the Covid-19 recovery, and the comparative advantages and efficiencies of various funding pathways, based on publicly available information and certified information from organisations supporting education.

**A call to accountable, collective action**

For too long the international community has simply accepted that education will be a chronically underfunded sector. The assumption is that anyone reading this playbook already cares about how we get every single child on the planet into quality education. It calls on all stakeholders, including governments, donors, philanthropists, international organisations, NGOs, civil society and business to unite with young people around a set of priorities and concrete steps to hasten progress towards Sustainable Development Goal 4.

**The Education Finance Playbook is not:**

**A comprehensive technical review of the literature**

There are many great reports by our colleagues at organisations like Save the Children, UNESCO, UNICEF, the Education Commission, the Global Partnership for Education, World Bank and others with technical analyses about the scale of the crisis, declarations about shared priorities, the effectiveness of policies and interventions, and financial projections. We draw on those reports and documents to provide a top line summary to help navigate the sector.

**A guide to making the case for education**

Theirworld has produced a resource called "The Key" with talking points and facts to make the case for education. The assumption is that anyone reading this already believes education is important. If you need more evidence to help you convince someone about why investing in education is the key to unlocking a better future and the other Sustainable Development Goals, visit The Key ([key.theirworld.org](http://key.theirworld.org)).

**A critique of the important work underway**

Every single actor highlighted in the playbook – and many more – is doing important work to end the global education crisis, which is bigger than any single organisation, institution or stakeholder. Every institution has a particular contribution to make. It will take everyone working together and doing their part to ensure every child and young person enjoys an equitable and inclusive quality education.

# Part 1

## The scale of the global education crisis



**At its peak, the pandemic closed school doors to 1.6 billion children, including 767 million girls.** Despite remote learning efforts, many continue to miss out. Connectivity and distance learning is not available to everyone, making the pandemic a great divider and perpetuator of education inequity. Some estimates suggest nearly a third of all students globally missed out on education due to lack of remote learning.<sup>9</sup>

Many of the poorest and most marginalised have been left behind. Throughout 2020 and into 2021, child marriage and early pregnancy have increased, as did hunger and malnutrition, with 370 million children missing school meals.<sup>10</sup> Some of the youngest learners joined the 175 million children who did not have access to early childhood education, missing out on crucial developmental progress.

After the pandemic, it is estimated that up to 24 million children who were in school in 2019, may not return.<sup>11</sup> We are further off track than we were in 2019.

In some regions of the world, young people have faced extreme adversity. Half of all refugees were out of school even before the pandemic wreaked havoc on schooling.<sup>12</sup> In Africa, the pandemic has left a quarter of a billion children out of primary and secondary school<sup>13</sup> while in Latin America and the Caribbean, children have lost on average four times more days of schooling compared to the rest of the world.<sup>14</sup> Meanwhile, in South Asia, home to the largest population of young people, schools have been closed on average for five months, negatively impacting an estimated 434 million children.<sup>15</sup>

As of February 2021, the World Bank's Covid-19 school closures map still showed 681.7 million students in countries with fully closed schools and another 92.4 million in countries with partially closed schools.<sup>16</sup> Projections suggest that after the pandemic, in low-and-middle income countries, only 37% of ten-year-old children will be able to read and understand a simple text.<sup>17</sup>

Governments and the international community need to prioritise education to prevent spending falling off an economic cliff. Otherwise, the adverse impact on children will be dramatic.

The estimated knock-on impacts of limited education on the economy are shocking. Only a few months into the pandemic, projections were estimating that children missing out on five months of education would collectively result in \$10 trillion in lost future incomes.<sup>18</sup> In OECD countries, economic losses from reduced learning<sup>19</sup> could range from an estimated downturn of \$504 billion in South Africa to \$15.5 trillion in China.<sup>20</sup> Projections of losses to gross domestic product (GDP) due to reduced preschool participation are shocking: for example, lower-middle-income countries could stand to lose 3.38% of GDP due to six months of preschool closures – not to mention the longer-term developmental impact on children.<sup>21</sup>

# The Playbook

## What's at stake in ten years?



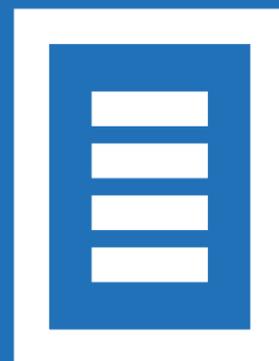
### Best Case Scenario

Countries take the education crisis seriously and invest heavily and effectively post-pandemic. By 2030, every child is on track to receive an inclusive and equitable quality education. All children have free, quality preschool. Families are healthier, communities are safer and more secure. Economic growth is spinning upward as the potential of the next generation is unlocked, preparing more young people to meet the demands of the Fourth Industrial Revolution and prepare for a workforce boom of innovation, sustainability and growth. Families rise out of poverty at record rates. Education has reduced climate emissions and the spill over benefits have unlocked the other SDGs.



### Worst Case Scenario

Governments are short-sighted during the pandemic recovery and move towards austerity and reduction in domestic spending on education and, at the same time, international donors reduce aid levels to the poorest countries. By 2030, half of all young people have not obtained the skills necessary for entry level employment, reducing the global workforce's potential by more than 50%. Given the interconnected nature of economies, growth levels have been relatively low. Poverty rates are higher throughout lower-income countries. Girls and the most vulnerable are left out of education and opportunity. Communities are less safe, fuelling increased numbers of people are on the move. Climate change increases as a risk and refugees are still not in school, placing significant burdens on governments well into the future. Health levels do not advance at the rates that were possible a decade prior, with many more children malnourished or dying before the age of five than should be acceptable in the 21st century.



### Who has the agency to act

Even during the pandemic recovery, prioritising education is possible and will lead to accelerated growth and development. But there is more than an opportunity for investing in a more equitable and pronounced recovery, there is a responsibility to act. There are immediate action items and imperatives for governments, donor agencies, civil society, philanthropists and even companies to transform education opportunity globally, regionally and nationally. They are outlined in detail in this playbook.

## Part 2

# The price tag of universal education

Between now and 2030, assuming lower-income countries also do their part to direct the maximum possible resources to education, Theirworld estimates the international community will need to mobilise **a minimum average of \$75 billion dollars annually** to be in striking distance of giving all children a quality education by 2030.\*

This is a lower-range, conservative estimate based on the limited data available in the sector, demonstrating the sheer scale of the challenge.<sup>22</sup>

To place this estimate in context, annual aid to education peaked at about \$16 billion in 2019, about one-fifth of the minimum level Theirworld suggests is now needed. And this comes when some estimates predict that aid to education may fall by \$2 billion from its peak in 2020 and not return to earlier levels for another six years.<sup>23</sup>

Prior to the pandemic, it was estimated that if domestic resources for education were maximised by lower-income governments, the international community – primarily donor agencies and philanthropists – would need to contribute an average of \$44 billion dollars per year.<sup>24</sup> But lower growth projections, coupled with increased costs of delivering education during and following the pandemic, will add an estimated \$325 billion more to the cost of global education over the next decade, according to UNESCO.<sup>25</sup>

Lower income countries are facing what the World Bank has coined a “triple shock” of pandemic-related funding impacts on resources for education:

- Government spending on education is adversely affected by the pandemic.<sup>26</sup> Projections show governments on average are facing education budget cuts of 8%.<sup>27</sup>
- Parents in low- and middle-income countries will struggle to maintain the considerable resources they devote to their children’s education. Households accounted for 38% of education spending in low-income countries in 2018-19.<sup>28</sup>
- With decreased budgets, donor countries are cutting, or threatening to cut, international aid budgets impacting education support for the poorest children in countries which are already falling behind.

All of these factors require the protection of education budgets at every opportunity, and the prioritisation of education in stimulus funding, and for donors and philanthropists to step up.

\*There are many estimates of the cost of global education, and in particular how much support will be needed from external resources in the international community. Theirworld’s projection is a lower-bound estimate constrained by limited rigorous data on education finance in the sector. The rationale for this estimate is detailed in the annex. In short, the \$325 billion in additional resources projected by UNESCO due to Covid-19 is averaged over the next decade and added to the average pre-pandemic estimate of external finance modeled by the Education Commission. Estimates of the financing gap UNESCO which do not include household spending, project even more will be needed (See Annex 1). This report uses a lower-bound estimate which in itself underscores the sheer magnitude of the crisis compared to the current level of action by the international community.

## Part 3

### Making an impact: funding what works



Simply financing education through pandemic recovery efforts, with little attention to where financing goes, will not create the seismic impact on the economy and development that is needed for the next generation.

**Effective use of resources is critical to achieving the rapid impact and results required to end the global education crisis.**

There is good news. A tremendous amount of evidence exists about what works, while there are agreed priority areas of action among many countries around the world.<sup>29</sup> Before talking about financing education, it is necessary to ensure that every dollar mobilised is put to the best for children.

At the start of the Sustainable Development Goals, the education sector articulated four imperatives at the core of accelerating education progress:

- 1 Building strong, well-performing systems by investing in what works and rooting out corruption and waste,**
- 2 Supporting innovation in how education is delivered while better supporting the teaching profession, and embracing technology,**
- 3 Prioritising inclusion, to make sure that the most marginalised, poorest, youngest and children with disabilities, receive a quality education**
- 4 Mobilising sufficient finance through domestic finance and increasing international support, including innovative finance.<sup>30</sup>**

These four imperatives remain relevant today. And while no one would have predicted a global pandemic on top of the existing education crisis, the acute urgency of the the Covid-19 pandemic has added additional focus to priorities in the recovery phase which could significantly advance progress over the next decade.

**The shared priority areas for the recovery phase have been agreed by many countries, international and local organisations, and experts. If advanced, they have the potential to springboard move education forward at a more rapid pace. There are eight areas of impact with associated costs, where known. The costs will need to be funded by both governments and by support from the international community.**



## **Universal early childhood education and developmental support**

Children who miss out on strong early childhood development and education are already behind by the time they enter school. Nearly 90% of a child's brain develops before the age of five and investing in quality early childhood education can support nurturing care that all young people need for the best start in life. The economic and health benefits are significant. Yet pre-pandemic, 175 million children were not enrolled in early childhood education. To ensure children are in school by 2030, investing in early childhood education today will make the likelihood of them remaining in school even higher tomorrow.

### **The price tag: 10% of education budgets**

*Governments will need to spend about 10% of their overall education budgets on preschool education. Theirworld and many organisations are asking governments and donors take the 10% pledge to ensure the youngest learners are not left out of education and early years development during the recovery efforts.*



## **Foundational learning**

Education fulfils many purposes in society, from civic participation to employment. And some skills, like literacy, numeracy and social-emotional learning, are foundational and unlock more opportunities to learn, grow and thrive. Prioritising foundational learning for all children and youth is essential, and some estimates show that in 2021 some 70 million children, over half of the world's ten-year-olds, could lack basic literacy skills if the worst impacts of the pandemic take hold.<sup>31</sup>

### **The price tag: \$14 billion**

*About \$14 billion is needed if the 20 countries with the lowest literacy rates and the E-9 countries with the largest populations in the developing world are to achieve functional literacy and numeracy by 2030.<sup>32</sup> UNESCO estimated the financing gap for pre-primary and primary education to be about \$25 billion.<sup>33</sup>*



### School meals and nutrition for every child

Without quality nutrition, young people are unable to learn to their full potential. Children with good nutrition can increase their future wages by up to 50% and reduce the chance that they will experience poverty later in life by 33%; learning increases are also significant.<sup>34</sup> Because of the pandemic, 370 million children have missed out on school meals.<sup>35</sup> Investing in education and nutrition together is a more cost-effective way to ensure food security and quality learning.

#### The price tag: \$4.7-5.8 billion annually

*It is estimated that 328 million children live in locations where school meal coverage is inadequate and about 73 million of these children live in extreme poverty. The overall financial requirement for school feeding is \$4.7 billion, increasing to \$5.8 billion annually if other essential school health interventions are included in the package, such as deworming, malaria prevention and basic vision.<sup>36</sup>*



### Safe schools and learning environments

Ensuring schools are able to reopen safely with proper health and other protocols in place not only supports quality learning but provides children and families with the confidence to return to education. But the safe reopening of schools is about more than health protocols and guaranteeing water, sanitation and hygiene. It also requires social protection and safe places to learn, including safe school journeys, being free from threat of attack, bullying or harassment, all of which have negative impacts on attendance, development and learning. For refugees and migrants, the need for safe schools is even more acute. Safe schools also mean being ready for the next pandemic or emergency, whether it be conflict, flood or famine, and being prepared to rapidly respond and deliver education.

#### The price tag: \$4.85 billion annually (for refugee education)

*The total financing gap for education post-pandemic takes into account the additional measures necessary to address the safe reopening of schools. While safe schools and learning environments are universally relevant, nowhere in the world is the right to education more difficult than for refugees. Of the 26 million refugees, about half are children under the age of 18. Fewer than 1 in 3 refugees is in secondary school and only three percent will advance to higher education. Of the total costs of education, \$4.85 billion will be needed annually to achieve universal education for refugees. A full course of K-12 education is estimated to cost \$63 billion over the next decade.<sup>37</sup>*



### Connecting all schools and digital inclusion

Covid-19 has made the promises and challenges of using technology in learning more evident. The inequity in access to reliable internet connections and to equipment for learning at home, such as laptops, tablets and smartphones, has only underlined how it is necessary to connect all schools and communities to the Internet and close the digital divide. All young people need to be able to benefit from distance learning, supplemental classroom learning, and all of the promises of technology and open learning materials. Closing the digital divide will make technology a great uniter and equaliser, rather than a great divider that further exacerbates inequalities. Moreover, investing in connectivity will not only benefit education, but public health systems, commerce, and job creation.

#### The price tag: \$428 billion to connect every school

*Giga is a UNICEF-ITU global initiative to connect every school to the Internet and every young person to information, opportunity and choice. The costs estimated with universal connectivity are billed at \$428 billion for connecting every school to the Internet. In addition, another \$46 billion will be needed in additional investment costs between now and 2030 for complementary investments (e.g. content development, teacher training, devices, etc.).<sup>38</sup> But given the spill over benefits to the business sector, the impact on job creation, health workers, the investment could be leveraged through a unique public-private effort, including through the use of the International Finance Facility for Education, given its impact on learning (see below).*



### Special measures to support girls' education

Girls' education is a critical driver of health outcomes and economic growth. Each additional year of schooling helps a woman increase her wages by about 12%.<sup>39</sup> Educated mothers have healthier families. When a mother can read, her children are 50% more likely to live past the age of five, twice as likely to attend school, and 50% more likely to be immunised.<sup>40</sup> Some projections even show that educating girls could result in a massive reduction of 51.48 gigatons of carbon emissions of by 2050.<sup>41</sup>

#### The price tag: Fully funding education

*Girls account for about half of the school aged population, so any serious international endeavour in girls' education would need to have a plan to raise upwards of \$37 billion in external resources annually (e.g. half of the total financing gap for education), plus the costs of educating boys. The gender responsiveness aspects of education planning and interventions are well-documented by organisations like the UN Girls' Education Initiative and are more cost effective at educating girls and boys.<sup>42</sup>*



## Skills for the future

The pandemic has radically transformed the type of work that will be available to young people and underscored the soft, entrepreneurial, interpersonal, technical and resilience skills that will be necessary for young people to leave secondary education equipped to address the challenges of the 21st century and improve their communities.<sup>43</sup> Education systems will need to continue to evolve to remain relevant for the changing society and the opportunities for decent work and sustainable development. Increased partnerships between schools, the business community and public sector can help foster innovation and entrepreneurship in the next generation.<sup>44</sup>

### The price tag: \$60 billion in the poorest countries

*Preparing young people with relevant skills for their future livelihoods is the result of longer-term investments in equitable and inclusive quality education. By ensuring education is relevant to the lived experiences of young people and the demands of the Fourth Industrial Revolution throughout all aspect of learning, young people will be ready to fully engage in their civic, developmental and economic potential. The pre-pandemic costs of post-secondary education were estimated at an average of \$60 billion per year in low-income countries and \$598 billion per year in lower-middle income countries between 2015-2030.<sup>45</sup>*



## A strong teacher workforce

Teachers have been on the frontline of the pandemic, delivering education and adapting to a new reality. Teachers have been disproportionately impacted when calls for liveable wages, greater support and enhanced professional development were already a top priority. It is paramount that teachers and education personnel are prioritised in the recovery, safety and working conditions are improved, and additional resources are available to support digital literacy and new pedagogical training for online, offline and hybrid education models.

### The price tag: About 75% of education budgets

*Investing in the education workforce is a combination of reforms and wider efforts, which include attracting a sufficient number of teachers to the profession, supporting all individuals in the education workforce, providing support and professional development for teachers, identifying opportunities for workforce improvements, improving the effectiveness of workforce investments, including through equitable financing, among others.<sup>46</sup> About 69 million new teachers were projected to be needed between 2015-2030 to achieve SDG 4; the cost of teachers is often the majority of education budgets and is embedded in the estimates throughout the report.<sup>47</sup> The proportion of education spending for salaries averages at 75 per cent of the total (ranging from 45 to 95 per cent based on the country).<sup>48</sup>*

# Part 4

## Understanding the financial architecture and big picture

The international community has a diverse set of organisations and tools to support countries' aspirations to deliver universal education. **Each organisation has a unique advantage, and all deserve support in the post Covid-19 recovery effort.**<sup>49</sup>

Each organisation has a unique advantage, and all deserve support in the post Covid-19 recovery effort. This section will provide an overview of the types of organisations to help donors understand how the financial architecture is structured and where innovative financing can contribute to education finance.

For those wanting to learn more, the playbook is accompanied by a *Supplemental Technical Guide for Donors*, a separate document providing a detailed review of nine multilateral organisations, including the largest education funders and organisations exclusively focused on education.

### How the global education architecture fits together

Many donor countries assume the global education architecture is difficult to understand because it consists of a number of organisations, agencies and funding mechanisms. In reality, those can be clearly identified by their different roles, and based on a donor's preferences, it is possible to identify the best way to channel resources. By reaching a common understanding on the architecture, confusion and inefficiencies can be reduced.

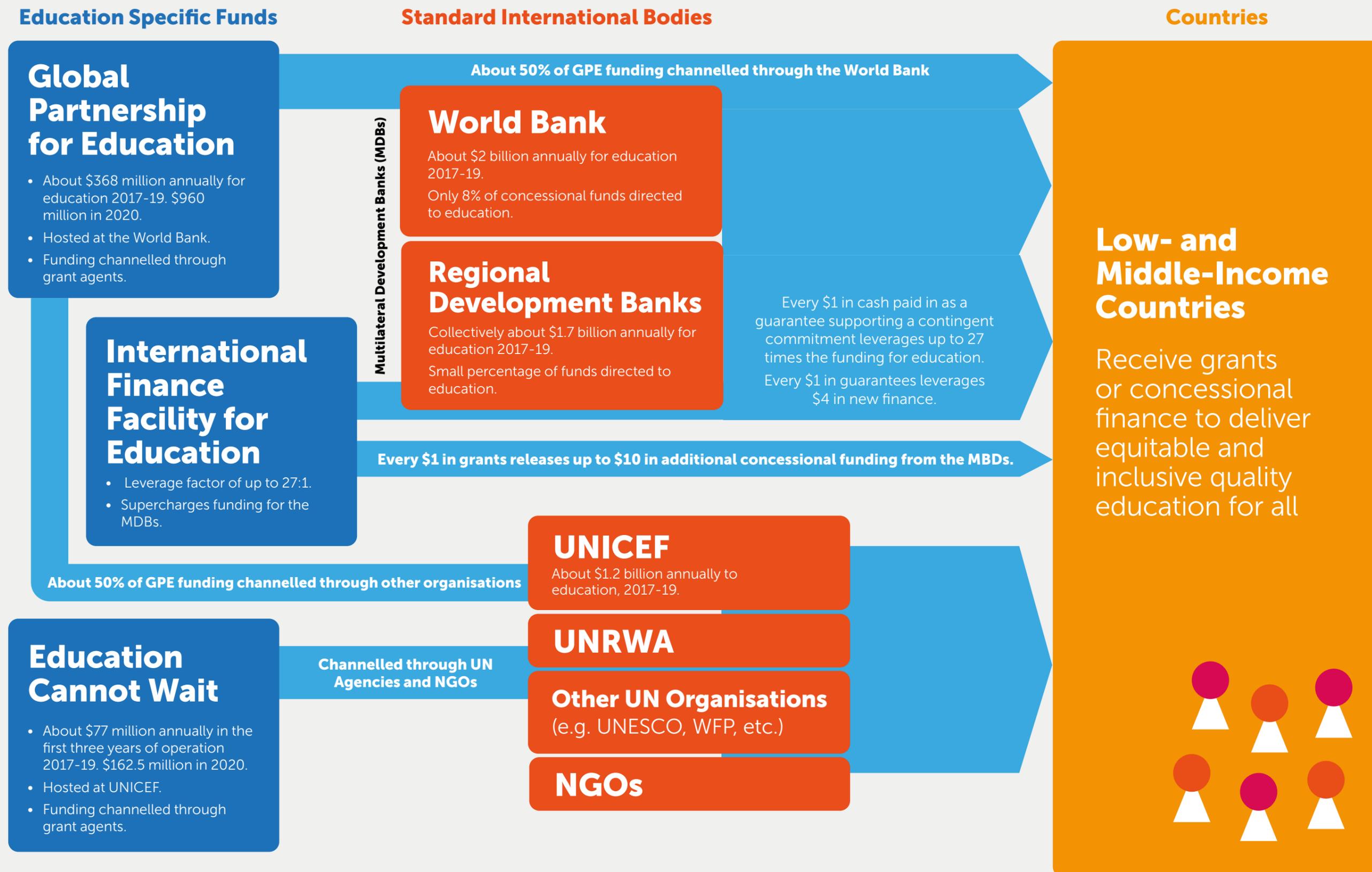
While many donors may choose to direct their funds bilaterally, either directly to governments or through NGOs, channelling funding through pooled mechanisms can often be more efficient.

There are two types of organisations that comprise the global education financial architecture:

- 1 Standard international bodies.** The majority of organisations in the global education financing architecture are the same as organisations working in multiple sectors (e.g., climate, health, nutrition, etc.); they are not exclusive to education. All of these entities serve as conduits for donors or global funds to channel their resources.
- 2 Education-specific funds.** There are three global organisations whose sole focus is to mobilise resources specifically for education and who use these resources to supercharge funding for the sector.\* These funds raise resources and direct them through existing institutions, each with unique advantages.

\*The education-specific funds selected for this paper and the Supplemental Technical Guide for Donors are documented as having raised or disbursed a minimum of \$100 million in one of the previous three years.

# How it works: Global Education Financing Architecture



Note: The EU Institutions contribute about 1.4B annually to education and channel their resources directly to countries or through the channels above.

## Standard international bodies

The main multilateral vehicles channelling resources to support education are: \*

### The World Bank and Regional Development Banks

The World Bank and Regional Development Banks (e.g. the Inter-American Development Bank, African Development Bank and Asian Development Bank) are examples of multilateral development banks (MDBs). Each bank uses its high credit rating to leverage resources from capital markets and provides grants to make these resources available at concessional rates to countries. The World Bank alone contributes over \$2 billion, on average, per year, making it the single largest donor to the sector.

The MDBs are highly efficient in their use of aid, but funding to these institutions cannot generally be earmarked for education. Contributing to the World Bank International Development Association (IDA) replenishment, the main way the World Bank raises money to distribute to lower-income countries, does not guarantee funding will be used to end the global education crisis. For instance, only 8% of funding from the World Bank IDA went to education over the past three years; the other 92% was directed to other development sectors. Similarly, only 4% of Asian Development Bank funding was directed to education.

### UN Agencies

Some UN agencies, like UNESCO, focus on global coordination as well as standard setting and planning support for countries. Other organisations, like UNICEF or UNHCR, coordinate international funding, serve as grant agents for global funds, and often direct funding to local organisations making a difference on the ground. UNICEF focuses on children while UNHCR focuses on refugees. UNRWA provides education to Palestinian refugees by directly delivering education services. The World Food Programme is often involved in funding school feeding programmes in countries. Each of these agencies has a specialised expertise. UNICEF is the largest agency funding education, averaging \$1.2 billion annually (22% of its overall funding).

### NGOs

NGOs operate at global, regional, national or local levels, or a combination. Some of the larger international NGOs coordinate funding from multiple donors to support education programs in countries or advocacy efforts. Many local NGOs operate in local communities and directly deliver programming.

\*The European Union pools resources from member countries and distributes them through the various channels. They are explored in greater detail in the Supplemental Technical Guide for Donors in terms of their use of funding for education but are treated as a bilateral donor in this example as they operate as a "donor" organisation in this context.

## Education-specific funds\*

There are three multilateral organisations whose sole purpose is to raise and disburse funding to education, to "supercharge" the system to prioritise education. After any overhead or administrative costs, 100% of the funding will go to education through these funding mechanisms. To reduce the transaction costs of each donor "going it alone", pooling resources through these funds decreases donor fragmentation at the country level. These funds are hosted in international organisations or multilateral development banks and pay management fees to their host institutions and to the grant managers receiving their disbursements.

### 1. The Global Partnership for Education

The Global Partnership for Education (GPE) supports governments in creating education sector plans and provides grants to support implementation. GPE channels funding to grant agents (e.g., the World Bank, UNICEF, etc.) which oversee the resources in collaboration with national governments for the implementation of funding.

GPE also directs a significant amount of its resources to organisations, other complementary activities, such as campaigning, research and evidence for education.

GPE is predominantly a grant-based funding mechanism which directs funding to the poorest countries, with about 55% of its funding going to low-income countries. The education sector plans developed with countries are the basis for how the funding is used.

These plans provide greater alignment and less fragmentation for governments and are also used by the other global funds. The World Bank channels about half of GPE's funding and the other portion is channelled through UN agencies and other organisations. Administrative costs are detailed in the Supplemental Technical Guide for Donors.

**Contribute to GPE:** the organisation is currently seeking \$5 billion over five years (2021-25).

\*All figures in this section are for the years reported 2017-2019 for standard comparison. Where 2020 data is available, it is detailed in the *Supplemental Technical Guide for Donors*. Notably, the Global Partnership for Education disbursements for 2020 are reported at three times the 2019 disbursement level due to a \$508 million Covid-19 response.

## 2. Education Cannot Wait

The Education Cannot Wait fund was established to provide rapid support to education when it is disrupted by crisis or emergency, and to support countries in building and funding multi-year plans to bridge back to longer-term development. ECW channels funding predominantly to UN agencies and NGOs working to fulfil its emergency response plans or multi-year plans.

ECW also directs resources to accelerate research and development of new solutions for education in emergencies.

ECW's grant-based funding is intended to be flexible to protect against shocks in the system to ensure education continues during emergencies and crisis. About 78% of funding goes to low-income countries. Administrative costs are detailed in the *Supplemental Technical Guide for Donors*.

**Contribute to ECW:** the organisation is seeking \$400 million for its central fund from 2021-23 to support education for children affected by crisis.

\*A paid in guarantee of \$1.35 billion would secure \$9 billion in contingent commitments from donor countries. This could mobilise approximately \$36 billion in finance, and \$3.6 billion in grants would make this funding available on concessional terms.

## 3. The International Finance Facility for Education

The International Finance Facility for Education (The Facility or IFFEd) is an independently registered organisation with ODA eligibility which aims to generate additional funding for education through innovative finance. The Facility has two sources of financial fire power: guarantees, which are made available to the World Bank and Regional Development Banks (the MDBs) and grants, which are made available to countries.

The funding is available through the MDBs for countries meeting set criteria (e.g. a strong strategy or sector plan to address the education crisis in the country, commitment to marginalised children, debt sustainability analysis, and commitment to domestic resource mobilisation, etc.)

The Facility "supercharges" education finance by making its guarantees available to the MDBs to leverage and generate new money for education (up to 27 times the amount paid into the facility); it provides grants to countries to make the funding available on a concessional basis. Administrative costs are recovered through its business model, allowing all funding to go to education.

While the bulk of the need is in lower-middle-income countries, there is a case to persuade IFFEd to also extend its funding to low-income countries given the impact of Covid-19.

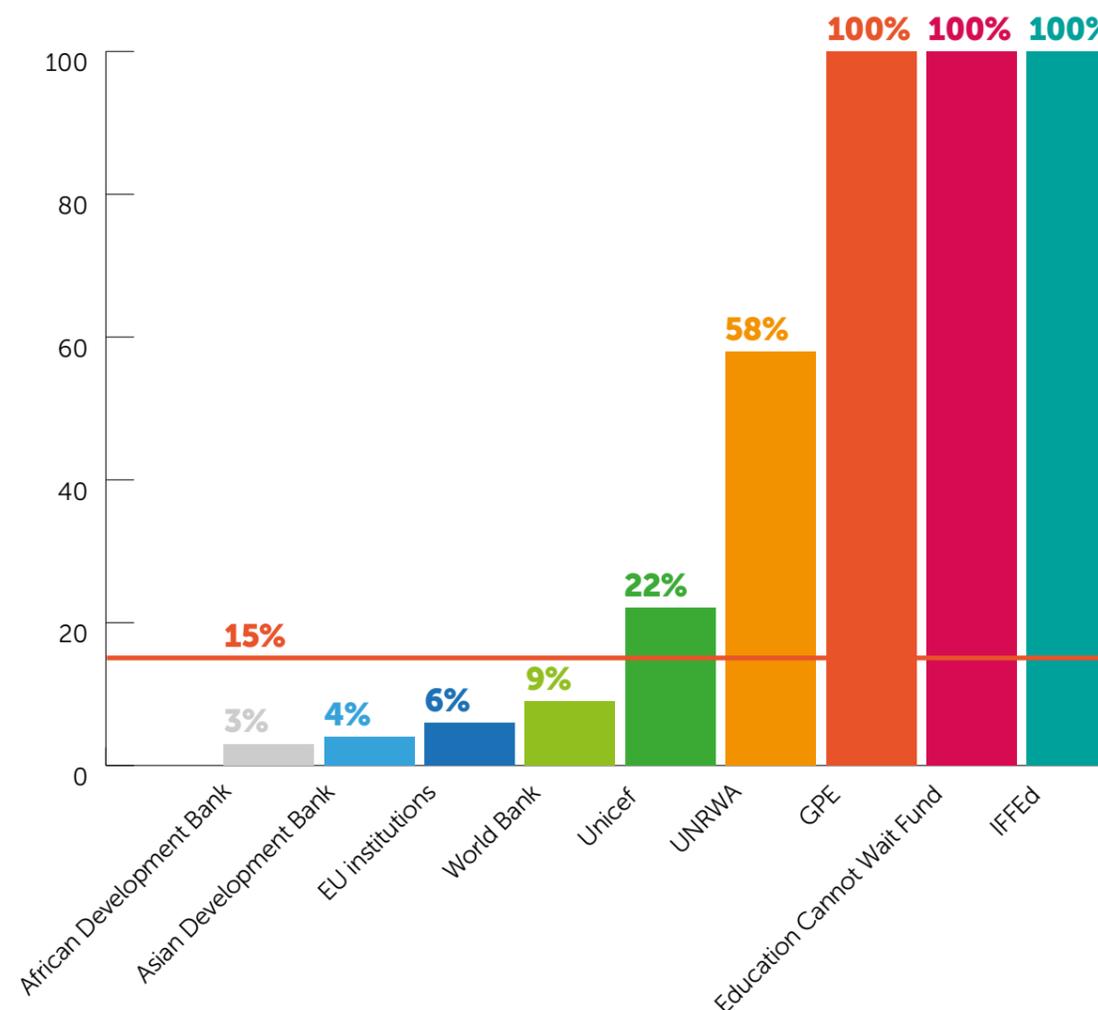
**Contribute to IFFEd:** join the UK and the Netherlands, who have already committed funding to make the Facility operational. If donors directed \$5 billion in grants and guarantee cash payments to the Facility, it could generate up to \$40 billion in new resources for education.\*

## How much goes to education?

Not all organisations in the education architecture direct the funding they receive to education. It is recommended that the standard international bodies direct at least 15% of their funding to education. The chart below shows how well the respective organisations perform. UNICEF and UNRWA are the only multilateral organisations exceeding the target.

Each organisation has a specific role in supporting countries. In the recovery phase of the pandemic, the availability of diverse financing sources must be as robust as possible to meet the needs of all countries.

With the multiple pathways to get money to countries and organisations in communities implementing education, not all of the funding goes directly to the ground. Administrative functions such as coordination, planning and management also require funding. See the *Education Finance Playbook Supplemental Technical Guide for Donors* for a comparative analysis providing additional information about how these organisations use funding to support education.



## Part 5

### A three-point plan to fund education



#### **Funding education for every single child on the planet by 2030 is attainable and practical during the pandemic recovery.**

But it will require a serious commitment that matches the scale of the crisis, a focus on investing in what works and on priority areas, and a realistic assessment of the price tag of funding this universal right.

The starting point is far below ideal. Countries are not mobilising enough resources and investing in education on the required scale and as effectively as necessary. The international community, while full of goodwill, is woefully short in its level of ambition, which is and not currently up to the challenge of Sustainable Development Goal 4, coming in at just one-fifth the total necessary. Considering the additional constraints on government budgets and donors, the only way to mobilise resources at the scale necessary is to embrace innovative finance alongside all of the existing financial tools.

**There are therefore three steps to mobilising sufficient funding to achieve the global goal for education:**

- 1** Governments do their part to mobilise domestic resources through equitable taxation and sufficiently resourced education budgets – and use the money effectively.
- 2** Donors and philanthropists step up and meet their funding commitments.
- 3** All stakeholders leverage finance through innovative means to greatly multiply the resources available to the education sector.

# 1

## Governments step up to provide maximum resources for education

Governments are the largest funders of education in their own countries, and ultimately have a duty to provide the opportunity to education for everyone. Governments in low- and middle-income countries will need to ensure education is part of all national recovery stimulus packages and protect education budgets: collectively governments in these countries will need to steadily move towards investing nearly \$3 trillion annually in their education systems if they wish to achieve SDG4.

The external financing gaps that we have identified take into account reductions in education finance due to lower GDP growth caused by the pandemic, but governments themselves first need to step up and maximise their domestic investment in education and ensure the funding is directed towards effective measures aimed at strengthening their public education systems and delivering results for children.

It has been internationally recognised that governments should strive towards the gold standard of reaching targets for public spending on education of at least 4-6% of GDP and 15-20% of public expenditure. Reaching investment levels of this magnitude will require some countries to take on bold revenue reforms to mobilise additional tax income through fair taxation, eliminate and enforce tax loopholes, including for corporations, and tackling corruption. Some projections show tax reforms, such as cracking down on tax avoidance, including closing corporate loopholes, could mobilise an additional \$100-200 billion annually in lower income countries.<sup>50</sup>

In addition, temporary moratoriums on debt repayments for lower income countries could help avoid economic fallout in the immediate aftermath of the pandemic, while restoring debt sustainability should be placed at the top of the international agenda to allow them to attract new future investment.<sup>51</sup>

Through all of these efforts, and by demonstrating that additional resource mobilisation has improved results for children, further confidence can be created which may attract educational investment from external sources.

# 2

## Raising \$75 billion annually: what donors can do

If the international community is serious about achieving Sustainable Development Goal 4 by 2030, the task ahead is clear. Even with the maximum effort of countries coupled with robust reforms, there will be a minimum education financing gap of \$75 billion per year over the next decade. Current aid, despite increasing 21% over the past decade, stood at a record high of \$16 billion just before the pandemic.<sup>53</sup> With the average annual need estimated at \$75 billion, then there is an incredible amount of work to do.

For donor governments, in the aftermath of the pandemic, aid to education should be maintained, and where possible expanded, to overcome the challenges the pandemic places on education. There are several initial benchmarks to strive towards:

- Gradually reaching a total annual development aid budget equal to 0.7% of gross national income. Currently it stands at 0.3% on average, and once-leaders like the UK have reduced their aid from 0.7% to 0.5%.
- Ensure that a minimum of 15% of all education aid is channelled to education; the current average is 10.8%.
- Shift aid to education so that two-thirds is channelled through multilateral institutions for greater efficiencies, as is commonplace in global health.

Prior to the pandemic, if these ambitious recommendations had been reached, a projected \$20 billion financing gap would have remained in 2030.<sup>54</sup> That gap is now even wider with the costs of the recovery and decreased budgets, making the case for innovative finance even more urgent (see next section).

The current methods of channelling aid result in less funding arriving in countries due to the normal and expected administrative and management costs associated with channelling large sums of money. The World Bank and the Regional Development Banks are the only mechanisms which leverage funding, but since they are unable to earmark funding for education, the majority of funding is used for other areas of development, as explained in Part 4. This is all explained in greater detail in Part 5 which provides an overview of the global education architecture.

Even as donors ramp up support for education following the pandemic, innovative finance will be necessary to leverage more funding into the sector. Otherwise, funding the global education goal of \$75 billion is simply unattainable.

# 3

## Raising \$75 billion annually: what innovative finance can do

Current aid levels are falling far short of the average annual need over the next 10 years to fund SDG 4 and will remain tens of billions of dollars short even under optimistic scenarios.<sup>55</sup> Totalling just \$16 billion of the \$75 billion needed, hoping for increased aid to fill the gap is unrealistic. Even in the absence of a pandemic and with optimistic forecasts of aid levels, if the above recommendations were followed, were still projected to leave the international community tens of billions of dollars short each year of the funding necessary for education. Without new ways of thinking, the situation will be even worse during the Covid recovery phase, relegating hundreds of millions of children to lives of poverty and limited potential.

The good news is that after two years of negotiations with governments and multilateral development banks, the International Finance Facility for Education is ready to open for business, to generate the resources necessary to fill its part of the gap.<sup>56</sup> Two countries – the United Kingdom and the Netherlands – have already committed pledges, and a few additional donors would rapidly tip the facility into operations mode.

The International Finance Facility for Education operates alongside the multilateral development banks and uses their strong credit ratings to mobilise large sums of finance from the capital markets – but then uses grant finance to reduce the terms of finance to concessional levels, like the World Bank does for the poorest countries. In doing so, it makes the most favourable terms available to countries prioritising education as a central pillar of economic and social development.<sup>57</sup>

The Facility has two functions which allow it to super-charge the capacity of development banks, like the World Bank, to create new pools of finance strictly dedicated to supporting a country's education plans.

Firstly, the Facility allows its guarantee base to be leveraged out to the banks to borrow from capital markets. The MDBs, because of their strong credit ratings, can borrow about \$4 for every \$1 held in guarantees. So, if the Facility had a guarantee base of \$5 billion, the banks could generate \$20 billion of new finance for countries to spend on education.

But it gets even better. Because the chance the guarantees will ever be called in reality is so low, donor countries with good credit ratings only need to contribute 15% of the guarantee base in cash. What does this mean? To underpin a \$5 billion guarantee base, donor countries only need to contribute \$750 million in cash, which raises \$20 billion from the capital markets – a 27-times return on their contribution.

The second function of the Facility is to make the new finance affordable by providing grants to countries alongside the finance to make it highly concessional (i.e. reduce the interest). Given low interest rates, only 10% of the funding is needed in grants to reduce the terms of funding to the equivalent of that provided to the poorest countries in the world by the World Bank (it's called IDA for those who follow development finance). In this example, to unlock the \$20 billion in finance so it is affordable to countries, the Facility would make \$2 billion in grants available to countries.

In the traditional aid model, making \$22 billion in impact would cost \$22 billion. But through innovative finance, it would only require the international community to contribute \$2.75 billion (\$750 million in cash payments guaranteeing contingent financing and \$2 billion in grants) for lower-income countries to gain access to \$22 billion for education.

The Facility also works through all existing organisations and processes. Countries would not have to interact with new or additional actors and could engage in the same sector planning and engagements with the World Bank or regional development banks. The Facility has one job: mobilise additional resources strictly dedicated to education.

The International Finance Facility for Education is the only option where if donors channel their resources, more funding – not less – is available for countries. The central administrative costs are covered by guarantee fees paid by the banks, making it the most efficient international institution for donors to channel aid.

At a time of global recession, all financial tools need to be available to countries to put together a financing package to meet their needs. No one is suggesting concessional financing is the right solution for all countries, especially those at high debt risk, the poorest countries where strict grant financing is the more appropriate solution, or in some cases of refugee education where host countries cannot be fully burdened with the costs. But at a time when all governments are dealing with revenue declines from the pandemic, it is a very good alternative to high-interest debt

or doing nothing for children. The grant component makes the Facility a very practical solution for many low-income and lower-middle-income countries.

From getting every school online and closing the digital divide, making a generational investment in girls, revamping support for the teacher workforce, making early childhood education universal in a country for the first time or ensuring no child goes hungry at school, the International Finance Facility for Education is the first tool of its kind which can make these major national reforms a possibility for countries.

**\$500** million → **\$885** million

**\$6.25** billion → **\$50** billion

### How innovative finance could transform education in a post-pandemic recovery:

#### Scenario 1: How an education donor country could make the same contributions to education as before but get hundreds of millions of dollars more impact.

Suppose a major donor country contributes \$500 million of its international aid to education every year. It typically distributes this funding through global funds, UN agencies, NGOs and bilateral aid to governments. Like most donors, the majority goes via bilateral aid but the donor decides it would be more efficient to go through a pooled funding mechanism.

Given the pandemic, the donor wants to get the maximum impact from its resources to help countries have access to financing for education, but it doesn't want to dramatically change its portfolio. While we always encourage a donor to produce additional funding, let's assume it decides to channel some of its bilateral funding through multilateral funds, while not choosing to increase aid.

This year, the donor government has decided to extend a \$100 million guarantee to the International Finance Facility for Education through its treasury, but given it is a AA-rated country, it only needs to make a contribution of \$15 million to secure the guarantee. The donor country also makes a \$40 million grant to the Facility.

It contributes the remaining \$445 million in grant funding to its typical grantees (e.g the global funds, NGOs and agencies, bilateral assistance), for a total disbursement of \$500 million in aid.

What's the result? The \$15 million guarantee paid into the Facility unlocked \$400 million of additional resources for education through the MDBs and was accompanied by its \$40 million grant to countries. This \$440 million in funding is accompanied by its remaining aid budget of \$445 million.

For the same \$500 million in aid, \$845 million was contributed to countries to fund education in the pandemic recovery because of directing some of the resources through innovative financing mechanisms.

#### Scenario 2: What would it take for donor countries to mobilise an additional \$50 billion for education?

Let's assume donor aid to education would continue to rise from \$16 billion to \$25 billion annually over the next several years.\* The international community would still be short an average of \$50 billion a year in external financing to allow countries to achieve their goal of universal education.

How much would be needed to generate an additional \$50 billion for education? The answer may surprise you. The Facility would need to have a guarantee base of \$11.35 billion, which would require \$1.7 billion in contributions from donors. This could in principle make it possible to raise \$45.45 billion from capital markets because of the multiplier effect, especially if more multilateral development banks joined the scheme (currently four MDBs are part of IFFEd). To reduce the burden of interest, donors would also need to contribute \$4.55 billion in grants to the Facility for countries.

In the end, donors would contribute \$6.25 billion and \$50 billion of new finance would be available to countries to fund education in the aftermath of the pandemic.

\*For context, pre-pandemic and pre-recession estimates by the Education Commission showed that if bilateral donors gradually moved towards investing 0.5% of GDP in aid and 15% was allocated to education, bilateral aid to the sector could reach \$35 billion by 2025 and \$55 billion by 2030.

**\$1 billion**  
↓  
**\$3.14 billion**

**\$1 billion**  
+ government contingent commitments and  
**\$2.6 billion** =  

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**\$29 billion**

**\$10 million** → **\$110 million**

**Scenario 3: How could a philanthropist transform the field of education finance in the aftermath of the pandemic?**

A philanthropist could be transformative in helping put the education of millions of the poorest children on track during the pandemic recovery phase. First, stepping up as the first major champion of large-scale innovative finance in education would inspire others to follow and gain international recognition. A philanthropist engaging in the Facility could focus globally, regionally, or on a specific country, aiding in finance to support education reforms.

Second, a philanthropist's greatest contribution can be the leveraging of resources for the greatest impact. And the Facility allows just that to take place.

The main difference for a philanthropist is that given that he or she is not a sovereign country with a credit rating, the guarantees need to be paid in full. But they still leverage the full impact in the commercial markets.

Suppose a philanthropist contributed \$715 million to the Facility's guarantee base, in turn, it would create nearly \$2.9 billion in financing for education. An additional grant of \$285 million could unlock this financing at concessional terms.

Therefore, a philanthropist contributing \$1 billion to the facility would unlock \$3.14 billion in education finance in a year – making it a larger contribution than most major UN agencies and organisations.

Through a public-private partnership, a philanthropist could maximise leverage. If a philanthropist worked with a donor country, he or she could provide the cash guarantee to support a government's contingent commitment (e.g. 15%), thus generating the 27-times return on the guarantee. The same \$1 billion in cash could underwrite a \$6.6 billion guarantee from governments, allowing the Facility to mobilise about \$26 billion in new resources for education. Governments could provide the \$2.6 billion in grants to make the finance concessional.

In this example of a public private partnership, \$1 billion in cash from a philanthropist and \$2.6 billion in cash from governments, could generate nearly \$29 billion in funding.

**Scenario 4: How could a group of companies revolutionise education in a country?**

Suppose a group of companies (who have not avoided their taxes!) came together in a lower-income country to make a philanthropic contribution to restart education post-pandemic. They have decided to support a major government priority – it could be a national effort around girls' education, safe schools, digital inclusion or making early childhood education universal.

Corporate leadership would add a new degree of positive engagement from the private sector in support of public education systems at the national level, encouraging more donor countries to come to the table and leverage their resources.

The companies collectively mobilise \$10 million to support national education efforts. The group has two choices: first, it could direct the \$10 million to support the education system. Or, the companies could leverage their financing through the Facility. If the companies directed their \$10 million through the Facility as a grant, it could come alongside \$100 million mobilised by the Facility and make it highly concessional (meaning, a much lower rate of interest than normal). The result: an influx of \$110 million to support the national government's efforts to accelerate education progress in the recovery phase.

In this example, a group of companies pulling together \$10 million could result in a \$110 million investment in education in a country's post-pandemic recovery efforts.

## Part 6 The Agenda for Action: Achieving major results over the next 24 months

**If universal education is truly the goal – education for girls, safe schools, digital inclusion, early childhood education, adequate school meals, supporting children with disabilities and fostering youth skills – than the international community must come to terms with reality.**

Even if countries fully mobilise their own resources for education, there will be a minimum of \$75 billion shortfall annually over the next 10 years. Current international commitment is roughly 20% of what will be needed.

Covid-19 requires a doubling-down on investment in education to ensure children and young people make it back to the classroom and that education is even better than before. The pandemic has created a unique opportunity to think outside the box and create the momentum and investment needed in education.

### Here's what needs to happen:

- **Countries** need to make education a domestic priority.
- **Donors** should step to the plate and meet rhetoric with action.
- **Civil society** should support all actors in the global education architecture. A collaborative spirit must prevail, recognising that everyone has their place and will be needed to achieve SDG 4.
- **Philanthropists** should make bold commitments to supercharge education in the recovery from Covid-19.
- **Companies** should find ways to leverage their assets to champion education - working with the Global Business Coalition for Education's Business Investment for Education Impact tools and resources is a great place to start. Companies should also ensure they do not avoid taxes or exploit young people through their core business.

# The timeline for action

## June 2021

- The G7 needs to commit to a comprehensive global recovery package which prioritises education, including for girls, and calls on countries to provide broad support and endorsement to all of the actors in the global education aid architecture to support countries. Lower income countries should have access to all financial tools at their disposal from the international community.
- Donors prepare their commitments for GPE replenishment conference.
- The UK should reaffirm its commitment to the International Finance Facility for Education as a tool to advance girls' education. MDBs should commit to immediately finalise arrangements; countries who are not contributors should seek approval through the treasuries to provide guarantees. G7 leaders commit an initial \$1 billion in innovative finance, helping generate more than \$25 billion in new funding for girls' and boys' education around the world.

## July 2021

- The Global Partnership for Education should be fully replenished at \$5 billion to help support education for millions of children.
- Lower-income countries make pledges to prioritise education in the recovery phase and meet minimum domestic resource mobilisation targets.
- Donors and countries commit to directing 10% of education funding to the early years to ensure more children have the best start in life.

## September 2021

- At the UN General Assembly substantial pledges should be made to Education Cannot Wait to support refugee education, providing full confidence to refugee children around the world that they too can have a first day of school this year.
- Additional donors should come forward with support for the Facility.

# The timeline for action

## October 2021

- The G20 harnesses additional commitments and countries come forward with additional pledges to support education.

## December 2021

- At RewirEd Expo 2021, under UAE leadership, pledges are made to the International Finance Facility for Education and its first recipient countries are announced.
- Philanthropists and the private sector mobilise around common areas of interest through public-private partnerships for education.
- All multilateral organisations receive support for education as a result of donor countries stepping up and philanthropists and companies finding more effective ways to channel resources to education.

## April 2022

- Announcements of progress made at IMF-World Bank Spring Meetings.
- Countries continue to move towards agreed targets and continue to undertake tax reforms to raise additional resources.
- Donor countries continue to move towards agreed targets.

## September 2022

- All major global funds for education have reached pledging targets and operate with the confidence necessary to support countries.
- Results of the initial phase of the pandemic's economic recovery efforts start to demonstrate widespread results, instilling confidence in countries to continue to invest and reform education systems, and in donors to continue to sustain increased support to end the global education crisis and unleash the potential of the next generation.

# Annexes

## Annex 1 What we're reading

There are several major reports which provide additional insights and technical details into the global education crisis and the path forward.

- **2020 Global Education Meeting Declaration**, convened by UNESCO, provides a way forward for education agreed by governments and international organisations.
- **COVID-19: Missing more than a classroom. The impact of school closures on children's nutrition**, by the World Food Programme and UNICEF.
- **Education Finance Watch 2021**, a publication of the World Bank and the UNESCO Global Education Monitoring report.
- **Policy Brief: Education during COVID-19 and beyond**, issued by the United Nations.
- **Reimagine education – Summary Case for Investment 2020**, examines digital learning solutions, produced by Giga, UNICEF and Generation Unlimited.
- **Save Our Education: Protect every child's right to learn in the COVID-19 response and recovery**, by Save the Children.
- **Save Our Future White Paper**, issued by a coalition of ten large multilateral organisations coordinated by the Education Commission; provides details into the post-pandemic plan for global education.
- **Spending Better for Gender Equality in Education**, a report by UNGEI on how to make education funding more effective for girls.
- **Transforming the Education Workforce**, by the Education Commission, offers new visions for strengthening, diversifying and reimagining the education workforce.

## Annex 2

### How did we estimate the global education financing gap?

There are various estimates about the amount of funding needed to finance education around the world. Many of the estimates use slightly different methods for calculating domestic spending on education, projected levels of future government spending, household expenditure and external resources. The uncertainty of Covid-19's impact on education financing has also complicated the various projections.

For illustrative purposes, Theirworld estimates the average education external financing gap at a minimum of \$75 billion annually over the next decade. The estimate is not precise, but provides insight into the scale of the crisis at hand.

#### Here is how we arrive at this estimate:

- Annual global spending on education was about \$4.7 trillion in 2019, of which roughly \$3 trillion was spent on education in high-income countries and \$1.7 trillion was spent in low-and-middle income countries.<sup>58</sup>
- For the lower-income countries, where the majority of out-of-school children and those living in poverty reside, some estimates suggested that the \$1.7 trillion figure would need to reach \$3 trillion annually by 2030 to come within striking distance of the Sustainable Development Goal of education for all.<sup>59</sup>
- Putting these large numbers in terms of children, the cost of primary education, on average, is projected to reach about \$368 per student in a low-income country, and \$605 per student in a lower-middle-income country, by 2030.<sup>60</sup>
- Education funding was already falling short of the SDGs before Covid-19. Even if governments maximised their domestic resources for education in their countries, low-income and lower-middle income countries still faced significant gaps which kept millions of children locked out of education. This is called the "external financing gap" – the total amount needed to fund education from external resources – aid donors, international agencies and philanthropists – to bridge the funding shortfall to get every child into school.

- Before Covid-19, about \$440 billion was the projected education external financing gap over the next 10 years until 2030.<sup>61</sup> Pre-pandemic, the necessary external financing for education was about \$16 billion in low-and-middle income countries. It would need to rise to \$89 billion by 2030, to put countries on track for achieving the Sustainable Development Goals. This was averaged at \$44 billion per year across the fifteen-year SDG period.
- The pandemic has set countries and children even further behind because of a two-fold impact: first, lower-income countries will have decreased growth, impacting domestic resource mobilisation. And second, the cost of rebuilding education is more expensive given the impact of Covid-19.
- Based on the available estimates from UNESCO, there will be an additional \$325 billion shortfall to fund education for all because of the pandemic.<sup>62</sup> The shortfall is comprised of \$120 billion in decreased domestic budgets due to Covid-19 and the \$205 billion in additional financing needed to fund education given Covid-19's impact.<sup>63</sup>
- Our estimate combines the \$440 billion (pre-pandemic) with the \$325 billion additional shortfall (post-pandemic) to arrive at \$765 billion over the next decade, averaged over ten years is \$76.5 billion, which we have rounded down to \$75 billion.

## Annex 3

### If there is a debt crisis, can countries still borrow money?

There is a looming debt crisis for many countries, especially those with crippling commercial debt, unguaranteed debt, or high interest rates, which makes investing in social services like education difficult. The issue is moving quite rapidly and there are shifting dynamics because of the Covid-19 crisis.

Some of the most advanced economies have borrowed trillions in the aftermath of the pandemic to keep afloat. Forcing austerity on the poorest countries, or forbidding financing of education through concessional terms, seems both illogical and inhumane, given they have immediate needs for social investment, and many have lower debt-to-income ratios than advanced economies.

There is a very helpful debt sustainability policy brief which provides additional details for those wishing to learn more.<sup>64</sup>

#### **Here are some helpful guidelines for understanding the issue of using concessional finance to increase funding for education and incentivise domestic resource mobilisation:**

- There are a handful of countries who should not rely on any debt-based financing, given their income level or threats to debt sustainability. That's where grants are even more important for the funding of education.
- Many of the countries in debt distress are low-income countries, not lower-middle income countries.
- Most of the debt issues in lower-income countries are the result of commercial debt, high interest debt or debt that is not guaranteed. Some have suggested that debt restructuring should include replacing other types of debt with financing from the multilateral development banks, which is more long-term and cheaper.

- At the end of 2018, lower-middle income countries had an outstanding external debt of close to \$1.66 trillion and at the aggregate level, traditional multilateral creditors have not been a significant source of the recent expansion of the debt burden in developing countries.
- At this level of aggregation, the use of the International Finance Facility for Education would reflect only a minimal level of additional debt (if the Facility backstopped \$4 billion in additional multilateral debt, it would only represent an increase of about 0.24% of LMICs' total debt stock).<sup>65</sup>
- For any finance through the MDBs, there are processes in place to evaluate debt on a case-by-case basis, which will remain under review. Under the current structures, there is no risk of placing undue debt burden on countries wishing to invest in education using the Facility given these safeguards.
- During crises, the use of concessional finance, if invested well, can help countries get out of a crisis situation and promote longer-term sustainable growth and positive social outcomes.

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