



Innovative Financing Instruments for Development in the Education Sector

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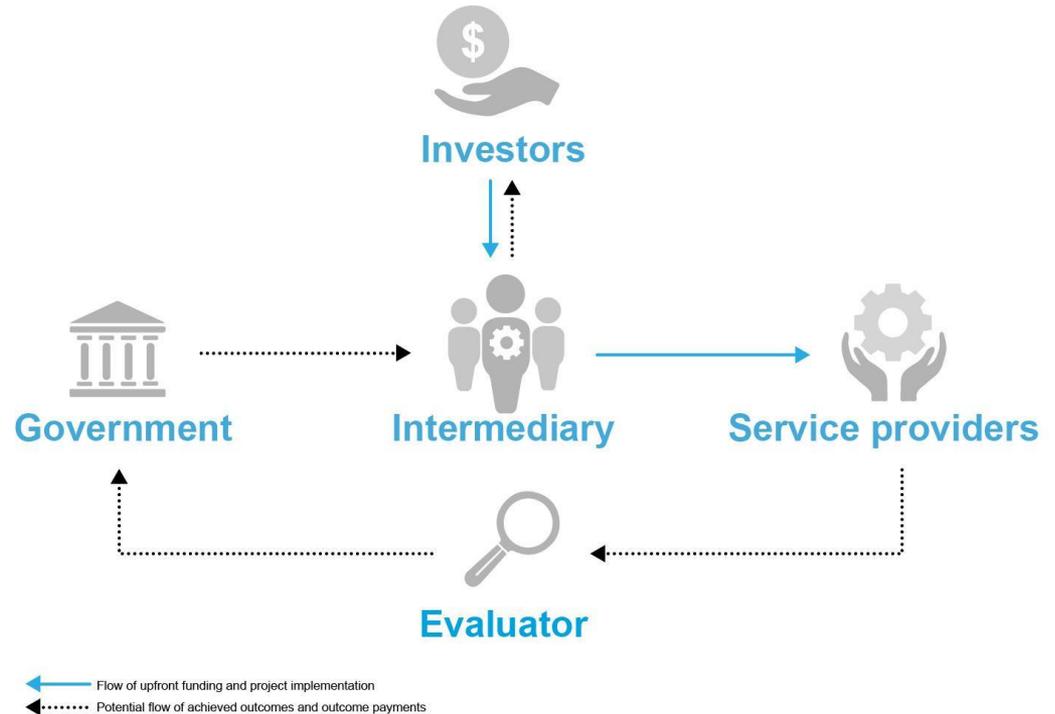


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Pay-for-Success (PFS) Financing

Pay-for-Success Models are innovative financing mechanisms that allow for the public and private sector to collaboratively bridge social gaps. PFS models promote:

- Cross-sector collaboration and the formation of **Public-Private-Partnerships (PPPs)**.
- **Innovation and efficiency** in service delivery.
- The use of **results-based financing** to maximize and scale social impact.



PFS Model Variations

Social Impact Bonds (SIBs)

Private investor pays upfront, **government** pays for the outcomes.

Benefits

Allows for the use of **Public-Private-Partnerships (PPPs)** to close gaps in social service provision using evidence-based interventions.

Create efficiencies and reduce costs by shifting the focus from **inputs to outcomes**.

Development Impact Bonds (DIBs)

Private investor pays upfront, **third-party donor** pays for the outcomes.

Benefits

Risk is borne by the private and philanthropic sector and not the government.

Provides a more **flexible framework**, allowing for innovation and creativity to achieve better outcomes for beneficiaries and benefit partners.

Social Impact Guarantees (SIGs)

Government pays upfront, **private investor** repays only if the outcomes are not met.

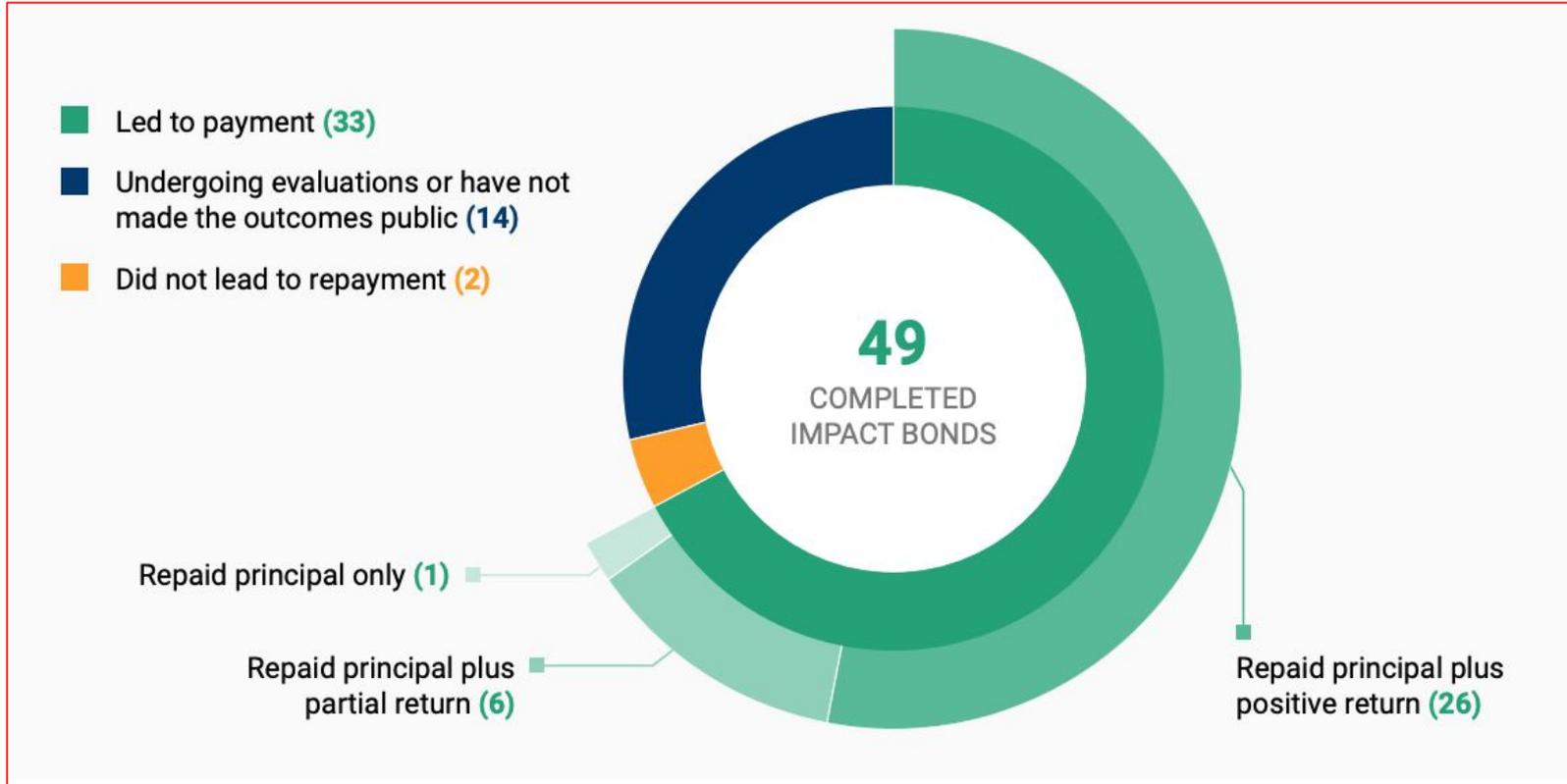
Benefits

Provides another **level of security** for a government to 'guarantee' outcomes, especially if they are hesitant.

Reduces **"double capitalization"** that exists in SIBs, as the government has to earmark funds in advance for any project.

Government pays only for pre-agreed upon outcomes achieved.

The Success of PFS Models



Source: Brookings Global Impact Bond Database, July 2020.

The Impact of PFS in Education: India

Educate Girls DIB

2015 - 2018

- The **world's first** DIB in education.
- **Partners:** Educate Girls (service provider), IDInsight (evaluator), UBS Optimus Foundation (upfront investor), Children's Investment Fund Foundation (outcome payer).
- UBS provided working capital totaling **\$270,000**, with an outcome fund of **\$422,000**.
- Enrolled more than **837 out-of-school girls** aged 7-14, and improved learning outcomes for over **7,000 children** from grades 3-5 in public schools in Rajasthan.

Quality Education India DIB

2018 - 2022

- Aims to improve the learning outcomes of **200,000+ primary school children**.
- **Partners:** Gyan Shala, Kaivalya, and Mindspark (service providers), Gray Matters India (evaluator). UBS Optimus Foundation (upfront investor), British Asian Trust (convener), Michael & Susan Dell Foundation (outcome payer).
- Outcome fund of **\$11 million**.
- Participating children are learning at **2x the pace** of other students.

Haryana Early Literacy Outcomes DIB

2020 - 2022

- The **First Development Impact Bond** to use CSR budgets in India.
- **Partners:** IndusInd Bank & SBI Capital Markets (outcome payers), Central Square Foundation (risk guarantor), Language and Learning Foundation (service provider), Educational Initiatives (evaluator).
- Approximately **\$2.3 million** committed.
- Programme expanded to 7 districts and will cover **3,330 schools and 115,000 students** in grades 1 & 2.

The Impact of PFS in Education: Global

Inclusive Youth Employment Bond (South Africa)

2018 - 2020

- The **first Social Impact Bond (SIB)** in South Africa.
- **Partners:** Harambee Academy, (service provider), Government and third-party donors (outcomes payers), private philanthropists (upfront investors).
- Achieved its target outcomes early, and placed **600 young people** into jobs.
- The program was able to expand and scale after the first year, and will reach an additional **5,400 young people**.
- **\$22 million** in outcome payments committed.

Singapore Social Impact Guarantee (Singapore)

Estimated Start: May 2021

- The world's first **Social Impact Guarantee (SIG)**.
- **Partners:** Tri Sector Associates (guarantor), YMCA (service provider), and a private philanthropist (funder).
- Features a Vocational and Soft Skills programme to respond to the **40,000 youth** unemployed in Singapore in 2019.

Language Proficiency PFS (Hong Kong)

2020 - Present

- Hong Kong's **first PFS Project**.
- **Partners:** Tri-Sector Associates, Hong Kong Council of Social Services (consultant), Oxfam (service provider), Hong Kong government (outcomes funder), venture philanthropists (upfront funders).
- An early education project that aims to **close the Chinese language proficiency gap** for poor ethnic minorities.
- Up to **SG\$5.2M** of government funding committed.

Key PFS Challenges

01

High **transaction and administrative costs** associated with setting up the vehicle.

- In some cases the transaction costs can be as high as 7 to 10 percent.
- Contracting costs are often borne by philanthropic contributions.

02

Costly Monitoring and Evaluation Mechanisms.

- Evaluation is at the heart of the PFS structure, but this is often costly and time-intensive.
- It is important that the evaluation is transparent for all stakeholders.

03

Selection of **metrics, target populations, and program providers** to deliver the program.

- Metrics need to be few in number, outcomes-focused, measurable, informed by evidence, and realistic within a given time horizon.

04

Acquiring **sufficient and robust data** to measure outcomes.

- Gaps in data availability and infrastructure impact the ability of governments to fully examine service utilization and costs.

How Innovative Finance Can further ICT in Education

Bridge the Digital Divide

- Innovative financing can provide the necessary funding for **underserved children** to access technology.
- This is especially important amidst COVID-19, as ICT solutions can help children learn remotely.
- Example: Technology use in the **Haryana Early Literacy Outcomes DIB** to aid home-based learning.

Improve Learning Outcomes

- Investment into ICT can foster the use of Edtech and digital tools allow for **superior learning outcomes** through personalizing instruction, engaging students, managing classrooms, and aligning learning with future jobs and careers.
- ICT can also help in the **evaluation of learning outcomes** for impact bonds.
- Example: Use of Mindspark in the **Quality Education Bond**.

Expand Population Reach

- **Public-Private-Partnerships (PPPs)** between governments, private sector investors, and ICT/EdTech providers can scale educational programs to reach more students.
- Impact bonds not only yield more combinations and innovations in services provided, but more services provided to **new groups of beneficiaries** .

Fostering the Blended Finance Ecosystem in the Pacific Islands

Implement PFS Knowledge Hubs

PFS hubs can provide a platform for stakeholders to share expertise and best practices in order to reduce costs of structuring financing models, **fostering the overall efficiency and uptake of SIBs in the Pacific context.**

Experienced DIB funders (such as the UBS Optimus Foundation) can reduce the time needed to structure recent DIBs by **replicating existing frameworks** and sharing insights from previous **previous experience.**

Foster Public-Private-Partnerships (PPPs)

PPPs in ICT for education have the potential to leverage **finance, technical expertise, and e-learning resources** from the private sector using blended finance. Policies might include CSR initiatives, and a clear institutional framework.

Partnerships with local telecommunication operators, technology companies (e.g. Microsoft, Intel), foundations, and government ministries can leverage innovative technology and capital to expand ICT infrastructure and EdTech.

Create an Enabling Legal and Regulatory Environment

A conducive ecosystem requires also an **enabling regulatory framework and policies** that facilitate multi-sector partnerships and investment, which contributes to a more robust innovative financing ecosystem.

Governments in the Pacific Islands may propose legislation to facilitate the uptake of PFS structures, for example by ensuring there are the appropriate legal conditions for public expenditures to support SIBs.

THANK YOU FOR LISTENING

IF YOU HAVE ANY FURTHER QUESTIONS FOR THE SPEAKERS, PLEASE SEND
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