UNESCO
United Nations
Educational, Scientific and
Cultural Organization

Bangkok Office
Asia and Pacific Regional Bureau
for Education

Innovative Financing

FOR OUT-OF-SCHOOL CHILDREN AND YOUTH

(2nd Edition)

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What is Innovative Financing?

Innovative financing refers to a range of non-traditional mechanisms, which aim to raise additional funds for development aid through "innovative" projects such as micro-contributions, taxes, public-private partnerships and market-based financial transactions. For the purposes of this report, the definition of "innovative financing" as proposed by the World Bank Group (WBG) will be utilized. The WBG specifies that innovative financing includes those financial approaches that help to generate additional development funds, with the purpose of enhancing the efficiency of financial flows and making such financial flows more results-oriented.

There are two distinct dimensions of innovative financing: the source of capital and the deployment of capital. Thus, innovative financing practices aim to both mobilize resources and increase the effectiveness and efficiency of financial flows. Therefore, innovative financing ultimately aims to address social, environmental, and developmental challenges globally.

At this time, funding from innovative financing instruments remains minimal when compared to other traditional funding sources, such as official development assistance and private-capital flows. Thus, this report asserts that there is great untapped potential with innovative financing that should be explored.

Source: *Innovative Finance for Development Solutions, Initiatives of the World Bank Group; Innovative Financing for Development: Scalable Business Models that Produce Economic, Social, and Environmental Outcomes (September 2014)*

Why Innovative Financing?

Flexible Learning Strategies (FLS) is an umbrella term for the provision of adaptable, systematic and rights-based educational interventions. These strategies adapt to context-specific barriers and sensitivities often overlooked in traditional systems by acknowledging the range of circumstances and needs of out-of-school children. Thus, flexible learning strategies are effective in equipping out-of-school children with foundational literacy and numeracy skills, as well as life competencies for the 21st century.

Despite government commitments to Education for All (EFA) and the Millennium Development Goals (MDGs) to improve access to education, more than 18 million primary-aged children remain out of school in the Asia-Pacific region (UNESCO, 2014). Given the impact of education on individuals, societies and economies, there is an urgent need for governments to provide alternative interventions for these children to receive basic education outside of conventional school systems.

However, despite the strong potential to achieve EFA goals, the disconcerting reality is that education programmes for disadvantaged children have been chronically underfunded across the Asia-Pacific region. Underfunding stems from a range of causes, including non- formal education's poor public image; decreasing foreign aid to education; and the tendency of governments to prioritise other sub-sectors that are perceived to be more important, such as formal education (e.g., primary and higher education). Yet, with the swelling numbers of out-of-school children in the region and the EFA agenda still unmet, there is a need now more than ever to ensure increased, sustainable and stable financing for education for out-of-school children.

the leading Group (2010) proposes three key features of innovative financing:

1. It is linked to global public goods such as eliminating diseases or reducing climate change and therefore requires a global intervention.

2. It is complementary and additional to traditional official development assistance (ODA). It may help to improve the quality of existing aid but innovative financing can never replace the quantity.

3. It is more stable and predictable than traditional ODA.

How to innovate financing?

Country Ownership

Country-level ownership over innovative financing is vital to ensure successful results over the long term. Country ownership involves much more than country-devised project proposals. It involves meaningful stakeholder engagement in the governance structures of innovative financing initiatives. It involves alignment behind countries' nationally devised education strategies and plans, including much greater use of direct budget and/or sector-wide support by innovative initiatives.

Capacity Development

Development results can only be sustained and improved over time where local capacities are strengthened. Innovative financing must, therefore, balance 'quick wins' with long-term capacity development goals and recognize that short-term initiatives may be more suitable to certain types of interventions (e.g., humanitarian action).

Complementarity

As innovative financing schemes expand and diversify, it will be vital to ensure the complementarity and effective coordination among different initiatives. There is a concern that too many new structures created in order to deliver innovative sources of education financing will only reduce overall effectiveness of delivery. Thus, ensuring the complementarity of programmes is crucial.

Additionality

More clarity is needed on how innovative financing should be 'counted' to reduce substitution risks and 'double-counting'. Although many forms of external finance have dual development and education objectives, they need to be counted and assessed separately next to different international commitments, such as the UN target of 0.7 percent ODA as a percent of GNI and SDG 4: ensure inclusive and equitable quality education and promote life-long learning opportunities for all.

Predictability

Innovative financing programmes should deliver predictable finance so as to ensure maximum aid effectiveness. Multiple mechanisms will tend to generate more revenues in good economic times compared to bad. In other words, the mechanisms will be procyclical, or grow simultaneously with the economy. Thus it may be useful to consider ways in which some instruments could deliver resources in a countercyclical setting (i.e., when mechanisms move in the opposite direction of the overall state of an economy).

Adapted from UNDP Discussion Paper: Innovative Financing for Development: A New Model for Development Finance? 2012

4 Types of Innovative Financing Practices

Taxes, dues or other obligatory charges on globalised activities	**Voluntary solidarity contributions**	**Frontloading** (Buy now, pay later) **and debt-based** (converting existing debt) **instruments**	**State guaranteed, public-private incentives, insurance and other market-based mechanisms**

Examples:

MANDATORY DUES: CORPORATE SOCIAL RESPONSIBILITY (CSR) *Ref:* Practice 1	IKEA SOFT TOYS CAMPAIGN (Blended Scheme, Independent Body) *Ref:* Practice 6	IMPACT BONDS: EDUCATION IMPACT BOND *Ref:* Practice 4	ADVANCED MARKET COMMITMENT (AMC) *Ref:* Practice 10
AIR TICKET LEVY *Ref:* Practice 12	(PRODUCT)RED (Blended Scheme, Larger Scale, Pool Funding) *Ref:* Practice 9	FRONT LOADING: (BUY NOW, PAY LATER) IFFIm *Ref:* Practice 11	
EXCISE TAX: ALCOHOL, TOBACCO AND LOTTERIES *Ref:* Practice 3(A)&(B)		DEBT SWAPS: DEBT-FOR-EDUCATION *Ref:* Practice 5	
VALUE ADDED TAX (VAT) *Ref:* Practice 8		DIASPORA BONDS *Ref:* Practice 7	
EXTRACTIVE INDUSTRIES TAX: OIL LEVY *Ref:* Practice 2			

Adapted from UNDP Discussion Paper: *Innovative Financing for Development: A New Model for Development Finance? 2012*

PRACTICE 1: MANDATORY DUES - CORPORATE SOCIAL RESPONSIBILITY (CSR)

CASE: COMPANIES ACT, 2013

LOCATION: INDIA (*Came into effect for most companies in April 2013)

ACTORS: Government, Enterprises, Separate CSR Committee, External Revenue Committee

THE CONCEPT:

CSR Mandate: Requires companies with a minimum net worth of rupees 500 Crore (US$81M) and turnover of up to 1000 Crore (US$163M) to invest 2% of their three-year annual average net profit to corporate social responsibility. CSR commitment initiatives are to be carried out in "project/programme" mode, with one-off events not qualifying.

Several areas for social investment are identified, and priorities are determined to address educational challenges. Target 2 of the Companies Act emphasises the need for initiatives to promote different segments of education, including special education and programmes which enhance vocational skills for all ages, as well as the need to conduct other livelihood enhancement projects.

Source: *Guidelines on Corporate Social Responsibility and Sustainability for Central Public Sector Enterprises; Handbook on Corporate Social Responsibility in India, 2013.*

"The simple idea is to take a microscopic contribution of solidarity on economic activities that benefit most from globalisation: mass tourism by plane, mobile phones, Internet, financial transactions and extractive resources." *Philippe Douste-Blazy, Chairman of UNITAID and U.N. Under Secretary General for Innovative Financing*

FACT: If 2% of the US$2 billion of companies' three-year average annual profit was applied to education in India, companies could enroll India's 17.8M out of school children (ages 5 – 13) into school. By using 0.14% of available CSR funds, companies could help enroll 50,000 girls in school. Only 16% of CSR funds would be required to enroll 100,000 children at risk of child labor all 28 states. And by spending 0.25% of available CSR funds, companies could lead the way and enroll 100,000 children with disabilities in school."
Source: *Global Business Coalition for Education, 2014*

PRACTICE 2: EXTRACTIVE INDUSTRIES TAXATION

CASE: CALIFORNIA'S OIL TAX BILL (SENATE BILL 1017)

LOCATION: CALIFORNIA

ACTORS: Government(s), Revenue Collector (Internal or Autonomous), Beneficiaries

THE CONCEPT:

With many countries having rich reserves of natural resources, a tax on extractive industries can result in a substantial contribution towards financing educational projects.

California is the fourth largest oil producer in the United States. The current proposal under revision in California aims to earmark revenue (allocated through specific percentages) towards educational assistance and aid for vulnerable populations with the aim of 'planning for the future'. The bill is estimated to result in approximately US$2B per year, and stipulates a 9.5% extraction tax on the removal of oil or gas from the land or waters of California state.

FACT: A possible model for regional action can be taken from Philippe Douste-Blazy's proposal to African governments. The proposed development model is based on an extractive industries micro solidarity contribution (10 cents per barrel of oil) which will be started with Gabon, Equatorial Guinea, Angola, Nigeria and Cameroon.

Source: *Innovative Finance Foundation; Leading Group on Innovative Financing for Development*

PRACTICE 3(A): EXCISE TAX

CASE: LOTTERIES

LOCATION: GLOBAL (NATIONAL AND REGIONAL CASES)

ACTORS: Government or Private Lottery Operator, Earmarked Beneficiaries

THE CONCEPT:

With a generally stable and sustainable revenue and no debt generation, an excise tax relies on government action to direct a percentage of national lottery sales towards efforts that seek to provide a quality education for all.

NATIONAL EXAMPLES:

Philippines	Charity Sweepstakes (30%)	The Philippine Charity Sweepstakes (PCSO) allocates revenues by allotting 30% of its net sales to charity, 15% to operating expenses and 55% to the prize fund. The charity percentage assures its primary goal of maintaining sustainable and continuous assistance to the disadvantaged sectors of society. It continues to expand via additional games in order to maximise revenues in response to increasing aid commitments.
Viet Nam	Binh Duong Lottery	The Binh Duong Lottery directs a part of its revenue (including value added tax, consumption and corporate tax) to development. Some of this work involves increasing educational access, vocational training, intermediate schools and assisting with back-to-school resource preparation and support for all children.

FACT: Estimated annual revenue from lotteries:
1) government-operated US$2.9B (Thailand, 2006), US$230M (Philippines, 2006); and
2) company-operated US$4.6B (Singapore, 2009) and US$1.2 B (Malaysia Sports Toto, 2009).
Source: Policycures, Policy Brief 1: Lotteries

PRACTICE 3(B): EXCISE TAX

CASE: ALCOHOL AND TOBACCO (PRODUCT-SPECIFIC)

LOCATION: GLOBAL (NATIONAL AND REGIONAL CASES)

ACTORS: Government, Autonomous or Exicting Agency, Beneficiaries

THE CONCEPT:

Excise taxes on alcohol and tobacco, similar to lotteries, allows governments to pool a small percentage of national tobacco and/or alcohol taxes to support development. In this case, the funds provide a sustainable source of investment for quality education as well as provide additional opportunities for equitable aid.

NATIONAL EXAMPLES:

Thailand	Tobacco and Alcohol	The Thai Health Promotion Foundation Act (2001) mandated the establishment of the Thai Health Promotion Fund (an autonomous state agency). A 2% government imposed surcharge tax on alcohol and tobacco is directed to this fund. This generates approximately US$50-60M per year. Following the success of the Thai Health Promotion Foundation, the Quality Learning Foundation (QLF), was established to coordinate three core projects: 1) Quality teachers; 2) Assisting disadvantaged youth; and 3) Improving skills. QLF projects are funded by a 1.5% excise tax on tobacco and alcohol (averaging over US$93M per year).
India	Tobacco (varying by product type)	Government levies several different taxes on cigarette and bidi (beedi) production for various causes. Examples include: 1) Beedi Workers' Welfare Cess (BWWC) in 1976: Revenue went to a consolidated fund for welfare support such as education. 2) The National Calamity Contingent Duty (NCCD) in 2000 earmarked a calamity relief levy, and the funds were maintained by the Central Government. The levy was placed on all tobacco products with varying rates: 7% on bidis, 11-12% on cigarettes, 19% on hookah and gutkha.
South Korea	Alchol	The Education Tax in South Korea is an earmarked levy on alcohol as well as several other goods and industries, including the insurance and financial sectors. The aim is to raise revenues to improve educational quality. It is levied on the excise duty paid on alcohol, and depending on the type of beverage (wine/beer/liquor), the rate varies from 10% -30%.

***Source:** The Quality Learning Foundation: Origin and Activities; Innovative Financing from Tobacco Taxation for Health Promotion, WHO (2011); International Tax and Investment Center (2013): Are earmarked taxes on alcohol and tobacco a good idea? Evidence from Asia.*

FACT: All existing lotteries in Southeast Asia (assuming 30% of the total revenue is earmarked) could amount to over US$3B per year in a regional lottery. National lotteries (earmarking 30%) can raise US$80M-1.5B per year per country.
Source: Policycures, Policy Brief 1: Lotteries

PRACTICE 4: EDUCATION IMPACT BONDS (DEBT CONVERSION DEVELOPMENT BOND)

CASE: UBS OPTIMUS FOUNDATION AND CHILDREN'S INVESTMENT FOUNDATION: To improve the quality and attract new investment for girl's education.

LOCATION: GLOBAL

ACTORS: Creditor/Investor, Beneficiary/Service Provider and Outcome Fund (Pooled or Single Entity - Government or Donor), Targeted Programme in Education

THE CONCEPT (See Figure 1):

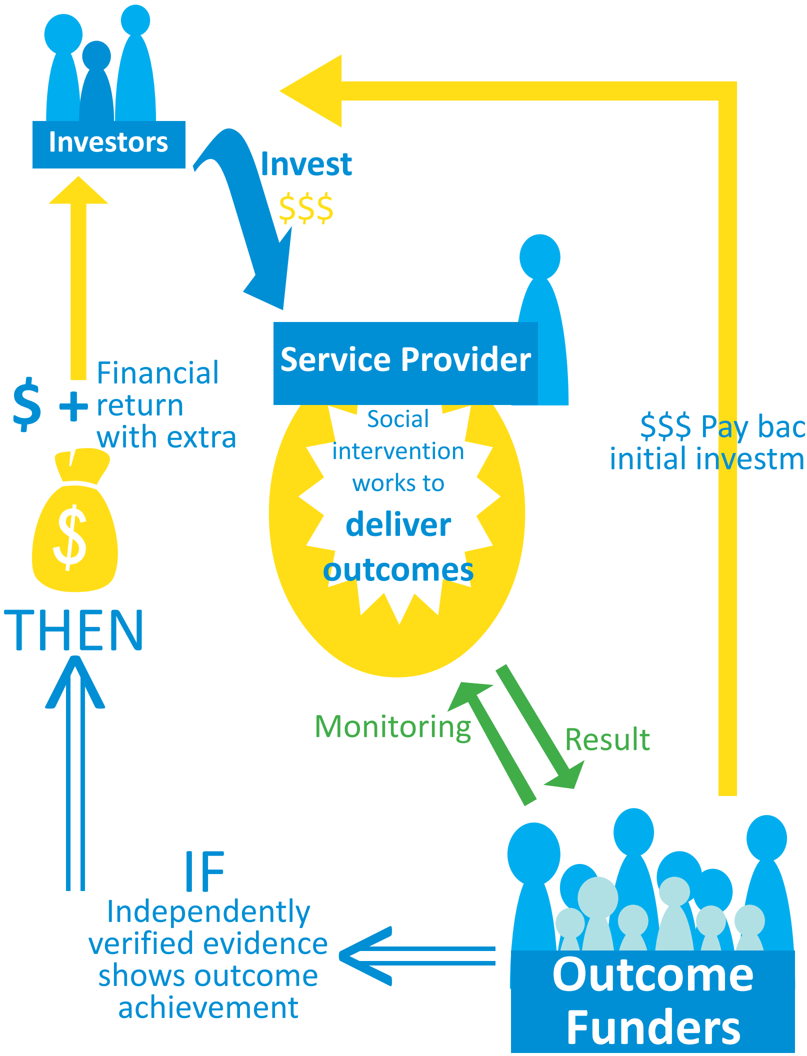
The Impact Bond provides a different source of targeted financing aimed at improving social outcomes. Investors will provide the initial external financing for the service provider. If the pre-agreed outcomes are achieved, investors receive their initial investment back.

This investment is often returned through a government or donor agency (outcome funders). Post-intervention, an external evaluator verifies the outcomes to determine its success level. This evaluation determines whether investors gain an additional return on their investment.

Source: *Press Release UBS Foundation 2014 : http://www.ubs.com/global/enwealth_management/optimusfoundation.html, Center for Global Development {CDG} (2013). Investing in Social Outcomes: Development Impact Bonds*

"Development Impact Bonds (DIBs) are a financial instrument that can bridge the gap between investors and opportunities, and between financial returns and social benefits"
Source: *Center for CDG, 2013*

Figure 1: Education Impact Bond



Adapted from Investing in Social Outcomes: *Development Impact Bonds: The Report of the development Impact Bond Working group (CGD: Social Finance, October 2013)*

PRACTICE 5: DEBT - SWAPS

(Debts are fully or partially 'forgiven' for development)

CASE: **DEBT - FOR - EDUCATION**

LOCATION: **GLOBAL (BILATERAL AND MULTILATERAL)**

ACTORS: Government Entities, Creditors (donor countries and commercial banks), Autonomous Institution or Internal Monitoring Committee for Allocation and Tracking, Educational Beneficiaries

GENERAL CONCEPT:

Forgiving debt in exchange for targeted development increases the 'fiscal space' which allows recipient countries the opportunity to procure and provide additional funding for education. Before implementing a debt- swap, a detailed analysis of risks and benefits needs to be considered.

Spain[1]	El Salvador	A bilateral agreement for a debt swap was signed in 2005. Proceeds were to be used for school construction and library resources. This Rural School Construction Programme addressed regional disparity in EFA goals, with a total of US$10M distributed over 4 years.
France[1] **C2D (Contrat de Desendettement et Developpement)**	Cameroon	Facing high enrollment ratios and high pupil-teacher ratios, part of the Education Sector Strategy prioritised a specialised teacher recruitment strategy to achieve the MDGs. This Contract Teacher Programme led to a government financing gap. Amongst other aid, the C2D Programme provided US$55.3M in funding over five years with five quantified distribution priorities, one being education.
Germany[2]	Indonesia	The first swap was agreed upon in 2000, and signed in 2002. Germany agreed to cancel bilateral debt (US$25.6M) in return for Indonesia spending half of this value over the course of three years (2003-2005) on teacher training and constructing and equipping 511 learning resource centers. A second swap (US$23M) was signed in 2004 under similar conditions, this time for investment in new junior secondary schools in remote areas.

[1] **Source:** *1.UNESCO (2011): Debt Swaps and Debt Conversion Development Bonds for Education*
[2] **Source:** *2.IOB (2009): An assessment of debt-for-education swaps. Case Studies on Swap initiatives between Germany and Indonesia and Spain and El Salvador.*

PRACTICE 6: VOLUNTARY SCHEME

(Blended value schemes incorporate the donation within the price of marketed goods)

CASE: IKEA SOFT TOY CAMPAIGN - SOFT TOYS FOR EDUCATION (WITH SAVE THE CHILDREN AND UNICEF)

LOCATION: GLOBAL, REGIONAL OR NATIONAL

ACTORS: The scheme uses existing infrastructure to collect funds (service provider/merchant). The current case is a single retailer arrangement: Company (IKEA) and independent agency(ies) to channel funds (Save the Children and UNICEF).

THE CONCEPT:

Linked to consumer spending choices, companies agree to brand a product(s) (e.g., IKEA Soft Toys). A portion of the profits coming from sales (consumer spending) on these products (US$1.30 for IKEA Soft Toys) are then channelled to the respective causes (e.g., out-of-school children and educational quality).

Source: *PolicyCures - Policy Brief 8: Voluntary Consumer Donations IKEA: http://www.ikeafoundation.org/programmes/soft-toys-for-education/*

FACT: Since 2003, IKEA has raised US$85.4M to enhance educational opportunities, access and quality for 11M children globally. In 2013 alone, US$12.9M was raised. Currently, the money is allocated to 99 projects covering 46 countries in Asia, Africa and Central Europe.

PRACTICE 7: DIASPORA BONDS

CASE: **LONG-TERM/SHORT-TERM NEEDS-DRIVEN**

LOCATION: **GLOBAL**

ACTORS: Government, Overseas Disapora, Bank(s)

THE CONCEPT:

Although the bonds vary largely in terms of target (diaspora-specific or open/country-specific or global) and appeal (patriotism vs.financial interest), the bonds aim to create a formal and directed revenue for development by tapping into diaspora wealth.

India	The Indian government has raised over US$11B on 3 separate bonds (1991, 1998 and 2000).	• Short-term; needs-driven; targeted only Indian nationals abroad • Relies on patriotism
Israel	Israel was the first to issue diaspora bonds (1951). Managed by the Development Corporation, they have raised US$33B since its inception.	• Long-term, targeting Jewish diaspora but open for all to invest • Relies on market interest
Bangladesh	The government has issued two USD bonds to date. The balance was US$149.2M (2011), with revenues used to fund communications infrastructure development.	• Bonds mainly target Bangladeshi nationals diaspora but are open for all to invest

Source: *World Bank Migration and Development Brief 2014 & The Graduate Institute Geneva*

PRACTICE 8: VALUE-ADDED TAX (VAT) / D-TAX

CASE: **ITALY (CONSUMPTION TAX)**

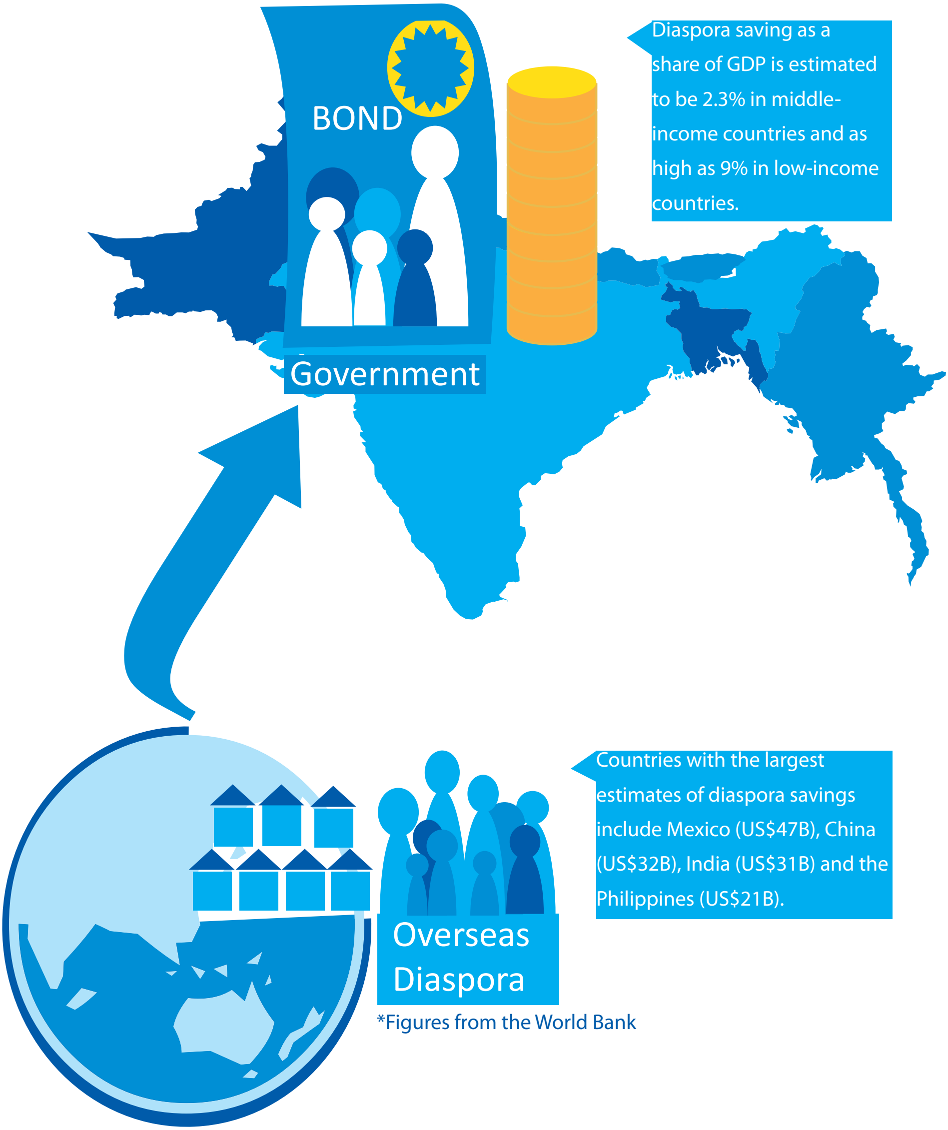
LOCATION: **NATIONAL AND REGIONAL**

ACTORS: Government, Consumers, Participating Merchants

THE CONCEPT:

The de-tax scheme, linked to consumer spending, provides an alternative government-led scheme for raising funds. Following the sale of a participating merchant's products, the government agrees to waive a percentage of the VAT (1%) on the transaction. The following revenue is then directed to an earmarked fund.

Figure 2: Diaspora Bonds



FACT: The Asia-Pacific region is the source of nearly 60 million migrant workers who sent almost US$260 billion to their families in 2012. This represented 63% of global flows to developing countries. Seven out of the top ten remittance-receiving countries are in the region: India, China, the Philippines, Bangladesh, Pakistan, Viet Nam and Indonesia (in order of magnitude). ***Source:*** *IFAD, 2013*

PRACTICE 9: VOLUNTARY BLENDED SCHEME PLATFORM: USING MULTIPLE SUPPLIERS

CASE: (PRODUCT) RED

LOCATION: GLOBAL

ACTORS: Producers (Partner Companies), Consumers, Fund

THE CONCEPT:

A licensed brand, (PRODUCT) RED, aims to engage the private sector and relies on consumer choices, sustainable flows and spending to fund earmarked development goals (e.g., HIV/AIDS in Africa). Each partner company produces their respective products with the (PRODUCT) RED logo. In return for possible increased revenue from the approved licensing with (PRODUCT) Red, a percentage of participating products' revenue is then sent to the Global Fund.

PRACTICE 10: PUBLIC-PRIVATE INCENTIVE

CASE: ADVANCED MARKET COMMITMENTS (AMC)

LOCATION: AMC FOR PNEUMOCOCCAL VACCINE

ACTORS: Donors, Manufacturers, Sales Outlets, Fund Managing Body, Distribution Body

THE CONCEPT:

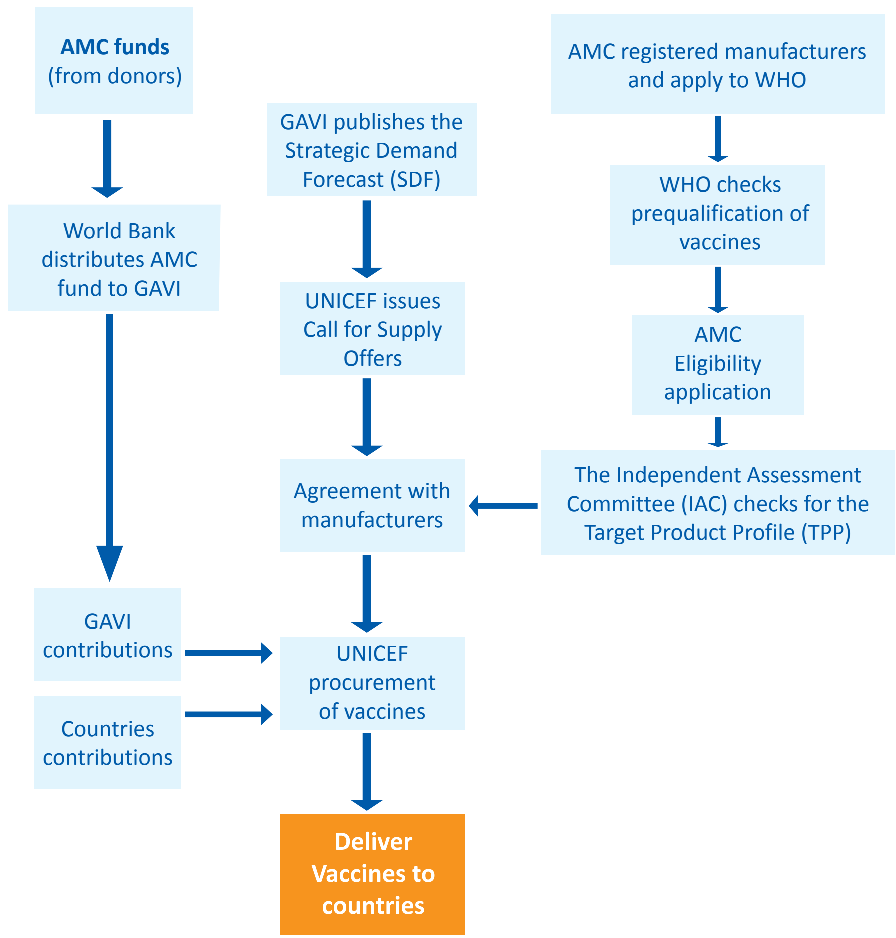
Funds donated (donor resources) are used to lower the price of a specific target (e.g., vaccines). This is intended to provide commercial incentives for eligible manufacturers to produce something at scale that may not gain viability otherwise. Those selling (e.g., eligible pharmaceutical companies) agree, through legally binding commitments, to provide the product at a pre-agreed price. In return, they enter into supply agreements with distributing bodies (e.g., UNICEF) that procure and deliver the product. Funds are earmarked for that specific product.

**Due to the fact that donors' assistance in lowering the cost of products is counted as ODA, incentives, rather than additional revenue streams , are created.*

FACT: (PRODUCT) RED is the largest private sector donor to the Global Fund, and has generated over US$150 million for HIV/AIDS programs in Africa. Private partners include Apple, Starbucks, Telcel and Bank of America, to name a few.

Source: (PRODUCT)RED

Figure 3:
Advance Market Commitments (AMC) in practice



Source: *GAVI Alliance Secretariat*

PRACTICE 11: FRONTLOADING ('BUY NOW, PAY LATER' BONDS: SHIFTING FUNDS FOR IMMEDIATE USE)

CASE: INTERNATIONAL FINANCE FACILITY FOR IMMUNIZATION (IFFIm)

LOCATION: GLOBAL - CURRENTLY 10 DONOR GOVERNMENTS

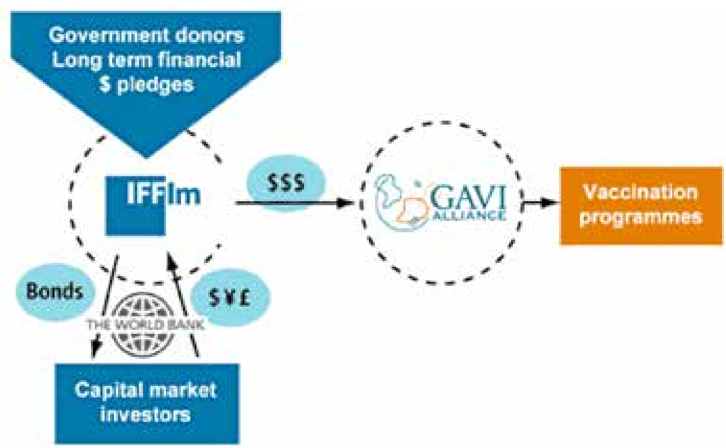
ACTORS: Donor Governments, Capital Market Investors (Bond Holders), Government Benficiaries, Existing Targeted Aid Alliance/Organization

THE CONCEPT:

The IFFIm raises funds through the issuance of bonds (holding a cost-effective credit score) within international capital markets. This is intended to frontload (i.e., shift funds to make more resources available for immediate use). Bonds are repaid through the long-term and legally binding ODA commitment of donor governments. Most of the funds raised are then channelled (and earmarked) to the GAVI ALLIANCE immunisation programmes, providing targeted health and vaccine production assistance to developing countries.

**Due to the fact that funds are intertemporally shifted, and are later repaid using ODA commitments of donor governments, this revenue mechanism is not creating new revenue streams.*

Figure 4: How the IFFIm works



Source: *IFFIm*

FACT: To date, a total of 18 separate bonds have been issued on 10 occasions in five markets. Funds raised between 2006-2010 totalled US$3.4B, with US $1.8B disbursed.

PRACTICE 12: AIRLINE TICKET TAX

CASE: SOLIDARITY LEVY ON AIRLINE TICKETS FOR UNITAID AND IFFIM

LOCATION: GLOBAL

ACTORS: Governments, National/International Coordinating Body, National Collection/Delivery Modality, Passengers, Beneficiaries

THE CONCEPT:

Generating new revenue streams from the private sector. The levy was launched by the governments of Chile, Brazil, Norway, France and the UK in 2006. When purchasing a ticket, passengers are charged an additional low tax rate. Tax rates can vary depending on country, destination and travel class (Figure 5).

Funds collected by UNITAID (specifically created management structure) are earmarked for development. Interested beneficiaries submit proposals for funding to UNITAID directly.

Source: *Taskforce on International Financial Transactions for Development (2009) Globalizing Solidarity: The Case for Financial Levies.*

How the airline tax works: France

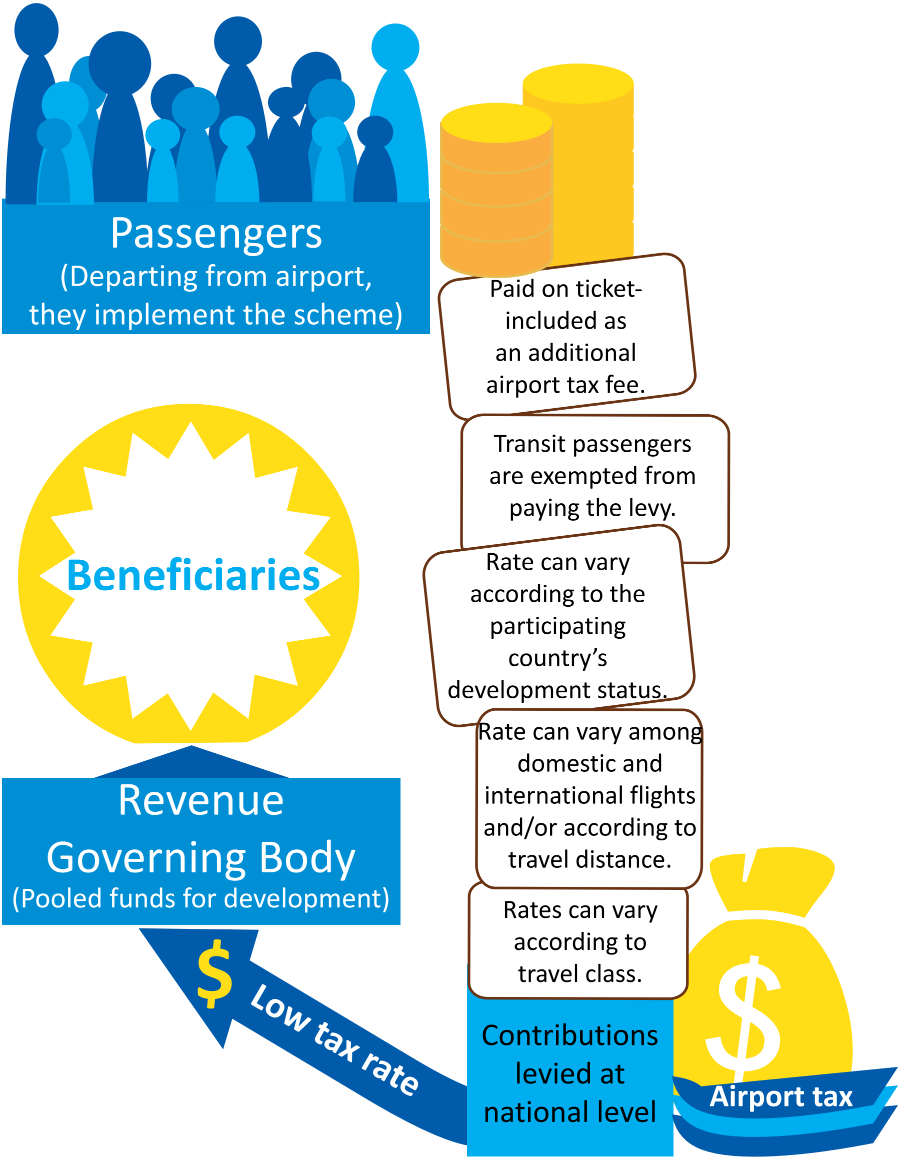
FRANCE	Domestic/European flight	International flight
ECONOMY	€1	€4
BUSINESS/ FIRST CLASS	€10	€40

90% of all revenues go to UNITAID

FACT: Airline industry profits in 2014 are expected to hit a record US$19.7B, which is an increase of more than 50% on the US$12.9B estimate made for 2013.

Source: *IATA, 2013*

Figure 5: Airline Ticket Levy



FACT: Indonesia, Thailand, Singapore, Malaysia, Phillippines and Viet Nam collectively serve approximately 1.6 times the number of passengers as France. Assuming similar take-up rates, an airline ticket levy covering these countries would raise US$333M per year, with aviation in the region expected to grow.

Source: *Policy Cures, Policy Brief 2*

Innovative Financing Mechanisms

for education in the high number of OOSC countires

Different innovative financing mechanisms for education are being developed in countries plagued by high numbers of out-of-school children. The key private financial services innovations that have been developed are summarized in this table.

Countries	Number of OOSC (in million)		Financial services innovations	
	Primary	Lower Secondary	Types	Details
Nigeria	8.6	n.a.	Other	Association for Formidable Educational Development (AFED) helps non-state schools access to finance and become formal
Pakistan	7.26	6.46	Debt	Cash-flow based loans to for-profit schools: DFID and Ilm Ideas, PPAF and the Kashf Foundation
India	5.56	16.4	Debt	Indian School Finance Company (ISFC) infrastructure loans to for-profit schools IFC provided a mezzanine guarantee to Citibank and NIIT, and IT school
			Equity	SONG Investment Management funded K12 Techno Services/Gowtham Model Schools Pearson Affordable Learning Fund (PALF) funded Avanti Learning Centers, Zaya and Sudiksha Omidyar Network Fund dunded Tech for India, Akshara and Anudip Foundations LGT Venture Philanthropy funded Varthana Acumen Fund financed Hippocampus Learning Centers, Edubridge and Labournet IFC invested in Avanse, a company providing finance to higher education students
			Other	Development Impact Bond launched by CIFF/UBS for NGO Educate Girls National Independent Schools Alliance (NISA) helps non-state schools access to finance and become formal

Countries	Number of OOSC (in million)		Financial services innovations	
	Primary	Lower Secondary	Types	Details
Kenya	1.09	0.03	Debt	Risk sharing facility involving IFC and K-Rep Bank to biuld a portfolio of school loans
			Equity	IFC, LGT Venture Philanthropy, Learn Capital and PALF financed Bridge International Academies
			Other	Mobile money transaction services (M-Pesa) and savings accounts (M-Karo)
Philippines	0.96	0.35	Equity	Omidyar Network Fund financed Kalibrr PALF invested with Ayala Corporation in APEC, a low cost secondary school chain
Mozambique	0.86	0.65	Debt	Microfinance institution Opportunity International
Ghana	0.79	0.13	Debt & Guarantee	School loans combined with school owner managerial and financial literacy training (Edify and IDP Rising School program in partnership with MFIs such as Sinapi Aba Trust and Opportunity International) IFC provided a partial credit guarantee to the Trust Bank to fund private K-12 schools and made a loan to Ashesi University College
			Equity	PALF financed school chain Omega Schools
			Other	MicroEnsure and Opportunity International launched EduSave to link savings with education insurance
Brazil	0.68	n.a.	Debt	Ideal Invest provides students with innovative loans

Countries	Number of OOSC (in million)		Financial services innovations	
	Primary	Lower Secondary	Types	Details
South Africa	0.50	0.01	Debt	Eduloan provides students with innovative student loans, supported by the IFC
			Equity	PALF funded school chain e-Advance & Spark Schools and created the Village Capital incubator programme for Edupreneurs Curro Schhols is listed on the Johannesburg Stock Exchange
			Other	Mobile money transaction services Risk sharing facility (Strathmore University in Nairobi, IFC and Commercial Bank of Africa)

Source:
UNESCO Institute for Statistics 2013 (latest data available indicated for each country)
Innovative Financial Services For Education by Claire Trainar with Nicholas Burnett, October 2015

List of Innovative Financing Mechanisms

Asset-based loan (also called mortgage-type loan and asset-backed loan)

A business load is secured by collaterals such as inventory, accounts receivables, machinery and equipment, real estate, and/or other balance sheet assets. A legal mechanism allows the leander to take possession and sell the secured property ("repossession") to pay off the loan in the event that the borrower defaults on it.

Cash-flow based loan

Type of debet financing, in which a bank lends funds, using the expected cash flows that the borrowing company generates as collateral for the loan.

Cash-flow sufficiency

Commercial income covers the below market-rate operating expenses of a non-profit organization that benefits from reduced rates because of direct access to philanthropic investment.

Chairty bond

Fixed-income instrument that charities and social enterprises can issue on debet capital markets in exchange for unrestricted cash upfront provided they have a viable underlying source of revenue with which to repay bondholders' principal and interest.

Collateral

Borrower's pledge of specific property to a lender, to secure repayment of a loan.

Community Investment Note

As with a certificate of deposit, investors purchase a note for a set period of time after which they are paid back the principal plus interests. With community investment notes, the capital raised is loaned exclusively to organizations creating social change.

Cost-sharing

States require students and parents to pay for a portion of tution, food, lodging costs (especially at higher education level) that were previously borne predominantly or exclusibely by governments or taxpayers.

Crowdfunding

Practice of funding a project or venture by raising monetary contributions from a large number of people, typically via the internet.

Development Impact Bond

As with SIBs, investors provide external financing for interventions in developing countries and receive a return if pre-agreed outcomes are achieved. Funds to remunerate investors come from donors and/or the host country and are commensurate with the level of success.

Full-scale commercialization

Revenues cover all market-rate costs, including the cost of capital, meaning non-profits no longer require donor funding.

Grace period

Time after graduation when payments are not required and, in some cases, interest does not accrue.

Graduate tax

Former students repay their loans through a graduated surplus income tax. Contributions by graduates with high income are larger than by those with low income.

Human capital contract

Equity-like financial instruments attracting private capital to finance higher education. Students receive funding in exchange for a percentage of their income during a fixed period of time.

Hybrid model of schools

Hybrid models have a for-profit arm and a not-for-profit arm (commercial for-profit venture)

Impact investing

Impact capital differs from commercial private capital in that it seeks to reach the most vulnerable beneficiaries; it differs from private philanthropic capital in that it seeks to apply market-based innovations to ensure financial sustainability, if not financial profit.

Income-contingent loan

A proportion of the graduate's income has to be paid each year until the loan is repaid at the contractual rate of interest or until the graduate has repaid for a maximum number of years.

Junior debt

Debt that is lower in repayment priority than other debts in the event of the issuer's default. Junior debt is usually an unsecured form of debt.

Mobile money

Mobile money uses the mobile phone to transfer money and make payments to the underserved (P2P transfer, bill payment, bulk payment, merchant payment, and international remittance).

Net present value

Value in the present of a sum of money, in contrast to some future value it will have when it has been invested at compound interest.

Operating expense self-sufficiency

Only capital expenditures and headquarters'costs still depend upon donations and grants, all the other expenses are covered by the revenues generated.

Partial credit guarantee

Promise to pay principal and/or interest up to a pre-determined amount.

Philanthropic equity

Also called "change capital" or "build money", it is a flexible form of capital of limited duration that allows for one-time infusions of capital to fund improvements in programs' quality and efficiency or adjustments to the size and scope of the organization.

Program-related investments

Investments made to significantly further foundations' exempt activities with a potential return of capital to the grant-maker within an established timeframe.

Recurring expenses
Regular cost incurred repeatedly, or each item produced or each service performed.

Return on capital
Profitability ratio that measures the return an investment generates for capital contributors, i.e. bondholders and stockholders. Return on capital indicates how effective a company is at turning capital into profits.

Risk sharing facility
Bilateral loss-sharing agreements between the IFC and an originator of assets in which the IFC reimburses the originator for a fixed percentage of incurred losses that exceed a predefined threshold (first loss).

Securitization
Financial practice of pooling various types of contractual debt and selling the obtained consolidated debt as bonds, pass-through securities, or collateralized mortgage obligation to various investors.

Senior debt
Borrowed money that a compant must repay first in the event of default

Senior debt
Also known as Pay for Success Bonds or Social Benefit Bonds, SIBs are based on a commitment from government to use a proportion of the savings that result from improved social outcomes to reward non-government investors that fund the early intervention activities.

Working capital
Financial metric which represents operating liquidity available to a business or organization. The management of working capital involves inventories, accounts receivable and payable, and cash.

Source: *Innovative Financial Services For Education by Claire Trainar with Nicholas Burnett, October 2015*

Guiding Questions to Assess Innovative Financing

1. Have innovative financing for education initiatives generated additional resources for disadvantaged children and youth?

2. Have innovative sources of financing delivered concrete results?

3. Which countries have benefited from innovative financing?
   - What lessons can be drawn from their experience(s)?
   - What best practices can be replicated or adapted in your own national context?

4. Have innovative financing initiatives delivered stable and predictable resources?

5. Have innovative financing initiatives strengthened country ownership of the education development process?

6. Have innovative financing initiatives supported capacity development in beneficiary countries?

7. Have innovative financing initiatives accentuated issues related to fragmentation and coordination in education delivery?

8. Is innovative financing sustainable over the longer-term?

9. Can innovative financing be scaled up and/or initiatives replicated in other development areas or regions?

The Paris Declaration of Aid Effectiveness (2005) and the Accra Agenda for Action (2008), accepted by most donors and recipient countries, reflect the consensus that aid should be provided in ways that support national capacity building and the coordination of donors, the government, civil society organisations and other stakeholders.

Source: UNESCO (2011) Debt Swaps and Debt Conversion Development Bonds for Education, p64.

Proposals Under Consideration

No.	Innovative Financing Mechanism	Description	Revenues raised
1	**Financial Transactions Tax (FTT)**	An FTT is a tax placed on a specific type of financial transaction such as the exchange of currency, shares, bonds & derivative contracts.	A coordinated 0.005 percent tax on all the major currencies would raise approximately US$33 billion each year. A low-rate FTT could, with a large tax base, yield nearly €200 billion per year at EU level and US$650 billion at the global level.
2	**Carbon taxes**	A carbon tax is a tax on the carbon content of fossil fuels (such as coal, oil and gas) and is designed to provide businesses and individuals with an incentive to curb activities that produce CO_2 emissions. In principle, the tax motivates entities to cut back on their carbon emissions if the cost of doing so is less than the cost of paying the tax. Under such initiatives, policymakers levy a fee for each tonne of CO_2 emitted or for each tonne of carbon contained in fossil fuels.	A base levy of US$2 per tonne on all CO_2 emissions from fossil fuel use with an exemption on the first 1.5 tons of emissions per capita would raise an estimated US$48 billion per year. Carbon taxes on aviation and ship fuels in developed economies could raise approximately US$250 billion in taxes in 2020.

Capacity Development	Sustainability	Posibilities for scaling up
Whether the FTT supports capacity development will depend on how resources are delivered to beneficiary countries.	Raises sustainable resources for development/ climate as it uses well established financial products and services (e.g., currency conversion).	The initiative is ideally implemented by multiple countries simultaneously. Revenues are expected to be higher in countries that are major financial centres. The potential for scaling up is high, yet remains dependent on political will; some governments have indicated they do not support such taxes which makes the development of smaller initiatives by 'like-minded' governments more realistic.
Will depend on the finance delivery modalities selected.	Raises sustainable revenues for climate/ environment in so far as carbon consumption around the world continues and is taxed.	Carbon is now tracked and traded like any other commodity, which means high possibilities for scaling up. However, it is also highly dependent on political buy-in.

Proposals Under Consideration

No.	Innovative Financing Mechanism	Description	Revenues raised
3	**Global Solidarity Tobacco Levy**	Participating countries commit to pool small increases in national tobacco tax to support global health priorities in developing countries.	A Solidarity Tobacco Contribution may raise US$9 billion per year for health. A tax increase of US$0.05 per pack sold in G20 countries would raise US$4.3 billion for international health.
4	**Special Drawing Rights (SDRs)**	The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. SDRs are created by the Executive Board of the IMF. Under its Articles of Agreement, the IMF may allocate SDRs to member countries in proportion to their IMF quotas.	US$250 billion in SDRs was created in August 2009 and allocated to member countries in proportion to the IMF quotas.

Adapted from UNDP Discussion Paper: *Innovative Financing for Development: A New Model for Development Finance? 2012*

Capacity Development	Sustainability	Posibilities for scaling up
Will depend on the finance delivery modalities selected.	Taxes on tobacco consumption represent a sustainable source of revenue in so far as tobacco consumption continues (although we may wish it to become a steadily declining source of revenue based on consumers progressively reducing their consumption of tobacco products).	Governments typically face significant pressure to use the majority of revenues collected nationally on tobacco consumption to fund national health priorities. It is likely that only a small proportion of revenues collected via tobacco taxes will ever be allocated to international development, thus possibilities for scaling up may not be very high.
SDRs support governments' general budgets. Thus, they support the decision-making capacities of indigenous institutions over time.	Regular SDR allocations would represent a sustainable form of finance.	SDR allocations could, in principle, be made on a regular basis. Therefore, possibilities exist to make greater use of this form of finance, especially as countercyclical finance. SDR allocations could also be pooled and used as a form of seed capital in special purpose thematic trust funds. In principle, the IMF's Articles of Agreement permit the donation of SDRs from one country to another.

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Send us your feedback:
We are interested to hear your thoughts!
What did you find useful/not useful about the booklet?

Key Resources and Links

Organisation/Publication	Link
The Leading Group on Innovative Financing for Development	http://leadinggroup.org/rubrique265.html
The Leading Group on Innovative Financing for Education	http://www.innovativefinance.foundation
Results for Development (R4D)	http://www.r4d.org
Center for Global Development	http://www.cgdev.org
Innovative Finance Foundation (IFF)	http://www.innovativefinance.foundation
OECD Task Force on Tax and Development	http://www.oecd.org/development/taxoecdlaunchestaxinspectorswithoutborders.htm
UNESCO Advisory Panel Task Force on Innovative Financing for Education	http://www.unesco.org/new/en/education/themes/leading-the-international-agenda/education-for-all/funding/innovative-financing-for-education
UN Financing for Development	http://www.un.org/esa/ffd
Brookings	http://www.brookings.edu
PolicyCures	http://www.policycures.org
Graduate Institute of International and Development Studies	http://graduateinstitute.ch/research
World Bank	http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS
International Poverty Action (IPA)	http://www.poverty-action.org

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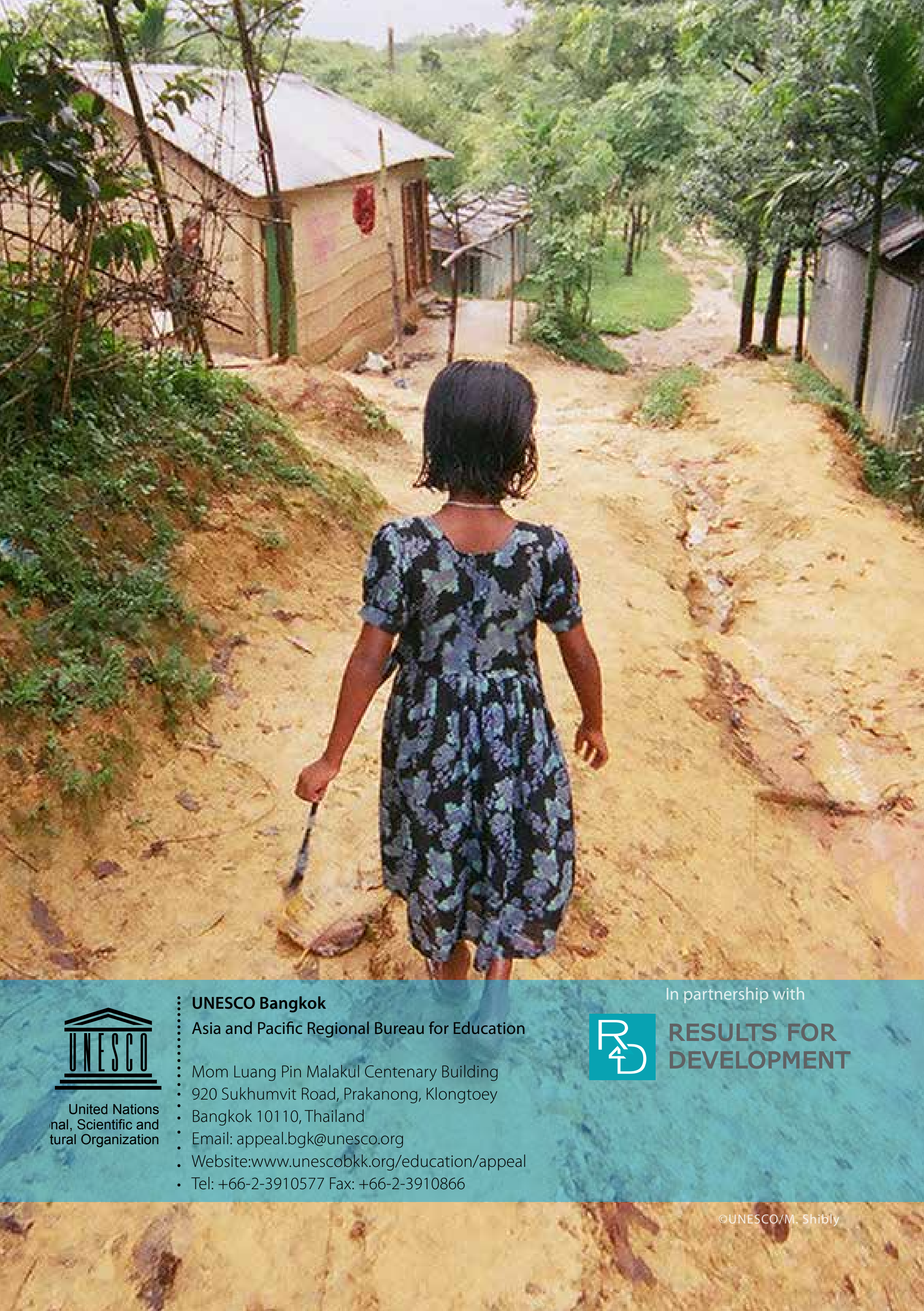

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