



# POLICY BRIEF

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## Increasing Aid and Development Financing Volumes for the Advancement of Education in Lower-Middle-Income Countries

By Christian Novak

A continuously educated workforce is essential for achieving sustainable development. Recognizing the importance and status of education, the United Nations General Assembly included education among the 17 Sustainable Development Goals (SDGs). Unfortunately, the education systems in developing countries continue to struggle to achieve the necessary progress. This is especially the case in the lower-middle-income countries (LMICs), where nearly half of the world's 1.4 billion school-age children live. Increased volumes of aid and development financing are urgently needed to advance education in LMICs and achieve SDG 4<sup>1</sup> everywhere.

### WHAT IS AT STAKE?

The majority of out-of-school children, totalling over 150 million, live in LMICs. Furthermore, 549 million children and youth in LMICs are not on track to reach secondary learning benchmarks, representing 60 percent of the children and youth in such situation globally.

The overall volume of aid from official donors and of financing from multilateral development banks (MDBs) that has been directed to education is very small, also in relation to the higher volume that has been allocated to healthcare. Furthermore, LMICs have been markedly left behind when pondering the level of financial support directed to low-income-countries (LICs) in consideration of the corresponding sizes of their populations with education needs.

Advancing education, and human capital overall, is crucial for development. The necessary progress of LMICs towards achieving SDG 4, and the consequent contribution to end poverty, is at risk. To advance education in LMICs, official donors and MDBs must increase their financial support to address the financial gap.

### KEY RESULTS:

To advance education in lower-middle-income countries, official donors and multilateral development banks must increase their financial support to address the financial gap. Specific recommendations:

- Expand the use of innovative development financing solutions.
- Expand the use of innovative aid solutions.
- Multilateral development banks to increase financing volumes and to strengthen efforts to maximize financial additionality and private capital mobilization.
- Review the classification of LICs and LMICs.
- Increase domestic budget allocation.

Implementing the recommendations require coordinated efforts of all stakeholders. In addition, it is paramount that lower-middle-income countries design and fully implement effective long-term education programs and systems. Benchmarking and feedback must be constant, prompting sustained improvement and the adoption of international best practices.

<sup>1</sup> Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

## THE IMPORTANCE OF EDUCATION AND ITS CURRENT OVERALL CONDITION

Economic growth and development are driven by both physical capital and human capital. While the existence and advancement of technology, machines and infrastructure are crucial for growth, a continuously educated and overall healthy workforce is equally essential for achieving sustainable development. The importance of human capital has since recently been elevated by the World Bank by creating and tracking the Human Capital Index.<sup>i</sup>

Recognizing the specific importance and status of education, the United Nations General Assembly included education among the 17 SDGs: “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all” (SDG 4).<sup>ii</sup>

According to the United Nations’ latest progress report on the SDGs<sup>iii</sup>, 262 million children and youth aged 6 to 17 were still out of school in 2017, and more than half of children and adolescents are not meeting minimum proficiency standards in reading and mathematics. Approximately 750 million adults, two thirds of them women, remained illiterate in 2016.

The overall condition of education is especially worrying in developing countries. Half of the global illiterate population lives in South Asia, and a quarter lives in sub-Saharan Africa, where less than half of schools at the primary and lower secondary levels have access to electricity, the Internet, computers and basic drinking water.

## THE ALARMING CONDITION OF EDUCATION IN LMICs<sup>2</sup>

The level of progress of education systems is particularly alarming in LMICs, where nearly half of the world’s 1.4 billion school-age children live (compared to 200 million in LICs).

According to the International Commission on Financing Global Education Opportunity (the Education Commission)<sup>iv</sup>, the majority of out-of-school children—over 150 million—and half of all refugees and displaced youth live in LMICs.

Moreover, 549 million children and youth in LMICs are not on track to reach secondary learning benchmarks, representing 60 percent of children and youth globally in such situation. Specifically in sub-Saharan Africa and South Asia (where 45 percent of all LMICs are located), 80 percent of children and youth are not on track to reach secondary learning benchmarks. In addition, there is important gender inequality in relation to access to education.

The authors of a report prepared for the Education Commission<sup>v</sup> assessed the results of the TIMSS<sup>3</sup> mathematics test of students living in high-income countries, upper-middle income countries and LMICs. The results show that more than 50 percent of students who tested at the lowest quintile level are in LMICs, and LMICs students represent less than 5 percent of those in the highest quintile.

## RELEVANT FINANCING GAP IN LMICs EDUCATION

Education is mostly funded with domestic budgets. The Education 2030 Framework for Action adopted by UNESCO Member States in 2015<sup>vi</sup> recommends governments to spend at least between 15 and 20 percent of their public expenditures on education, and it highlights that developing countries need to reach or exceed the upper end of this range to achieve the SDG 4 targets. However, allocations from tax revenues to education in developing countries have been below the recommended level, particularly in LMICs, where such share has been decreasing.<sup>vii</sup> Actually, according to the United Nations’ latest progress report on the SDGs, only one third of all countries globally currently spend such benchmark on education.

Based on a projection developed by the Education Commission regarding future education costs and domestic budget spending, by 2030 about half of LMICs will continue to face a financing gap.

In addition, the overall annual volume of aid from official donors that is allocated to education has been low at US\$12–15 billion (6.3–8.7 percent of total annual Official Development Assistance [ODA]), complemented with just US\$1.3–3.7 billion

<sup>2</sup> The list of LMICs may be found in <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>.

<sup>3</sup> Trends in International Mathematics and Science Study; 2011 results ([www.iea.nl/data-tools/repository/timss](http://www.iea.nl/data-tools/repository/timss)).

(1.6–3.8 percent) of annual financing from Other Official Financing (OOF); much of the latter has been provided by the IBRD and the IADB<sup>4</sup>. From such ODA and OOF volumes consolidated, LMICs have received less than 30 percent.<sup>viii</sup>

The above numbers are also the result of a broader relevant issue experienced by LMICs: in relative terms, LMICs are financially less supported than LICs. For example, total annual aid volume per capita in LMICs is 19% of that in LICs.<sup>ix</sup> Note that the largest world’s number of absolute poor live in LMICs; three of the five countries with the largest number of people living in extreme poverty are LMICs. LMICs have a gross national income (GNI) per capita that can currently be as low as US\$1,026. The disparity in aid volumes mostly results from the drastic reduction in ODA that countries experience when graduating from the International Development Association (IDA)<sup>5</sup>, which also affects the volumes from other aid sources and development financing that are linked to IDA policies. Moreover, such graduation occurs when countries achieve a still very low GNI per capita level, currently equal to US\$1,175, resulting in a relevant impact for vulnerable countries following the abrupt reduction of financial support.

## RECOMMENDATIONS

Actions must be taken towards increasing volumes of aid from official donors and of financing from MDBs directed towards education in LMICs. The following are specific recommendations:

### 1. Expand the use of innovative development financing solutions

a) **Financial vehicles that can mobilize effectively various sources of capital.** Public and philanthropic capital is increasingly used to attract various sources of capital, including private sector capital by means of the so-called blended financing structures. There exist a relevant number of examples that may be replicated. For example, the model of the Global Financing Facility for Women, Children and Adolescents (GFF) may be considered and adapted to finance education.

b) **Development Impact Bonds (DIBs).** In DIBs (and Social Impact Bonds [SIBs]), experienced non-profit organizations obtain capital from investors for addressing specific social matters. The return to investors is contingent on the achievement of pre-specified outcomes resulting from the intervention. Public and philanthropic capital is the main source of “outcome payments.” Examples of DIBs for education include the Educate Girls DIB in India<sup>x</sup> and the Impact Bond Innovation Fund for early childhood development in South Africa.<sup>xi</sup> The Education Outcomes Fund<sup>xii</sup> is an initiative with high potential to expand the development of DIBs for education in LMICs.

c) **Guarantee Funds.** The International Finance Facility for Education (IFFEd) is an upcoming innovative multilateral organization that will provoke additional financing from MDBs to education financing in LMICs. Funded by a number of countries, IFFEd will achieve its objective by providing portfolio guarantees and grants to MDBs, which will result in increased capacity of the MDBs to provide financing for education in LMICs, and at reduced costs for the beneficiary countries.

### 2. Expand the use of innovative aid solutions

a) **Conditional Cash Transfers (CCTs).** CCT programs in developing countries that provide households with cash if children attend school and/or complete school cycles have been effective.<sup>xiii</sup> CCTs could be designed to attend to specific needs and segments of the population.

b) **Results-Based Aid Payments to governments.** The Global Offer for Learning (GOL) idea that was published by the Centre for Global Development<sup>xiv</sup> exemplifies this recommended action: international donors would establish a fund that would pay eligible countries an “assessment award” and an “achievement award”. The assessment award would pay a specific amount each year a country applies a qualified test to assess learning and publishes results. The achievement award would pay a specific amount for each child who has learned basic skills. Results-based aid payments have the capacity

<sup>4</sup> IBRD: International Bank for Reconstruction and Development; IADB: Inter-American Development Bank.

<sup>5</sup> “IDA-supported” countries are those that are financially assisted by the International Development Association (IDA), an organization of the World Bank Group, which assists the world’s poorest countries (mostly coinciding with the list of LICs).

to provoke productive assessments, systematic feedback and benchmarking, and encourage innovation within governments.

c) *In-Kind Aid*. Free uniforms and meals have been shown to increase enrolment and attendance. Free uniforms in Kenya resulted in lower school drop-outs among girls, and meals and take-home rations for girls in Burkina Faso and for displaced persons in Uganda increased enrolment and attendance.<sup>xv</sup>

### 3. MDBs to increase financing volumes and to strengthen efforts to maximize financial additionality and private capital mobilization

MDBs' financing for education projects in LMICs has been proportionally low and concentrated on a few countries. It is imperative that MDBs, both their public and private sector windows, expand education financing volumes in all LMICs. Furthermore, MDBs should take higher risks by supporting education infrastructure and projects that apply technological innovation, among others. Technology has the capacity to improve education quality, expand outreach, and reduce costs. In relation to private sector projects, strengthened dedicated efforts of MDBs should be directed to structure investments in ways that maximize financial additionality and capital mobilization.

### 4. Review the classification of LICs and LMICs

As mentioned above, there is an abrupt reduction of the financial support for countries when they graduate from LICs to LMICs, while LMICs continue to be vulnerable and have critical education needs. The country income classification, developed by the World Bank, is solely focused on GNI per capita. Revising the classification method is therefore recommended. A broader range of economic and human indicators must be considered.

### 5. Increase domestic budget allocation

Education is a long-term investment, whose return materializes when educated children and youth complete education and start to contribute to the economy. This is a challenge for developing countries, which are pressed to deliver short- and medium-term results. Still, governments, particularly LMICs, must increase and sustain the allocation level of their public expenditures to education.

### TOWARDS ACHIEVING SDG 4 IN LMICs

Implementing the above recommendations requires coordinated efforts of all stakeholders. Discussion platforms and ad hoc committees can result in the necessary engagement, share of information, common planning, and coordinated execution.

In addition, it is paramount that LMICs design effective long-term education programs and systems, that are executed in a timely and consistent manner, and that are funded in the long term with the necessary volumes of capital. Benchmarking and feedback must be constant, prompting sustained improvement and the adoption of international best practices.

Achieving the SDG 4 targets in LMICs is at stake, but still possible.

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