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Innovative Finance to help close the Skills Gaps: Some Possibilities

International Skills Development Forum, ADB

Manila, Philippines

December 11, 2013

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Outline

- What is R4D?
- Global Skills Deficit and Challenges
- Innovative Financing: General
- Innovative Financing: Skills
- Next Steps and Questions



What is R4D?

- **Results for Development Institute (R4D)** is a Washington-DC based non-profit organization, with ~60 employees.
- R4D's mission is to **unlock solutions to tough development challenges** that prevent people in low- and middle-income countries from realizing their full potential.
- Major supporters include Rockefeller Foundation, Gates, DFID, Hewlett, and USAID.
- Leveraging expertise from business, economics, and development, R4D **works with leaders, globally and at the country level to:**
 - Provide analysis and advice
 - Enable communities of knowledge and
 - Design and test solutions to some of the world's biggest development challenges.

R4D targets 4 areas in the fight against global poverty:



R4D's Education Portfolio

**NON-STATE
INNOVATIONS**



**ANALYSIS AND
LEARNING**



Partnership to Strengthen Innovation and Practice in Secondary Education

**SKILLS FOR
EMPLOYABILITY**



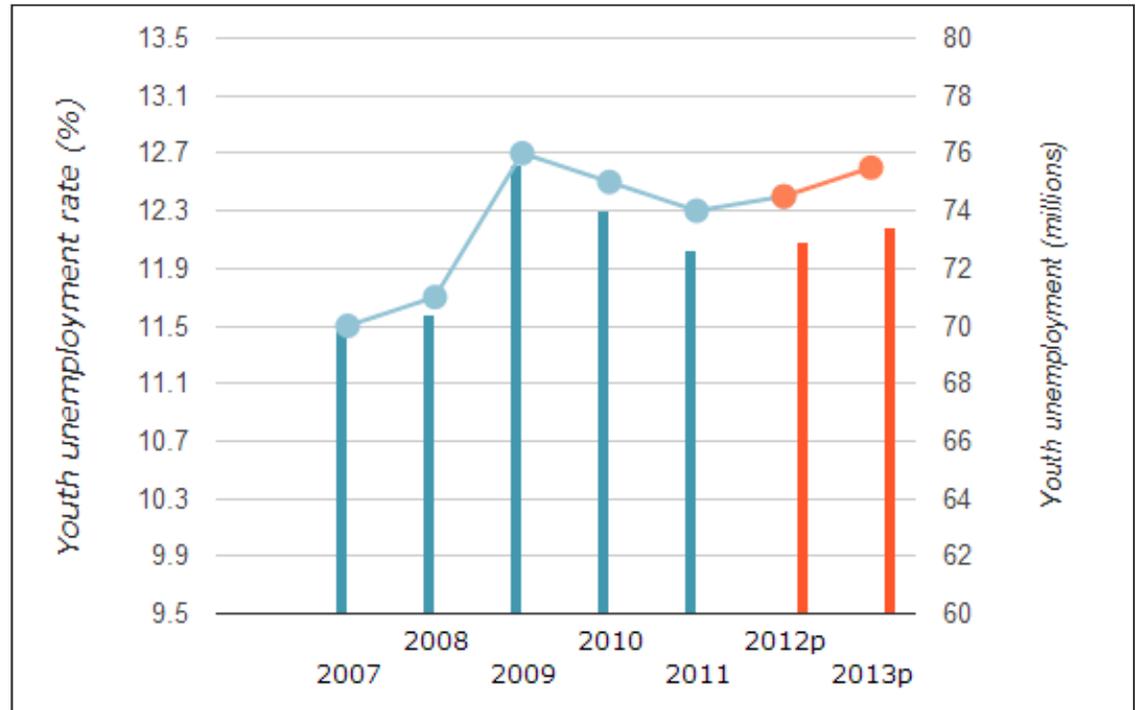
**INNOVATIVE
FINANCING**



The Global Youth Unemployment Crisis

What is the issue?

- 12.6% global youth unemployment rate, compared to 4.5% for adults.
- The ILO projects that the youth rate of unemployment will increase if current trends persist.



Source: ILO 2013

The Global Skills Deficit

What major factors are driving these developments?



- Global economic crisis in the late 2000s has caused demand-side deficiencies worldwide.
- Demographic trends: youth bulge in developing countries.
- There is a disconnect between the skills that employers demand and the skills that secondary school supplies.

Bridging the Global Skills Deficit

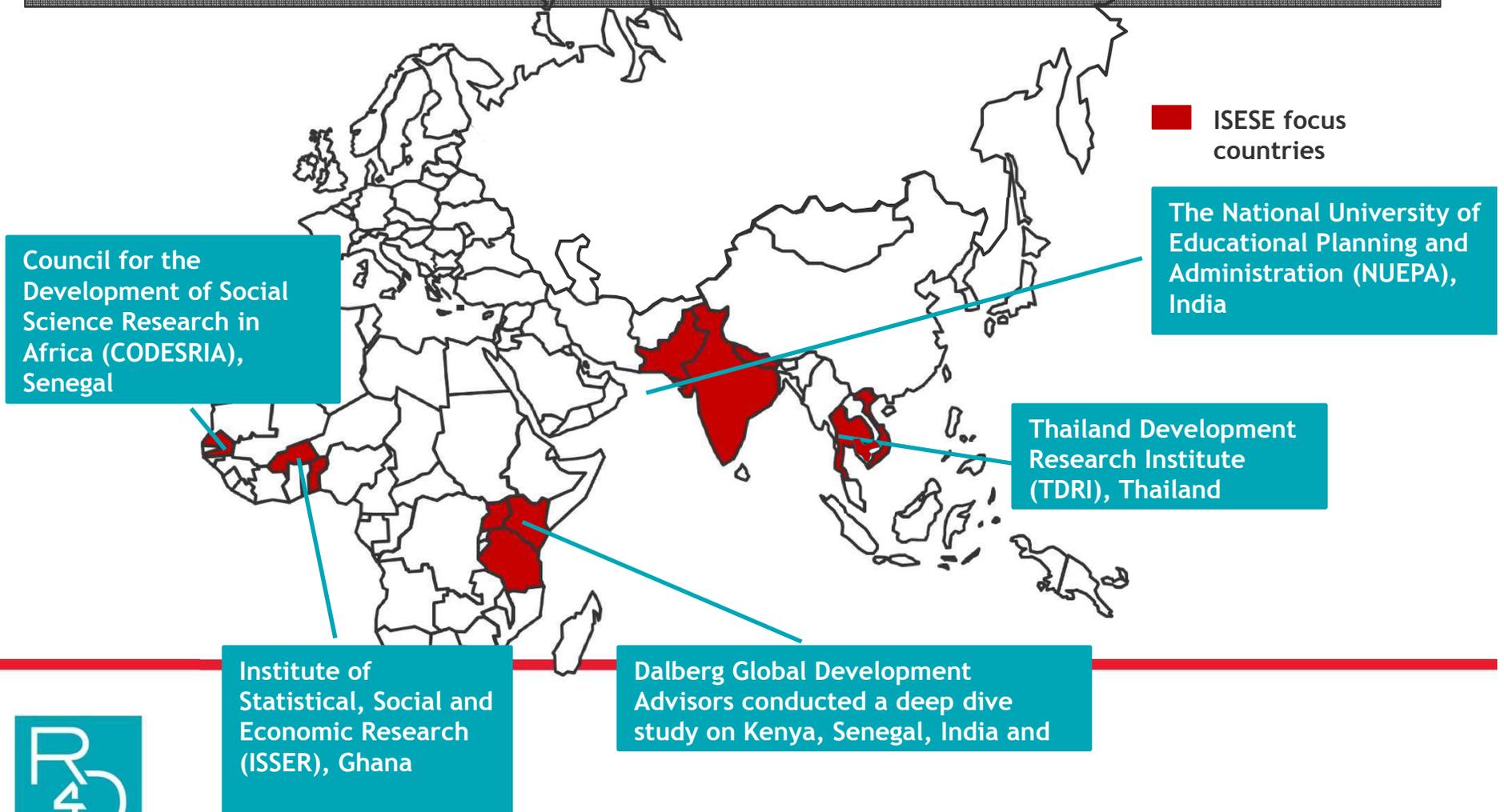
Macro challenge, micro solutions



- Skilling youth for gainful employment requires reforms at the national level, but small-scale piloting is necessary to discover what works in building employable skills.
- Two dimensions of closing the skills gap: Increasing access and improving quality/relevance.
- One of the world's **toughest development challenges** for this generation.

Innovative Secondary Education for Skills Enhancement (ISESE) Project: Overview

Research was commissioned to 5 regional institutions in Africa and Asia.



Findings: What are the skills needed to close the deficit?

Analytical	Technical	Non-cognitive
<ul style="list-style-type: none">• Numeracy and literacy• Critical thinking skills• Problem-solving skills	<ul style="list-style-type: none">• Skills geared towards a specific occupation, e.g. electrical wiring or plumbing	<ul style="list-style-type: none">• Communication and teamwork• Self-reliance and discipline• Entrepreneurship

How to deliver these skills?

- Multi-stakeholder partnerships to create quality, scalable & sustainable models.
- ICTs to modernize pedagogy & supplement mainstream teaching.
- Open & distance learning, including for TVET programming.
- Scholarship & voucher schemes to address demand side constraints.
- Inclusion of non-cognitive skills to enhance traditional analytical & technical skill development.



Financing Challenges

- R4D's ISESE work highlighted **financing** as one of the biggest challenges for expanding skills programs.
- Financial sustainability determines scale-up and replication capacity.
- Experimenting with sustainable financial innovations can:
 - Expand successful skills development programs.
 - Encourage other groups to notice cost-effective models.
 - Promote innovations that do not burden program participants.



What is Innovative Financing?

The Leading Group (leadinggroup.org) identifies three key features of innovative financing for development:

- Linked to global public goods.
- Complementary and additional to traditional ODA.
- More stable and predictable.

- Reflects view that ODA from traditional sources will not be sufficient to meet concessional finance needs of low income countries.
- We follow this but go further to include:
 - domestic finance, complementary to tax revenue etc.
 - idea that the way the finance is both raised and spent is important.



Why Innovative Financing Now?

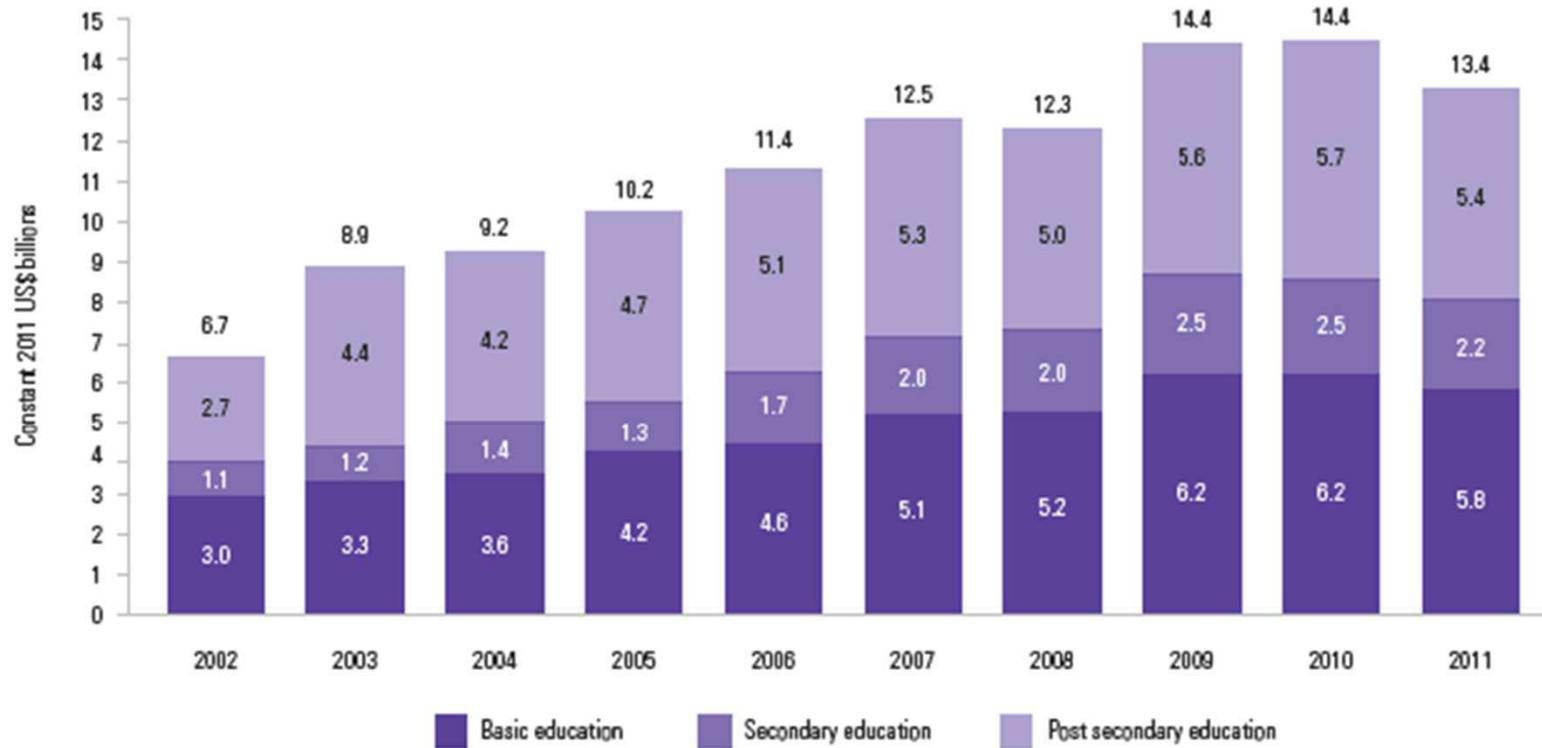
- Mobilize extra resources, filling in the financing gaps.
 - Grant aid is declining, in general and for education.
- Raise profile and visibility of skills for education.
- Spend more effectively, efficiently and equitably.
- Meet the needs of conflict-affected countries.
- Promote innovation in education.

Note: We are talking about both :

- Innovative financing for education and
- Promoting innovation in education through the use of innovative financing and promotion of efficiency.



Aid for Education is Declining



Source: EFA Global Monitoring Report team analysis based on OECD Creditor Reporting System (2013)

Source: OECD Creditor Reporting System (2013)



Ideas and Possibilities

Financing	Finance+Spending	Raising Profile
<p><u>Debt</u></p> <ul style="list-style-type: none"> • Debt for education swaps • Buying down loans for education 	<p><u>Impact investing</u></p> <p>Education Venture Fund</p>	<p>Sports Levy</p>
<p><u>Bonds</u></p> <ul style="list-style-type: none"> • Local currency education bonds • Debt conversion development bonds • Diaspora bonds 	<p>PPPs in education</p>	<p>CEI</p>
<p><u>Taxes</u></p> <ul style="list-style-type: none"> • Extractive industry tax • Financial transactions tax • Specific education/training tax 		



Finance: What is a Buy-down?

A buy-down is an arrangement whereby a third party buys down all or part of either the interest or the principal of a loan, or both.

Buy-down	Financing Agency	External donor	Loan/Credit (US\$ million)	Status	Buy-down	Term shift	Triggers
China Education	IBRD	DFID	100.0	Closed	\$34.5 million	IBRD fixed to approx. 2%	No
Pakistan Polio	IDA	Gates	138.3	Ongoing	NPV of Credit.	Credit to grant.	Independent results audit
Pakistan Polio	IsDB	Gates	227.0	Ongoing	Fees and mark-up of \$3.6m p.a.	Repayment of principal only	Past performance
Nigeria Polio	IDA	Gates	138.7	Ongoing	NPV of Credit.	Credit to grant	Independent results audit
Botswana HIV	IBRD	EC	50.0	Ongoing	Euro14.0 million	Loan to credit	Achieved
China TB	IBRD	DFID	104.0	Closed	\$37.0 million	IBRD fixed to approx. 2%	No
China Rural Development	IBRD	DFID	100.0	Closed	\$32.4 million	IBRD fixed to approx. 2%	No
Samoa Power	ADB	AusAid	26.6	Ongoing	\$4.0 million	Softening of Loan terms	No

Finance: Why Buy-downs Now?

- Can be used to buy down loans from market rates to below market rates.
- Countries could be induced to borrow for social sectors against monitorable reforms.
- Crowd in extra resources for Skills development programs.
 - GPE is currently testing buy-downs with a pilot.
- Keep education “competitive” with other sectors to adapt to harder aid environment.



Finance: Local Currency Education Bonds

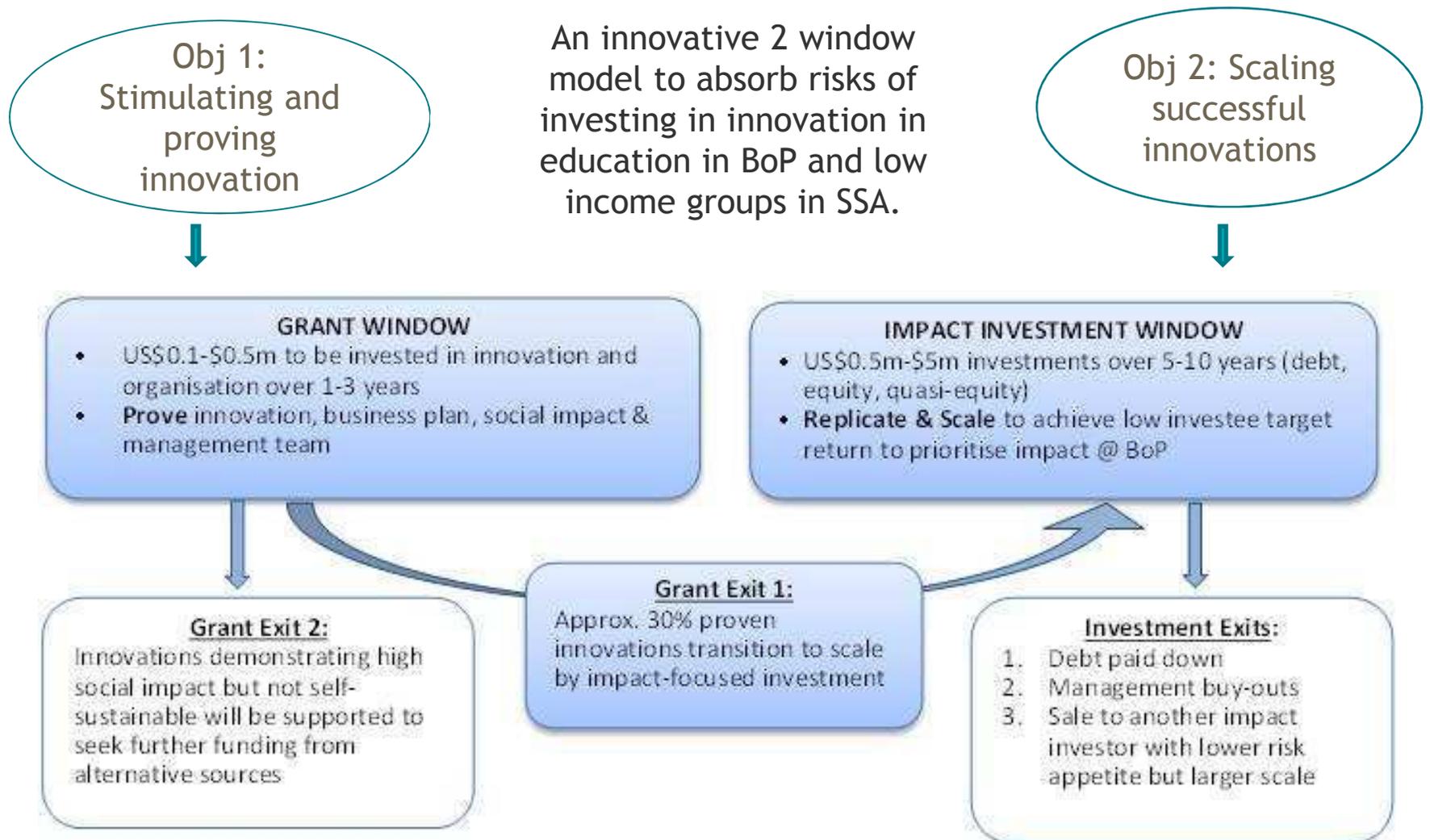
- Over \$1 trillion of public and private pension fund assets in developing countries.
- Funds usually limited to low return investments - typically government bonds.
- The Local Currency Education Bond proposal would allow pension funds & other investors to invest in bonds that finance education sector projects by providing guarantees.
- Most applicable in higher education or vocational sector which can generate revenue to pay interest and principal on bonds.
- Could be used to release government funds for the education sector.

Reminder: **Where we are**

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Finance + Spending: the Education Venture Fund (EdVF) model



Raising Profile: CEI and how it works



Two mechanisms

Global (web-based)

- Programs Database
- Research & Evidence Library
- Topical forums
- Funders Platform



Regional (CEI hubs)

- Stakeholder linkages for joint-learning and scale up
- Public-private dialogue
- In-country/regional research and evidence

- Launched in 2012, CEI works to create impact - expanded access to quality education for the poor - by identifying, analyzing, and connecting non-state education innovations.
- CEI is a public good resource for those implementing, studying, and funding global education.

Raising Profile: CEI focus on Skills



- 70 skills programs identified and profiled on the CEI database.
- Featured models based in Sub-Saharan and North Africa, Asia and Latin America
- 109 skills-based publications featured on the Research and Evidence library



[Home](#) [Programs](#) [Research & Evidence](#) [Forums](#) [Funders](#) [Blog](#)

Skills for Work



Use this topic page to explore programs and resources related to preparing young people for meaningful work, whether in the informal or formal sector. Here you will find programs ranging from innovative finance mechanisms enabling individuals and entire cohorts to acquire technical skills, to mentorship and placement programs that ensure those skills are transferred to the workplace. You can also browse resources related to the impact of skills development on countries and their economies.

Programs: 70

Research & Evidence: 109

Next Steps and Questions

Call to Action

What ideas are:

- Ready to try?
- Need development work?
- Need further analysis?



Do we need an entity like the Millennium Foundation to push ahead with new ideas on innovative financing in education?

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**RESULTS FOR
DEVELOPMENT**