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Aid to education: a return to growth?

The Sustainable Development Goals (SDGs) have set an ambitious target for the international community: by 2030, all young people should be completing secondary school of good quality. The challenge is a daunting one; in 2010–2015, on average only 45% of young people were completing secondary school. More and better financing will be an essential part of any strategy to achieve the goal.

This financing cannot come only from the countries most affected by the challenge; international solidarity is needed. In 2015, the *Global Education Monitoring Report* estimated that an annual funding gap of at least US\$39 billion per year would persist in 2015–2030, even after accounting for an expansion of low and lower middle income countries' capacity to raise their own revenues for education. Closing the gap would require a six-fold increase in levels of aid. About half of that gap refers to low-income countries, where as much as 42% of education costs would need to be met by external financing (UNESCO, 2015).

The 2015 Addis Ababa Action Agenda provided a global framework for financing the SDGs, including SDG 4 on education. It addresses all sources of finance, but particularly focuses on public and external sources.

On public financing, the Agenda included a commitment to 'redouble efforts to substantially reduce illicit financial flows by 2030 ... including by combating tax evasion and corruption through strengthened national regulation and increased international cooperation'. A further commitment was made to reduce opportunities for tax avoidance through incorporating anti-abuse clauses into

tax treaties. Countries also committed to ensuring that 'all companies, including multinationals, pay taxes to the Governments of countries where economic activity occurs and value is created' (United Nations, 2015).

On external financing, developed countries committed once again to allocate 0.7% of gross national income to aid. Indeed, the GEM Report estimated in 2015 that the funding gap could be filled if all donors from the Organisation for Economic Co-operation and Development Development Assistance Committee (DAC), as well as selected non-DAC donors, were to meet this target and also allocate 10% of their aid portfolio to basic and secondary education.

This paper provides an update on donor commitments using the latest available data.¹ It also discusses the prospects for the main multi-stakeholder partnerships in external financing in education, a type of initiative that the Addis Ababa Action Agenda recognized as essential. The year 2018 could be an important one for the international education financing architecture. In February, the Global Partnership for Education secured pledges to replenish its fund for 2018–2020. Another multilateral partnership, Education Cannot Wait, is consolidating its position as a focus point for the financing of education in emergencies. Finally, the International Finance Facility for Education, an initiative of the International Commission on Financing Global Education Opportunity, is taking shape as a proposal to donors and multilateral banks. The status of these three mechanisms underlines the need for education to be given higher priority in international development cooperation.

Aid to education reached an all-time high in 2016

In 2016, aid to education reached its highest level since records on disbursement were established in 2002 (Figure 1).² Between 2015 and 2016, aid to education grew by US\$1.5 billion, or 13% in real terms, to reach US\$13.4 billion. Two-thirds of this increase are accounted for by an increase in aid to basic education. After nearly a decade of stagnation, basic education aid increased by 17%, from US\$5.1 billion in 2015 to US\$6 billion in 2016, the largest absolute increase since records began. Aid to secondary and post-secondary education also increased, but by a smaller amount, with the result that basic education's share in total aid also reached its highest level, at 45% (Figure 2).

This is faster than the increase of total official development assistance (ODA) in 2016 by 9%. In 2017, ODA amounted to US\$147 billion, a small decrease of 0.7% compared with 2016 in real terms, owing to the fact that donor countries allocated less to refugee costs at home, which are reported as ODA during the first year of refugee settlement in a donor country. Removing this refugee-related expenditure, all other ODA spending to developing countries increased by 1.1% from 2016 in real terms (OECD, 2018).

The share of education in total aid, excluding debt relief, increased for the first time since 2009, rising from 6.9% in 2015 to 7.6% in 2016 (Figure 3).

AID TO BASIC EDUCATION

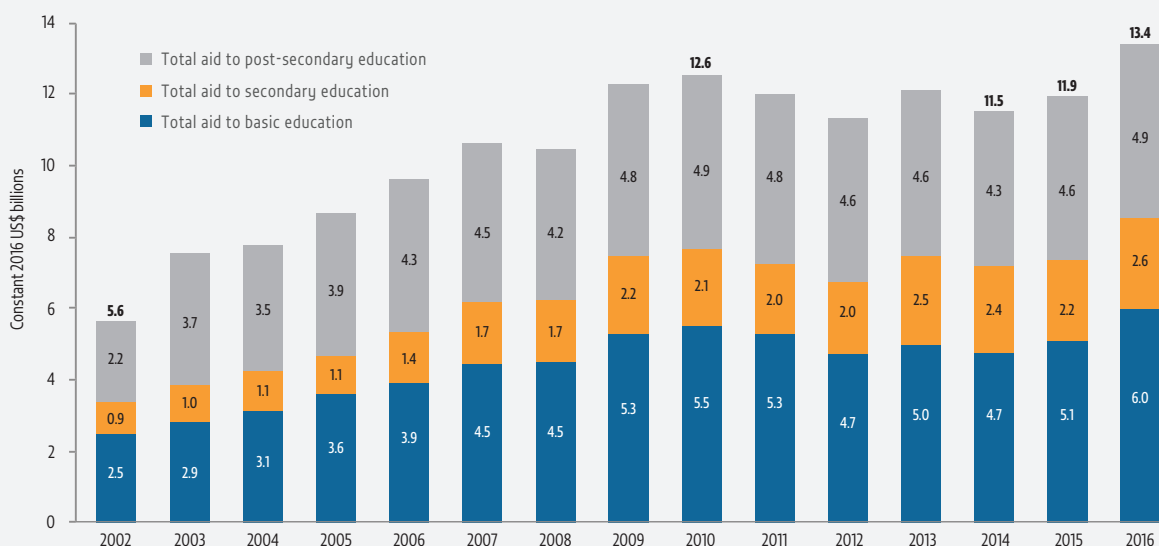
After five consecutive years of declining aid levels, DAC member countries increased their allocations to basic education, disbursing US\$3.7 billion, or 62% of their total aid to education – enough to account for the entire overall increase. Multilateral donors, such as the World Bank and the European Union institutions, disbursed US\$2 billion, staying at the same level as in 2015. Non-DAC member countries, notably thanks to the United Arab Emirates, now account for 5% of total aid to basic education.

The United States and the United Kingdom remain the largest bilateral DAC donors to basic education. In 2016, the United States increased its disbursement from US\$800 million to US\$1.2 billion, bringing the average in 2014–2016 to almost US\$1 billion (Figure 5a).³ Likewise, the United Kingdom increased its allocation by more than US\$300 million in 2016. Together with the World Bank, the other top three donor, their disbursements amounted to 46% of total aid to basic education.

FIGURE 1:

Aid to education reached a high in 2016

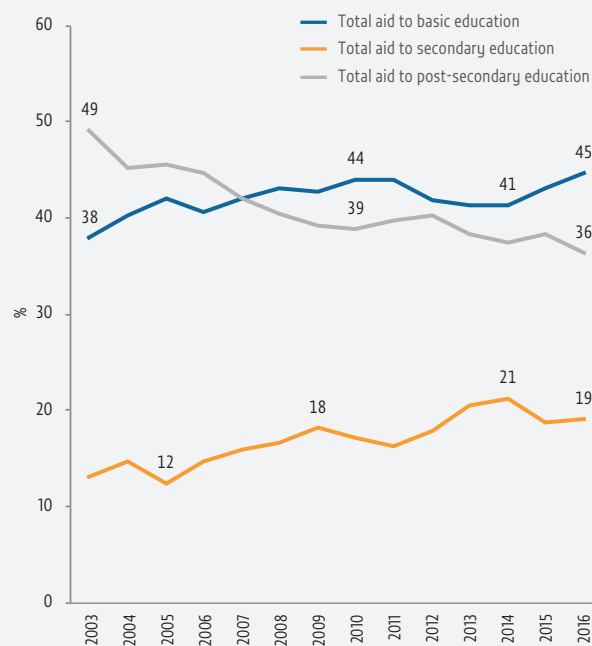
Total aid to education disbursements, by level of education, 2002–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 2:
The share of basic education in total education aid reached its highest level in 2016

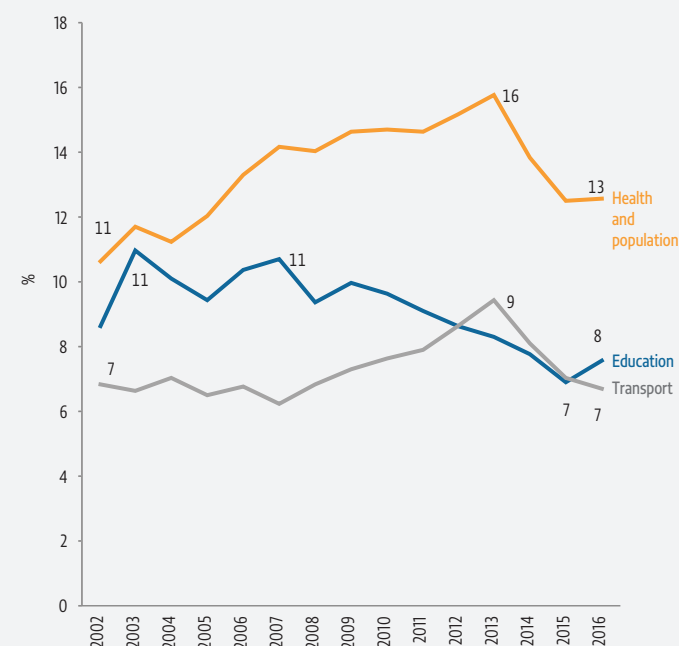
Share of aid to education, by level of education, 2003–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 3:
The share of education in total aid increased for the first time since 2009

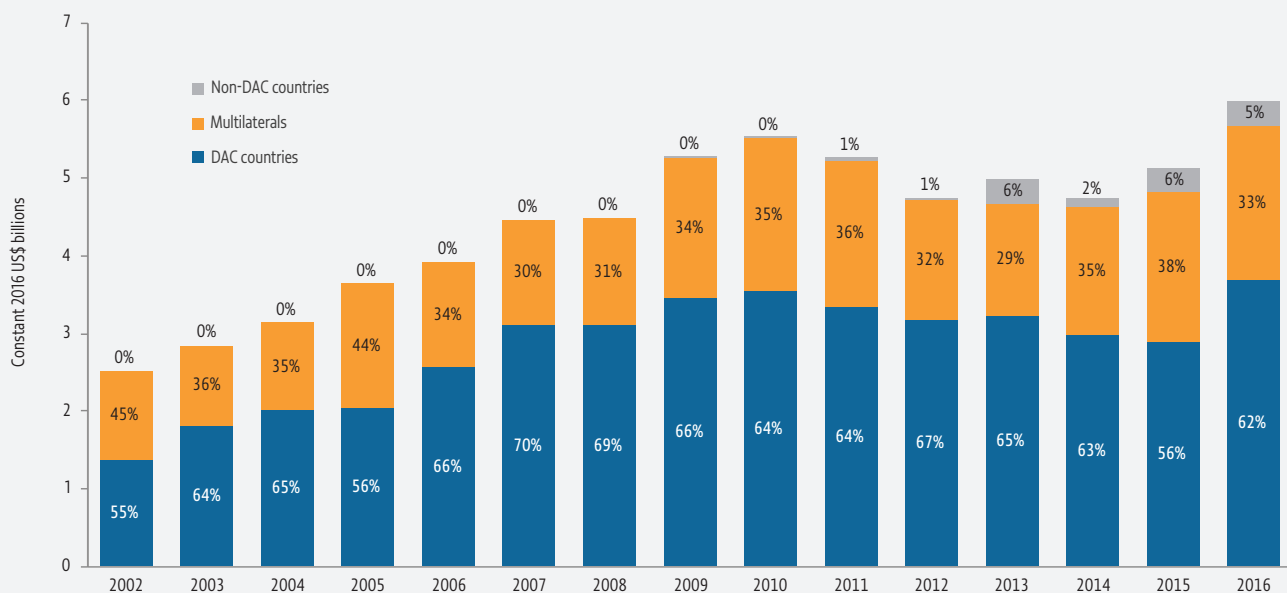
Share of education, health and population, and transport in total aid, 2002–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 4:
DAC countries increased support to basic education in 2016

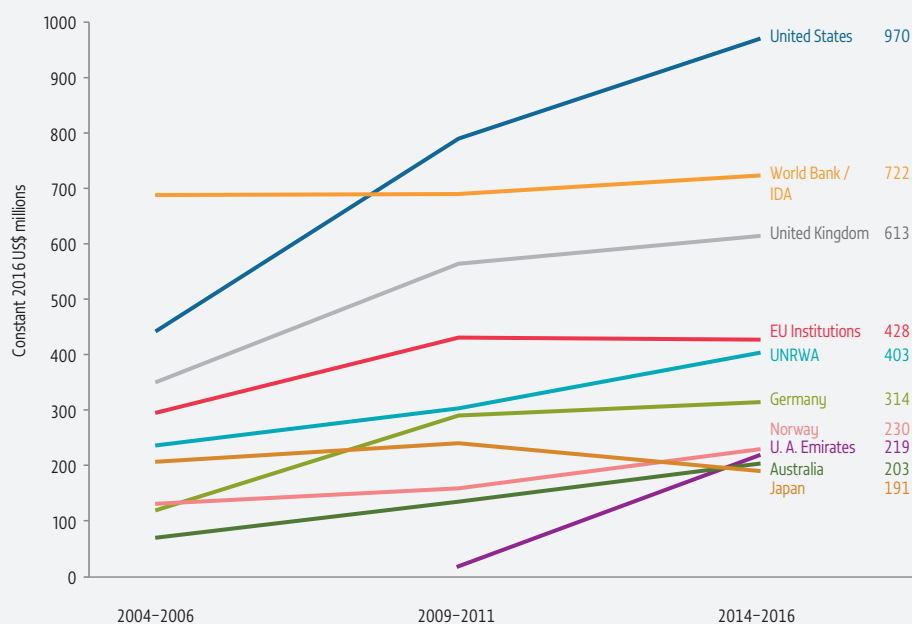
Total aid to basic education, by donor type, 2002–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 5a:**The United States, the United Kingdom and the World Bank account for almost half of total aid to basic education**

Top 10 bilateral and multilateral donors to basic education, 2004–2006, 2009–2011, 2014–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

Nevertheless, these disbursements are not indicative of the overall effort that donors are making to finance basic education in developing countries. To assess that, basic education needs to be examined as a share of, firstly, total aid to education and, secondly, gross national income. Few donors prioritize aid and, within their aid portfolios, few prioritize basic education. Norway, which allocates 78% of its education aid to basic education, spends 0.075% of its gross national income on basic education, the highest share among bilateral donors – and more than 12 times higher than the United States (Figure 5b).

Aid disbursements to basic education have increased, but they are still not allocated to countries most in need. One of the thematic indicators of SDG target 4.5 focuses on the percentage of aid allocated to the poorest countries, which can be defined either as those classified by the World Bank as low income countries or those classified by the United Nations as least developed countries. The share of basic education aid to low income countries fell from 52% in 2002 to 22% in 2016. By contrast, the share allocated to least developed countries increased from 31% to 34% – yet is still well below the peak of 47% reached in 2004 (Figure 6a).

The shortfall reflects the long-term decline in the share allocated to sub-Saharan Africa, which is home to half of all out-of-school children worldwide. The region used to receive half of the total aid to basic education, but its share has continued the downward trend of the past seven years, reaching 24% in 2016 (Figure 6b). Some of this decline may be due to the increase in the share of Northern Africa and Western Asia, a region of the world particularly affected by conflict. However, it may also be the case that the decline is not as large as it appears. Aid allocated through the Global Partnership of Education is an increasing part of aid to basic education, and although it is not possible to measure its allocation by region, GPE aid overwhelmingly targets sub-Saharan Africa. This uncertainty may be resolved when the Global Partnership of Education begins reporting to the OECD as a separate entity.

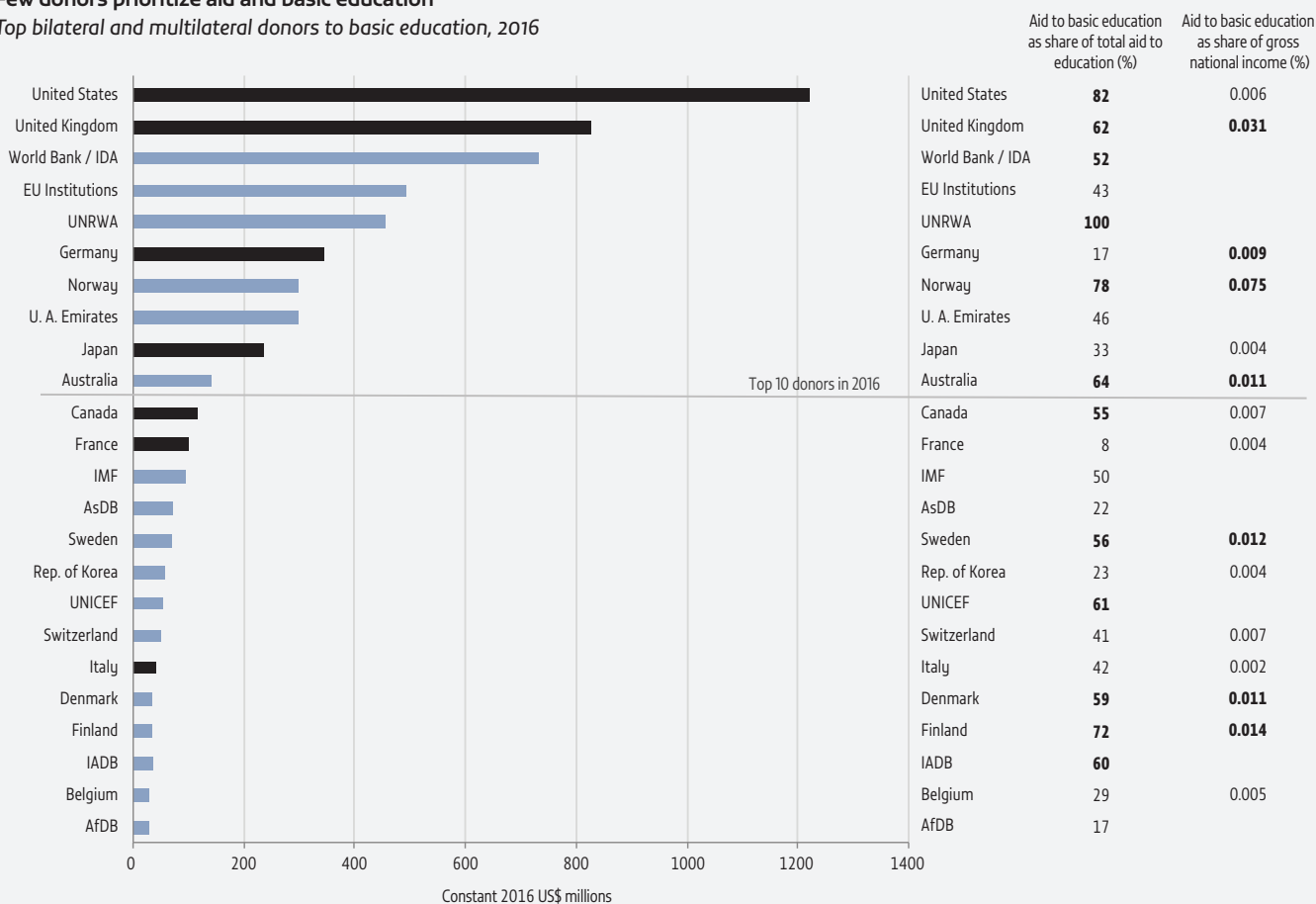
AID TO SECONDARY EDUCATION

In 2016, total aid to secondary education increased by 15% to reach US\$2.6 billion, also its highest level since the data were first published on disbursements in 2002. About 60% was disbursed by bilateral donors, of

FIGURE 5b:

Few donors prioritize aid and basic education

Top bilateral and multilateral donors to basic education, 2016

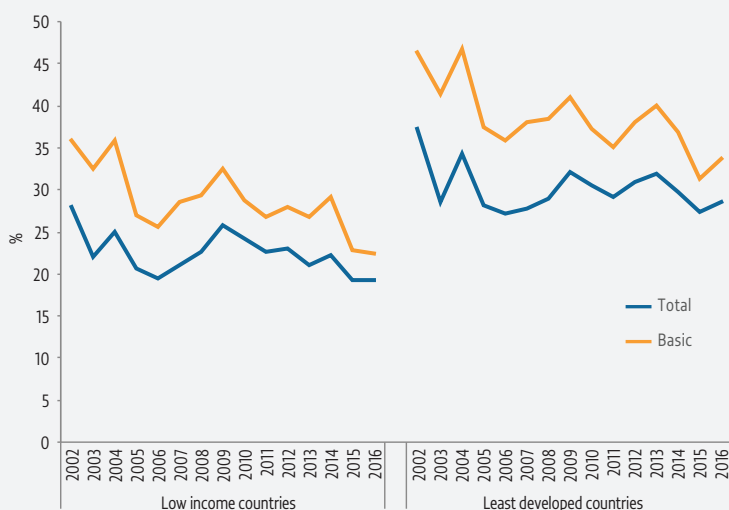


Note: G7 countries are in black bars. Figures in bold are above average. The following acronyms are used: AfDB = African Development Bank; AsDB = Asian Development Bank; IADB = Inter-American Development Bank; and IDA = International Development Association. Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

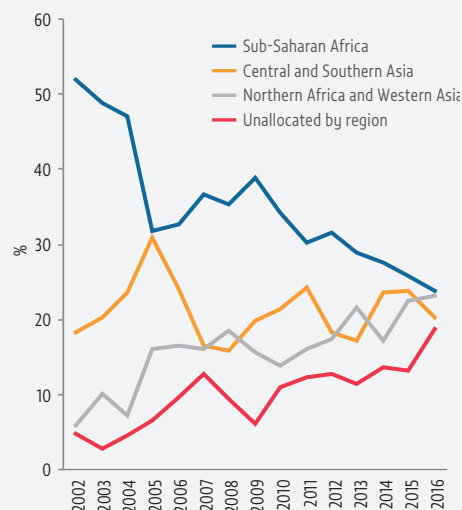
FIGURE 6:

The share of aid to education going to the poorest countries is trending downwards

a. Share of low income countries and least developed countries (LDCs) in total aid to education and to basic education disbursements, 2002–2016



b. Share of total aid to basic education disbursements, by selected regions, 2002–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

which the top two DAC donor countries were the United Kingdom (US\$265 million) and Germany (US\$259 million) (Figure 7a). The United States, the largest bilateral donor of aid to education ranks 18th in this category. As in basic education, the United Arab Emirates is the largest non-DAC donor country and the seventh highest donor to secondary education overall; at US\$109 million in 2016, its aid accounted for 10% of bilateral aid and 6% of total aid to secondary education. The World Bank, the EU institutions and the Asian Development Bank are the three largest multilateral donors to secondary education. While the World Bank has increased its aid to secondary education after the financial crisis, the EU institutions are spending less (Figure 7b).

AID TO POST-SECONDARY EDUCATION

In 2016, total aid to post-secondary education increased by 7% to reach US\$4.9 billion, a level last disbursed in 2009. There is a much larger concentration of donors at this level, with Germany (US\$1.236 billion) and France

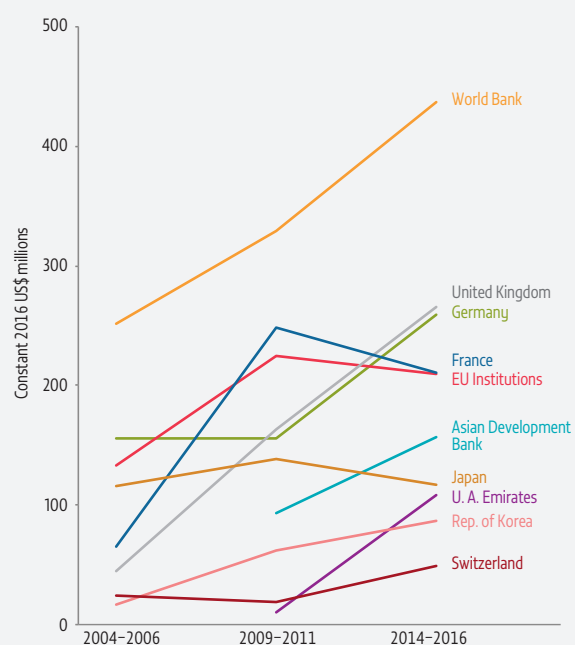
(US\$880 million) dominating disbursements in 2014–2016 (Figure 8a). Countries that do not feature among the top donors in basic and secondary education, such as Austria and the Netherlands, appear among the top donors in post-secondary education (Figure 8b). More of the aid to post-secondary education is allocated to middle income countries than to low income countries: low income countries received 13% of the total aid to post-secondary education in 2016, and their share has been declining since 2010.

AID TO TEACHER TRAINING

SDG target 4.c makes explicit reference to ‘international cooperation for teacher training in developing countries, especially least developed countries and small island developing States’ as a means of increasing the supply of qualified teachers. However, this addition to the target seems out of proportion to the role that international cooperation actually plays in teacher education.

FIGURE 7a:

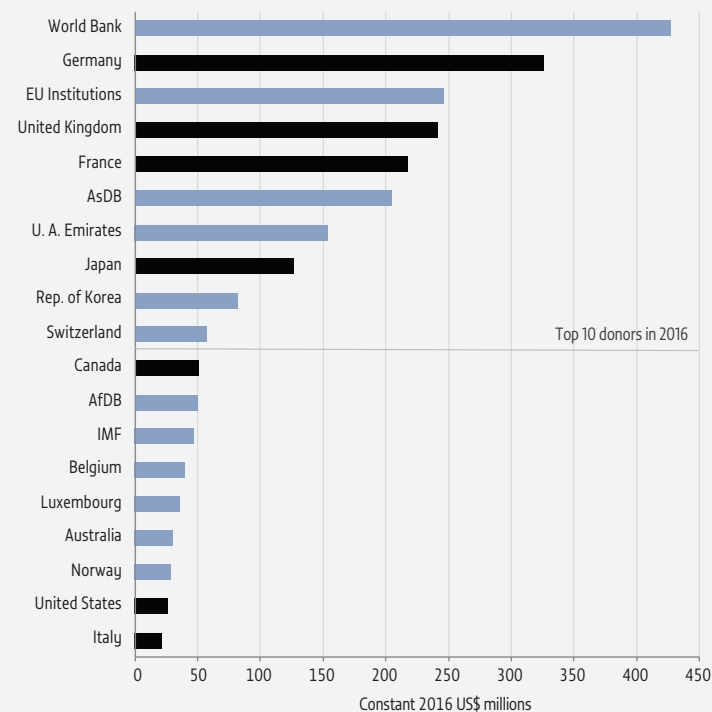
The top two bilateral donors to secondary education are Germany and the United Kingdom
 Top 10 bilateral and multilateral donors to secondary education, 2004–2006, 2009–2011, 2014–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 7b:

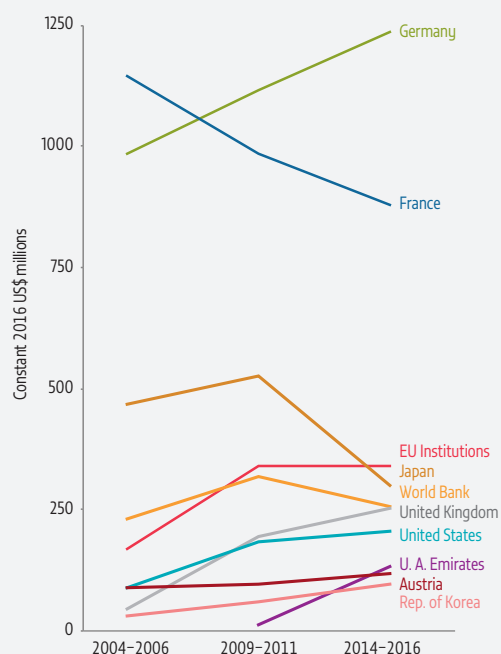
A different group of donors prioritizes secondary education
 Top bilateral and multilateral donors to secondary education, 2016



Note: G7 countries are in black bars.
 Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 8a:**Germany and France are the two leading donors to post-secondary education**

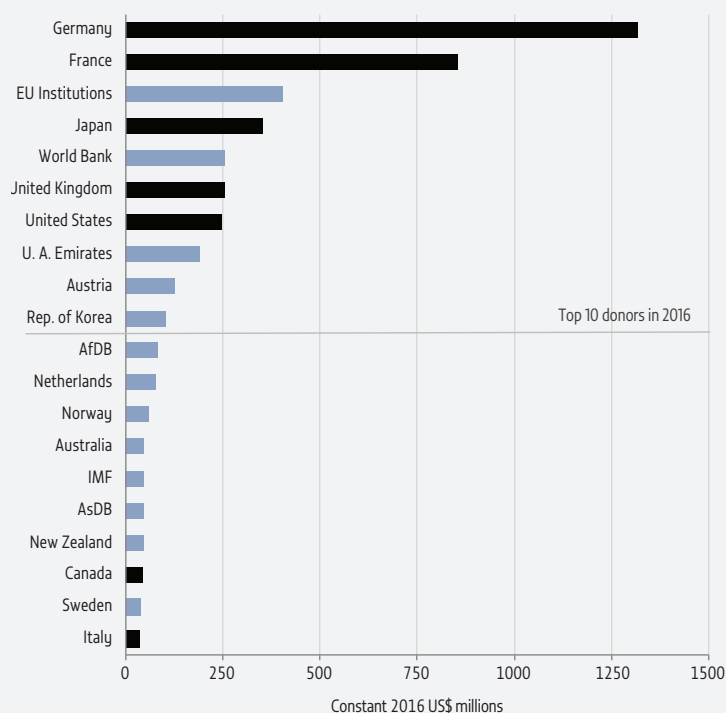
Top 10 bilateral and multilateral donors to post-secondary education, 2004–2006, 2009–2011, 2014–2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

FIGURE 8b:**G7 donors tend to prioritize post-secondary education**

Top bilateral and multilateral donors to post-secondary education, 2016



Note: G7 countries are in black bars.

Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

The OECD Creditor Reporting System database has a special code for teacher training, enabling reporting of investment in the sector. The code does not capture the total amount of external support to teacher training, however, since part of it may be subsumed under other general purpose codes. Between 2002 and 2016, donors increased their disbursements five-fold from US\$64 to US\$318 million, which is equivalent to 2% of total aid to education. Sub-Saharan African countries received 41% of the total, while India received 22% in loans from the World Bank.

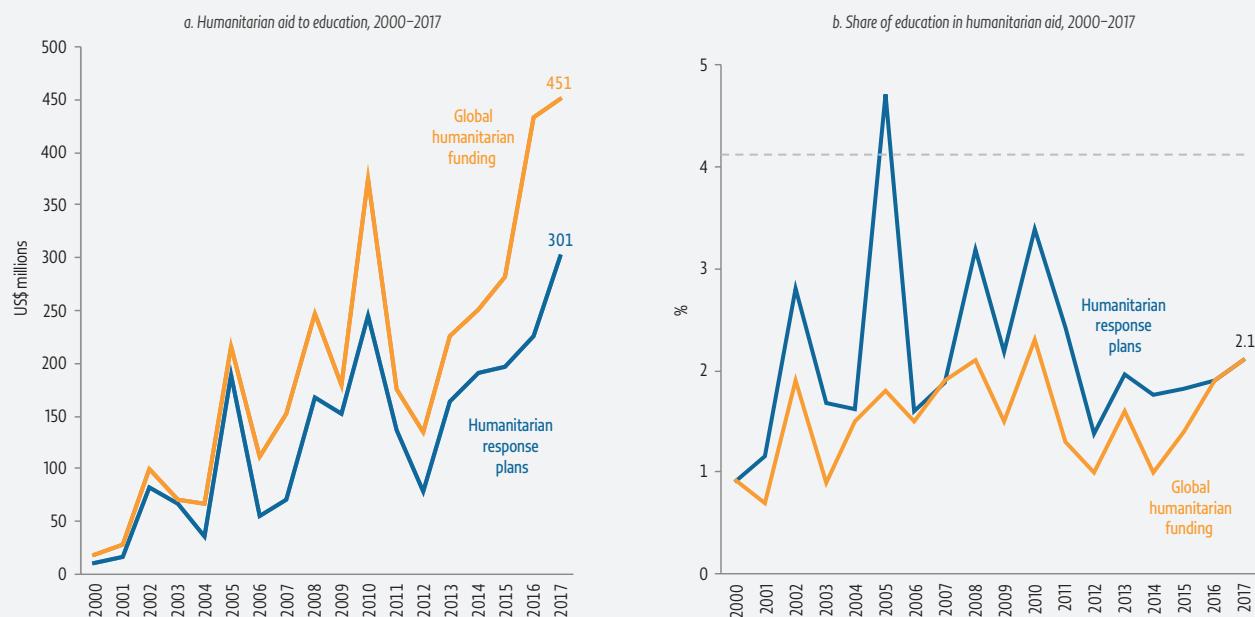
HUMANITARIAN AID

The above statistics refer to development aid that follows a long-term programming process. They do not include humanitarian aid, which responds to crises

and emergencies and is channelled through different mechanisms. The source of information for this funding flow is the Financial Tracking Service of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). Reporting distinguishes the part of global humanitarian funding that funds humanitarian response plans.

In 2017, humanitarian aid increased for a fourth year in a row. Global humanitarian funding to education reached US\$450 million, of which US\$301 million addressed humanitarian response plans (Figure 9a). However, the share of education in total humanitarian aid was 2.1% in 2017, which is far below the requirements as well as the indicative target of allocating at least 4% of humanitarian aid to education (Figure 9b).

FIGURE 9:
Humanitarian aid to education increased for a fourth year in a row



Source: Office for the Coordination of Humanitarian Affairs (2018).

External financing for education in lower middle income countries needs to increase

As the previous analysis has shown, much progress could be made towards bridging the financing gap in low income countries by reforming current aid allocations, first, to re-direct more aid to basic and secondary education and, second, to specifically target low income countries. However, this would still leave open a large part of the financing gap for achieving the SDG 4 targets in lower middle income countries. The *Global Education Monitoring Report* has estimated that aid to lower middle income countries amounts to 3% of total public education expenditure, or 2% of total education expenditure if household spending is also included.

While this is a small share, it is unequally distributed. Some lower middle income countries face a much larger financing gap. Moreover, aid to these countries tends to fall faster than their tax revenues rise. The question is to what extent it is realistic to expect funding to lower middle income countries to be expanded. Multilateral financing institutions may hold some of the answers.

A key success of the Global Partnership for Education has been its effective targeting of the world's poorest countries. At its third financing conference in Dakar in February, pledges worth US\$2.3 billion were made to replenish the fund for 2018–2020, which will further strengthen its position as the main multilateral financing institution for education in low income countries: in 2016, it disbursed US\$351 million to low income countries out of total disbursements worth US\$497 million. Its active portfolio of 44 countries could expand to reach all its 65 partner countries. However, as it fell short of its replenishment target of US\$3.1 billion, plans to expand to more lower middle income countries to reach its declared objective of 89 partners could risk spreading activities too thinly.

Having said that, lower middle income countries are among those eligible to apply for a new tool, the GPE Multiplier, approved by the GPE Board in 2017. Its aim is to crowd-in more resources: for every US\$3 in new external resources that a government raises for education, it can access US\$1 from the GPE Multiplier to support its plan. The initial programme of US\$100 million is supposed to be expanded to US\$300 million by 2020.

Education Cannot Wait, the second multilateral financing institution established in recent years, focuses on education in emergencies. It offers a pooled fund for governments, non-governmental organizations (NGOs) and donors. In addition to ensuring greater and more flexible financing, it aims to improve collaboration and coordination between humanitarian and development actors, to encourage national ownership of programmes and to foster a cross-sectoral approach, addressing both immediate and long-term needs. It aims to convene expertise and capacities of existing partners (e.g. ministries of education, NGOs, UN agencies, etc.) and coordination mechanisms and instruments (e.g. education clusters, humanitarian response plans). Although Education Cannot Wait covers middle income countries, its mandate is specific to crises and emergencies and would only partly address system-wide interventions.

DELIBERATIONS CONTINUE ON AN INTERNATIONAL FINANCE FACILITY FOR EDUCATION

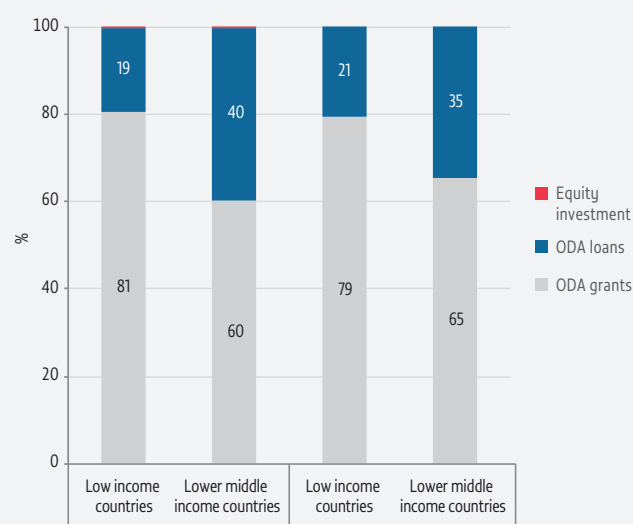
The need to fund educational expansion in lower middle income countries led the International Commission on Financing Global Education Opportunity (the Education Commission) to propose the establishment of the International Finance Facility for Education (IFFEd) (Education Commission, 2017). This financing mechanism is expected to generate additional resources through multilateral development banks: the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, the European Bank for Reconstruction and Development and the World Bank.

Aid is often seen as a single transfer of resources to developing countries. In practice, it is diverse, using not just a range of modes, instruments and channels but also coming in two main types: grants and loans at concessional terms. Low income countries received 81% of their total aid and 79% of their total aid to education in the form of grants in 2016. By contrast, lower middle income countries receive a larger proportion of their education aid in the form of concessional loans, although the share of loans in total aid is lower for education (35%) than for total aid (40%) (Figure 10).

For example, the World Bank's loans to education come through two institutions. First, the International Development Association (IDA) provides loans applying concessional terms (i.e. extended terms, long grace periods, below-market-interest rates) to 75 countries with

FIGURE 10:
Concessional loans form a considerable part of official development assistance, even in education

Distribution of official development assistance by type, 2016



Source: GEM Report team analysis based on OECD Creditor Reporting System (2018).

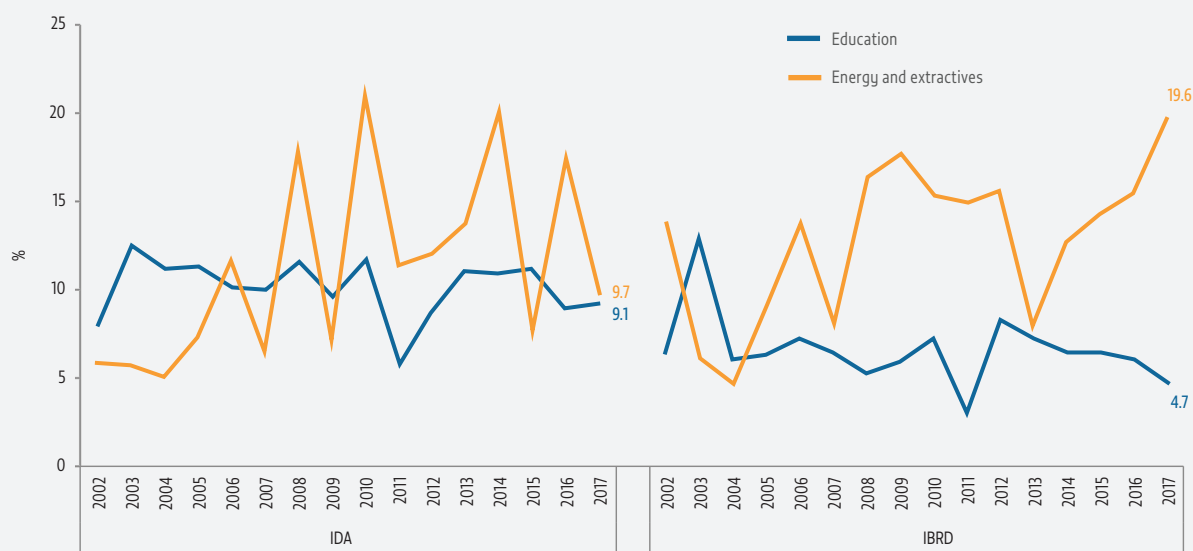
limited access to private financial markets. These include all the low income countries, along with many small island developing states as well as selected lower middle income countries such as Nigeria and Pakistan (known as blend countries because they can also borrow on non-concessional terms). Second, the International Bank for Reconstruction and Development (IBRD) lends mostly to middle income countries on non-concessional terms.

The IFFEd proposal recognizes that multilateral development bank lending for education in lower middle income countries remains low, whether concessional or non-concessional. For example, the median share of education between 2002 and 2017 was 10.5% for IDA loans, but only 6.4% for IBRD loans. Moreover, the share of education in IBRD loans fell from 8.2% in 2012 to 4.7% in 2017, when the total amount of loans to education was just under US\$1.1 billion, as compared to US\$4.4 billion for the energy and extractive industries (Figure 11). And the World Bank is not unique among the multilateral development banks in finding it challenging to provide loans for education.

The key objective of IFFEd, therefore, is to invite donors (i) to provide guarantees (or other forms of contingent

FIGURE 11:**A lower and declining share of World Bank non-concessional loans go to education**

Share of total IDA and IBRD lending, education vs. energy and extractives, 2002–2017



Source: GEM Report team analysis based on selected World Bank Annual Reports.

commitments) to help insure the portfolio and increase the capacity of multilateral development banks to expand lending to education and (ii) to provide grants to blend with loans to lower their cost and make them more attractive to borrowing countries (Education Commission, 2018).

World leaders at the 2017 G20 Hamburg Summit in November 2017 ‘noted’ the proposal to establish IFFEd and would ‘look forward to examining it in further detail under Argentina’s Presidency with a view to making recommendations on it’. The Summit leaders’ declaration also said that this should take ‘into account other existing initiatives, such as the Global Partnership for Education and Education Cannot Wait’. In May 2018, the United Nations Secretary-General received a petition calling for the establishment of IFFEd and made a strong appeal for the international community to support it.

In the coming months, intensive negotiations are expected to clarify the nature of the institutional set-up, the level of donor commitment and the governance arrangements to put the multilateral development banks

at the centre. The new entity would need to obtain a rating by credit agencies. In addition, a process would need to be established to demonstrate that IFFEd loans are additional and would not have been granted otherwise. Demonstrating that the new loans are additional and better targeted than current loans may require a larger secretariat than currently envisaged.

One pertinent question is whether IFFEd funding will count as ODA, like IDA loans, or not, like IBRD loans, which are considered ‘other official flows’. According to the current OECD definition, to be considered as ODA, a loan must have a grant element of at least 25%, calculated at a discount rate of 10%, and be ‘concessional in character’. A new definition of ODA will come into effect in early 2019, under which only loans with a grant element of at least 45% will be reported as ODA for low income countries and other least developed countries. Loans to lower middle income countries will need to have a grant element of at least 15% to be reported as ODA. In addition, only grants and the ‘grant portion’ of concessional loans will be considered as ODA, in contrast to the current definition

whereby the face value of both grants and loans is counted as ODA (OECD, 2015). On the basis of these definitions, the grant element of IFFEd funding will be recorded as aid and the loan element as other official flows outside of ODA.

Conclusion

The 2016 increase in aid to education is welcome even if it is well below the level identified as necessary to cover the cost of reaching the ambitious SDG 4 targets. It also needs to be sustained for several years just to make up for the stagnation over 2010–2015. The expansion and deepening of multilateral financing institutions targeting education also offers hope for more progress. Adequate external financing opportunities for education should be available to both low and lower middle income countries. But more remains to be done to ensure that aid goes where it is most needed and that the appropriate coordination mechanisms are in place.

Endnotes

- 1 Data come from three sources: Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) and Creditor Reporting System (CRS) databases; the Global Partnership for Education (GPE); and the United Nations Office for the Coordination of Humanitarian Assistance (OCHA). The most recent data are mainly from 2016, except for the total Official Development Assistance data and the humanitarian aid data, which are from 2017.
- 2 Total aid to education is defined as direct aid to education plus 20% of general budget support (aid provided to governments without being earmarked for specific projects or sectors). Although budget support is not earmarked for education, it is often used to cover education.
- 3 As aid may fluctuate on a year-to-year basis, for reasons related to the timing of disbursements rather than changes in policy, a representation of disbursements through three-year averages is better suited to capture long-term trends for individual donors.

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c/o UNESCO
7, place de Fontenoy
75352 Paris 07 SP, France
Email: gemreport@unesco.org
Tel: +33 (1) 45 68 10 36
Fax: +33 (1) 45 68 56 41
www.unesco.org/gemreport

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