TOOL 5.1: GUIDANCE

**ECE FINANCING RESOURCE GUIDE**

# Where does financing for ECE come from?

When looking at your particular country context, you may want to map out all the current sources for ECE funding. Conventional financing for ECE is often comprised of multiple funding streams that may come as a mix of central, regional, and local sources. Possible conventional funding sources for ECE may include:

* Public/government funding, possibly from a mix of central, regional, and local sources
* Private sources, such as NGOs, philanthropies, foundations, faith-based organizations, community proprietors
* Bilateral aid from national governments
* Multilateral aid, such as GPE, World Bank, UNICEF, World Food Programme, etc.
* Community-based
* Country-specific sources

In some cases, households may also be expected to contribute to their children’s pre-primary education, such as by contributing to school expenses, paying for school meals, and contributing to extra childcare time in schools. Given the high rate of private provision, many pre-primary centers require that parents contribute to enrolment costs. Determining domestic ECE financing patterns, such as the different sources used and how these different sources provide support to the different types of pre-primary programmes in the country, may be a useful step in figuring out how to expand quality ECE. A multi-pronged approach is often needed in order to deal with funding aspects as well as potential quality and management issues that also have financial implications.

An important consideration is not only to ensure that there is adequate and efficient financing for ECE, but that this financing is effective. In essence, you want to make sure that you spend efficiently but also that you are reaping as many outcomes as possible from the monies that are allocated to ECE. As such, it is important to examine ECE interventions and implementation modalities through the lens of efficiency and effectiveness to prioritise those that ensure the best value for money. Of note, low public financing (especially if there is relatively high ECE coverage) in a country may raise important sustainability and equity questions, going back to the concept of ECE as a public good. While public spending on ECE is essential, and establishing long-term domestic funding for ECE, there are [complementary avenues](https://bernardvanleer.org/app/uploads/2016/07/Early-Childhood-Matters-2016_9.pdf), such as innovative financing mechanisms, that can supplement and stimulate more conventional financing in the short-medium term. Furthermore, some innovative financing mechanisms, such as results-based financing, can also contribute to spending more effectively and reaping as many outcomes as possible from allocated monies.

# Public Financing for ECE

Public financing is key to ensuring sustainability when it comes to pre-primary education. The [UNICEF programme guidance for ECD](https://www.unicef.org/documents/unicef-programme-guidance-early-childhood-development) indicates that one of the six key implementation strategies is strengthening domestic public financing.

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| **It is important to outline the resource requirements for ECE.**  **Financing should follow the needs outlined through an extensive**  **needs assessment process. The** [**ECE Simulation Model**](https://www.ece-accelerator.org/resources/early-childhood-accelerator-simulation-model) **is a tool that**  **can support countries in estimating needs to ensure universal access**  **to pre-primary education. The Simulation Model also provides a detailed outlook of the human, infrastructural, and financial resources needed to meet country targets for the provision of ECE as defined by national ESPs.** |

Public financing for ECE is important because it is more predictable and sustainable - items in national budgets are likely to remain there. There is also an equity aspect in that, unlike other funding sources, public financing can finance services in areas and populations where the availability of other sources is lower, such as when families cannot afford the extra costs. Further, there is a significant positive relationship between the amount of funds allocated to pre-primary education and the percentage of children who are enrolled in pre-primary education, even after controlling for country wealth, demography and the overall education budget. However, many countries underinvest in pre-primary education, with the amount dedicated to pre-primary education often falling far short of the recommended 10% of the education budget.

However, improving the situation of pre-primary education in national budgets is not as simple as moving money from one subsector to another. Rather, strategies to increase pre-primary financing may include lowering the government unit cost of higher levels of education through innovation, greater efficiency and cost-sharing mechanisms that prioritize the use of public resources for the most marginalized populations. Additionally, funding the pre-primary subsector is linked to efficiencies in the primary and secondary subsectors associated with the benefits gained by increasing enrolment in pre-primary education.

**The following recommendations address how public financing for ECE can be strengthened:**

* Place pre-primary education on a firm financial footing by progressively increasing ECE budgets to reach the suggested allocation of 10 per cent of education budgets to the subsector.
* Use available resources more equitably and efficiently, namely, to track expenditures to pinpoint areas needing the most improvement, while monitoring efficiency and financing gaps.
* Coordinate national and subnational budgets, while building accountability mechanisms and capacities for implementation.
* Progressively increase international education aid to pre-primary education to at least 10 per cent of international education investments, catalysing and complementing public resources.

For the sources of this information, as well as further reading, see: Chapter 4 in [*A world ready to learn*](https://www.unicef.org/reports/a-world-ready-to-learn-2019)*,*  [*Add today multiply tomorrow: Building an investment case for early childhood education*](https://www.unicef.org/reports/add-today-multiply-tomorrow), and [Global resource guide on public finance for children in early childhood development](https://www.ece-accelerator.org/resources/unicef-global-resource-guide-public-finance-children-ecd) (UNICEF, 2019). The Global resource guide explains how to diagnose and analyze public finance issues for early childhood development in different country contexts and describes core actions and key analytical tools to generate essential evidence for policy, advocacy, and budgetary decision-making purposes.

# Innovative Financing

Innovative financing is defined as a “set of financial solutions and mechanisms that create scalable and effective ways of channeling both private money from the global financial markets and public resources towards solving pressing global problems” ([ILO](https://www.ilo.org/empent/areas/social-finance/WCMS_747999/lang--en/index.htm)), such as scaling up ECE.

Innovative financing is designed to complement traditional international resource flows, such as aid and foreign direct investment, in order to mobilize additional resources for development ([Citigroup, 2014](https://www.citigroup.com/citi/foundation/pdf/innovative_financing_for_development.pdf)). Some innovative financing mechanisms, such as results-based financing, also aim at using resources more effectively towards the achievement of the desired outcomes.

One way to conceptualize innovative financing is to think about [innovative *sources* of financing and innovative *delivery mechanisms* for financing](https://futurehumanitarianfinancing.files.wordpress.com/2015/01/fhf-innovative-financing.pdf). Innovative sources help generate new financial flows that may come from various economic sectors and can include both repayable and nonrepayable sources.

**Examples of innovative sources of financing include:**

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| **Public/semi-public sources**  An example of public/semi-public sources of innovative financing are **earmarked taxes**. Earmarked taxes are when a tax is introduced and allotted to public services, such as sin taxes on goods or payroll taxes on corporations. For example, an [ECD payroll tax in Colombia](https://unesdoc.unesco.org/ark:/48223/pf0000148095) has been used to fund a variety of services since 1968, including community child care homes, parent education programmes, and child protective services.  **Private sources**  An example of private sources of innovative financing is **corporate social responsibility** **(CSR)**. CSR is the concept that companies and corporations should give back to their community through funding or implementation of projects. A [report by the Aga Khan Foundation (2018)](https://the.akdn/en/resources-media/resources/publications/early-childhood-development-ecd-and-corporate-social-responsibility-csr) highlights some collaborations between the Aga Khan Development Network and companies in the private sector regarding early childhood. |

More recent trends in innovative financing for education point to a shift from innovative sources of finance towards innovative delivery mechanisms of financing. Innovative mechanisms help maximize the efficiency, impact, and leverage of existing resources.

**Some examples of innovative mechanisms for financing include:**

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| **Block grants**  The allocation of funding by the government to schools based on student enrolment. For example, the [Indonesia Early Childhood Education and Development](https://pure.uva.nl/ws/files/19123670/The_Impact_of_Expanding_Access.pdf) project provided three-year block grants to allow local communities to either establish new preschool services or strengthen existing services.  **Results-based financing (RBF)**  An umbrella term referring to any program or intervention that provides rewards to individuals or institutions after agreed-upon results are achieved and verified. Essentially, this is a performance-based approach. One major aspect that varies amongst different types of RBF is who bears the financing risk in case results are not achieved and relatedly, who is incentivized, such as the government, investors, or service providers.  While there are a number of different types of RBF programmes, one type of programme may be more appropriate in a particular country context than another depending on the country-specific bottleneck. This approach has the potential to provide a stronger focus on the actions necessary to improve learning outcomes, foster local solutions to common education challenges, strengthen the capacity of education systems to measure and track progress, and generate data and evidence on the cost-effectiveness of interventions. As with any programme/project, RBF programmes need to be well-designed and well-implemented in order to incur benefits. When RBF programmes fail to meet these standards, they will have limited impact on reducing inefficiency and improving spending effectiveness ([source](https://www.worldbank.org/en/programs/reach)).  **Some different types of RBF are:**   * **Conditional cash transfers (CCTs)**   In conditional cash transfers (CCTs), families receive a direct cash transfer if they fulfill certain conditions, such as ensuring their children attend school. CCTs are meant to stimulate the demand for ECE. Individuals bear the greatest financial risk in CCTs, as families do not receive monies if they do not fulfill the conditions of the CCT.   * **Impact bonds**   Impact bonds incorporate the use of private investors, often impact investors (see above), to cover the upfront capital required for a provider to set up and deliver a service. The investors are repaid by an outcome funder contingent on the achievement of agreed-upon results. Different types of impact bonds include:   * Social impact bonds, where the outcome payer is the government; * Development impact bonds, where the outcome payer is a third party, such as a donor; * Humanitarian impact bonds, a variation of development impact bonds that are used in a conflict or post-conflict setting. * **Outcome funds**   Outcome funds pool funding from one or more funders and contracts multiple implementers to achieve a set of pre-defined results. In some cases, investors can bear the financial risk with outcome funds. Payments from the fund only occur when results are achieved. Outcome funds build on the notion of impact bonds, but contract multiple implementers under a common funding network, under a common funding framework to achieve greater scale, reduce transaction costs, and simultaneously test different interventions. |

**RBF Key Reference Documents**

* [A guide for effective results-based financing strategies](https://www.gprba.org/knowledge/resources/guide-effective-results-based-strategies) (GPRBA, 2018). This publication presents different types of RBF and can guide development practitioners and funders to apply the most appropriate RBF solution in their context.
* [Measuring the success of impact bonds](https://www.brookings.edu/multi-chapter-report/measuring-the-success-of-impact-bonds/) (Brookings, 2020). This webpage links to a series of five policy briefs evaluating evidence across five dimensions of success, ranging from impact bond growth trajectory to considering the costs and benefits of impact bonds.
* [Promoting early childhood development through combining cash transfers and parenting programs](https://openknowledge.worldbank.org/handle/10986/30992) (World Bank, 2018). This paper reviews the rationale for linking cash transfer and parenting programmes focused on child stimulation and the evidence on the impact of cash transfer programmes, parenting programes, and their combination.
* [Results-based financing (RBF) and Results in Education for All Children (REACH)](https://www.worldbank.org/en/programs/reach) (World Bank, n.d.). This website presents resources around the use of RBF interventions in the education sector.
* [Using impact bonds to achieve early childhood development outcomes in low- and middle-income countries](https://www.brookings.edu/research/using-impact-bonds-to-achieve-early-childhood-development-outcomes-in-low-and-middle-income-countries/) (Brookings, 2016). This report discusses potential of using impact bonds to make headway in achieving the outcomes laid out in the Sustainable Development Goals relating to early childhood development. This report is accompanied by a [policy brief](https://www.brookings.edu/wp-content/uploads/2016/07/Policy-briefwebfinal.pdf) that discusses impact bonds as a financing tool for ECD in low- and middle-income countries and the potential and limitations of their use.

**RBF Case Studies**

* Cambodia: [Expanding quality early learning through results-based financing](https://www.unicef.org/media/119771/file/Expanding%20quality%20early%20learning%20through%20results-based%20financing%20(Cambodia).pdf). This case study looks at how RBF has been used in Cambodia under the Variable Tranche of the GPE implementation grant.
* Morocco: [Preschool education in Morocco: Challenges and key potential inputs](https://www.edu-links.org/sites/default/files/media/file/Preschool%20Education%20in%20Morocco%20Challenges%20and%20Key%20Potential%20Inputs.pdf). A brief landscape of Morocco’s preschool education subsector is presented in this case study and explores the countrywide scaling of RBF through nonstate contractors to universalize preschool.
* Sierra Leone: [Advancing early learning through results-based financing](https://www.unicef.org/media/119996/file/Advancing%20early%20learning%20through%20results-based%20financing%20(Sierra%20Leone).pdf). This case study looks at how a GPE grant centred on the RBF model helped UNICEF Sierra Leone grow ECE enrolment.
* South Africa: [South Africa impact bond innovation fund](https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/south-africa-impact-bond-innovation-fund/). This example discusses the Innovation Fund Impact Bond, the first early childhood development social impact bond to be launched in South Africa.
* Uzbekistan: [Lessons learned from designing social impact bonds to expand preschool education](https://www.unicef.org/media/119781/file/Lessons%20learned%20from%20designing%20social%20impact%20bonds%20to%20expand%20preschool%20education%20(Uzbekistan).pdf). This case study showcases lessons learned in Uzbekistan around using social impact bonds to promote a RBF approach to public-private partnerships to promote early childhood development. While the country ultimately decided not to not use social impact bonds, discussion includes how RBF principles were incorporated into ECE programming.

# Public-Private Partnerships (PPP)

Public-private partnerships are a form of partnership model that involves the government collaborating with a private entity in a mutually beneficial partnership to provide services for the public. This is not the same a privatization, as the government retains control and responsibility.

**Some different types of PPP are:**

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| **Vouchers**  In a voucher system, eligible families are provided with a voucher that can be redeemed at a verified private preschool, and the school is in turn reimbursed the cost of fees from the government. This reduces costs to families and also allows families to be targeted based on need.  **Subsidies or service-delivery initiatives**  In a subsidy system, subsidies are provided directly to private preschools, based on characteristics such as the number of teachers employed, or children enrolled. This reduces ongoing costs to preschools and allows preschools to be targeted based on location. Subsidies can take two forms: an ongoing operational subsidy, where preschools receive a subsidy linked to the number of teachers employed, or an initial start-up subsidy or grant, which is a one-time transfer to the preschool. Governments can also choose to tie some or all of the subsidies to achieved results, thus making it a results-based subsidy, which is a type of RBF mechanism.  **Concessions**  Concessions are special agreements with individual private preschool providers, typically to provide support to the specific preschool provider which is not available to all preschools. This provides increased access by providing focused support that addresses specific barriers to new preschools entering a particular area. Types of concessions include a substantial public investment, reduced rent for the use of publicly-owned facilities, and the underwriting of a certain number of places at the preschool so they are funded if not filled. |

For the source of these definitions and more information, see: [*Add today, multiply tomorrow: Building an investment case for early childhood education*](https://www.unicef.org/media/129836/file/Add%20Today%20Multiply%20Tomorrow:%20Building%20an%20Investment%20Case%20for%20Early%20Childhood%20Education%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20.pdf), [Results-based financing and results in education for all children (REACH)](https://www.worldbank.org/en/programs/reach), and [*Using public-private partnerships to expand access to preschool*](https://drive.google.com/file/d/1_xHehjLdCQH_vVgYTAlztn6ELCwAYrrd/view?usp=share_link)).

For a table outlining these and additional various innovative financing mechanisms and potential benefits and drawbacks, please see Annex 1 below.

For innovative financing mechanisms to be used successfully, their design and implementation need to consider the particular economic, political, and social conditions of the implementing country. It is also imperative that equity is kept at the forefront while using both innovative financing sources and mechanisms.

While innovative financing can provide a jump start in terms of being interested in and investing in ECE, it is important that ECE not be solely associated with innovative financing but [also benefit from traditional sources of finance](https://bernardvanleer.org/app/uploads/2016/07/Early-Childhood-Matters-2016_9.pdf). Financing for the pre-primary subsector needs to be integrated into financing for core services while leveraging these innovative sources and mechanisms in order to improve access to and the quality of ECE services.

**PPP Key Reference Documents**

* [Public-private partnerships in early childhood development: The role of publicly funded private provision](https://www.brookings.edu/wp-content/uploads/2016/11/global-20161129-public-private-partnerships.pdf) (Brookings, 2017). This study explores the application of PPPs for pre-primary education and parent education about early stimulation, analyzing the potential to address capacity constraints as well as potential challenges. Case studies of PPPs for ECD in Mozambique and South Africa are included.
* [Public-private partnerships in early childhood education: International experience and lessons for Uzbekistan](https://www.unicef.org/uzbekistan/media/3731/file/PPP%20for%20ECCE_Eng.pdf) (UNICEF, 2018). This review of PPP models in general and in pre-school education looks a the different type of PPP models and potential benefits and challenges for education, taking into consideration educational objectives of access, quality, equity, and efficiency.
* [Public-private partnerships in education: Conditions for success](https://www.edu-links.org/resources/publicprivate-partnerships-education-conditions-success) (Education Finance Network & USAID, 2023). This evidence brief reviews the literature on PPPs in primary and secondary education and identifies the necessary conditions for the effective implementation of PPP models.
* [Using public-private partnerships to expand access to preschool](https://drive.google.com/file/d/1_xHehjLdCQH_vVgYTAlztn6ELCwAYrrd/view?usp=share_link) (Oxford Policy Management, 2021). This brief provides a summary of lessons learned from a study conducted by Oxford Policy Management for UNICEF Serbia on the feasibility of PPP to expand access to preschool equitably. Case studies from Austria, Finland, Latvia, Norway, and Slovenia are included. More information can be found [here](https://www.opml.co.uk/projects/studying-feasibility-public-private-partnerships-increasing-preschool-enrolment).

**Funding Specific to GPE Countries**

The Global Partnership for Education (GPE) is a multi-stakeholder partnership global fund is dedicated to transforming education in lower-income countries. GPE both brings together donors, multilateral institutions, civil society, teacher representatives, philanthropic foundations, and the private sector behind [partner country](https://www.globalpartnership.org/where-we-work/partner-countries) governments’ plans as well as provides financing to catalyze reforms and support national action and commitment.

GPE’s 2025 operating model is centered around the partnership compact. The partnership compact is a policy framework that articulates priority areas for reform.

It articulates how a GPE partner country “intends to work together with partners around a priority reform that has the potential to catalyze system change” ([GPE, 2021](https://assets.globalpartnership.org/s3fs-public/document/file/2022-02-gpe-partnership-compact-development-guidelines.pdf?VersionId=QWtXsVyBvIyJ17_52O_l.rQY4pXoQw3o)). The compact serves as a blueprint for mutual accountability among partners and is used as background information by the GPE Board of Directors for the approval of the strategic focus and amount of the System Transformation Grant.

Additionally, the partnership compact is the basis on which most additional GPE support (technical or financial) can be sought. More information about GPE’s partnership compact can be found [here](https://www.globalpartnership.org/funding/how-apply-grants#partnership-compact).

**GPE offers** [**different types of grants**](https://www.globalpartnership.org/funding/how-apply-grants) **to support education in partner countries. These include:**

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| [**System Capacity Grants (SCGs)**](https://www.globalpartnership.org/funding/how-apply-grants#system-capacity-grant)  These grant allocations range from $1,000,000 to $5,000,000 over a five-year period from 2021 until 2025 included. SCGs provide continually available and flexible funding to support system-wide capacity strengthening across all aspects of GPE’s country-level objectives. It is a key lever for further GPE funding and a building block in support of countries’ capacity to build stronger education systems. The full amount of the SCG does not need to be programmed at the time of the compact.  GPE partner countries can draw down SCG funding flexibly to respond adaptively to needs that arise during implementation of plans or policies. Examples of project SCGs can fund include: a detailed diagnostic of the ECE subsector; strengthening of education management information systems (EMIS) to include ECE from many different service providers; cross-sectoral convening on early childhood development; and institutional capacity needs assessments for ECE officials and/or capacity building for centralized and decentralized officials.  [**System Transformation Grants (STGs)**](https://www.globalpartnership.org/funding/how-apply-grants#system-transformation-grant)  STGs aim to help countries use GPE grant resources to focus on key sector bottlenecks and to achieve system transformation. STGs take a flexible approach to requirements and results-based financing towards identifying and addressing policy gaps, as long as countries demonstrate commitment to education according to their ability.  Up to 40% of a partner country’s maximum country allocation can be linked to the country’s status regarding the gaps identified in the review of enabling factors during the partnership compact development process.  [**Multiplier Grants**](https://www.globalpartnership.org/funding/how-apply-grants#gpe-multiplier)  The purpose of Multiplier Grants are to further catalyze system transformation in GPE partner countries’ education system. Countries access a Multiplier allocation by collaborating with partners to mobilize external financing that is “new and additional.” Because the ability to mobilize Multiplier funding is tied to the availability of co-financing, some countries may seek to access a Multiplier allocation before they can develop a full partnership compact. For each $1 from GPE, “other donors” – including bilateral and multilateral donors – still need to meet the ratio of $3 in additional resources per $1 from the Multiplier. Private sector partners and foundations can help unlock a Multiplier grant with a ratio of 1:1, i.e. $1 in additional contribution. Multiplier funding does not need to come from the same source.  Example: Kyrgyz Republic - [Preparing children for primary school](https://www.globalpartnership.org/results/stories-of-change/kyrgyz-republic-preparing-children-primary-school). The Kyrgyz Republic has been a GPE partner since 2006 and has received multiple grants from GPE, including the GPE Multiplier grant, which aims to continue to increase access to preschool education for children from most vulnerable households and to improve their school readiness.  [**Girls’ Education Accelerator (GEA)**](https://www.globalpartnership.org/funding/how-apply-grants#girls%E2%80%99-education-accelerator)  The GEA addresses barriers to girls’ education within and beyond the education sector. Specifically, the GEA funding aims to ‘hardwire’ gender equality and girls’ education into the system with the objective of setting in motion target policies and programs while reaching gender equality, addressing inequities within and outside the education sector. Access to the GEA has been prioritized for 30 eligible countries where girls lag furthest behind in terms of access to primary and lower secondary and where child marriage rate is high. The GEA is not a standalone grant: the GEA can only be accessed at the same time as a country accesses its system transformation grant, a Multiplier allocation, or both.  Example: El Salvador - [El Salvador is the first country to access the GPE Girls’ Education Accelerator](https://www.globalpartnership.org/blog/el-salvador-first-country-access-gpe-girls-education-accelerator). This article discusses how El Salvador became the first GPE partner country to access the GEA. The country will use the grant to tackle gender norms from an early age and support gender-equitable learning assessment from early childhood to secondary school. |

Each of these grants has different eligibility criteria. More information can be found on [GPE’s website](https://www.globalpartnership.org/funding/applying-for-grants). Additional information can be found at [GPE: Applying for grants](https://www.globalpartnership.org/funding/applying-for-grants) and [Learning from the partner countries piloting the GPE 2025 approach](https://www.globalpartnership.org/blog/learning-partner-countries-piloting-gpe-2025-approach).

**Tool 5.1 - Annex**

**Examples of innovative sources of financing**

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| Source | **What it is** | **Potential benefits** | **Potential drawbacks** | **Examples/case studies** |
| Concessional lending (or soft loans) | Loans that are extended on softer terms than market loans, either through interest rates below those available on the market or by grace periods, or a combination of these. These loans typically offer longer repayment schedules. | * Typically offer longer repayment schedules | * Requires repayment * Developing countries may face debt burdens they cannot service * Does not automatically drive funding towards successfully implemented education programmes | The [International Financing Facility for Education (IFFEd)](https://educationcommission.org/international-finance-facility-education/) bridges the gap and creates attractive financing packages for low- and middle-income countries, using guarantees and grants from contributors to generate increased education financing by multilateral development banks and reduce lending terms for borrowers. |
| Corporate social responsibility (CSR) | Concept that companies and corporations should give back to the community through funding or implementation of projects | * No cost to government * Improves the public images of corporations | * Relies on the willingness and generosity of corporations | [This report](https://the.akdn/en/resources-media/resources/publications/early-childhood-development-ecd-and-corporate-social-responsibility-csr) highlights several Aga Khan Development Network companies and how they have invested in early childhood development through early childhood initiatives and family-friendly workplace policies. |
| Debt swaps (or debt conversions) | A type of debt relief: instead of paying back the debt to creditor countries, in a debt swap, the creditor and partner country agree to a debt treatment that reduces the debt service payments of an existing loan if the partner country commits to invest new and additional resources in its education sector | * Enables debtor government to channel fiscal resources into social development programs without sacrificing fiscal and macroeconomic sustainability | * Requires eventual repayment * Budgetary gains are realized only slowly, typically over many years or decades * Even if debts are converted into funds, debtor governments will not necessarily use these resources for education | [Debt2Ed](https://www.globalpartnership.org/funding/gpe-multiplier/Debt2Ed) is an innovative finance tool that transforms a partner country’s debt into new and additional resources for education to enable system transformation and mobilize further grant funding from the GPE Multiplier. |
| Earmarked taxes | A tax is implemented and allotted to public services, e.g. sin taxes on goods or payroll taxes on corporations | * Cost-effective measure as implementing additional taxes does not incur additional costs for the government | * Unreliable and uncertain source of funding as consumption patterns or labor market patterns fluctuate often | Colombia has used an [ECD payroll tax](https://unesdoc.unesco.org/ark:/48223/pf0000148095) for increasing private and public support for vulnerable children and families |
| Impact investment for education | An investment approach that uses the incentives and tools of commercial capital deployment to actively improve social and environmental well-being | * The ultimate goal of sustainability for many impact investors is demonstrated through community buy-in and government responsibility, not through financial profit as is the case with commercial investing | * Requires repayment | [Naandi](https://www.naandi.org/) is an impact investor in India that offers a variety of free services through its education centers, including ECE/ECD. It works closely with the government and at the grassroots level to make public education more responsive. After four years, Naandi begins phasing out of its programs and by the seventh year, the community has taken full charge of the program. For more information, see [pp. 27-28 in Impact investing in education: An overview of the current landscape](https://www.opensocietyfoundations.org/publications/impact-investing-education-overview-current-landscape) |

**Examples of innovative mechanisms of financing**

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| **Mechanism** | **What it is** | **Potential benefits** | **Potential drawbacks** | **Example case(s)** |
| **Block grants** | Allocation of funding by the government (national or local) to schools based on student enrolment | * Consolidates categorical funding and promotes flexibility in planning and decision-making at the school level | * Can incentivize schools to exaggerate enrolment numbers for more funding * Equity considerations are sometimes ignored in grant disbursal | In Lao PDR, [school block grants](https://documents1.worldbank.org/curated/en/401781530031676992/pdf/Disclosable-Restructuring-Paper-Second-Global-Partnership-for-Education-P149130.pdf) were used to provide additional funding for non-wage expenditures of primary schools and kindergartens to help schools achieve minimum quality standards |
| **Results-based financing (RBF)** | Umbrella term referring to any program or intervention that provides rewards to individuals or institutions after agreed-upon results are achieved and verified | * Potential to provide a stronger focus on actions necessary to improve learning outcomes, foster local solutions to common education challenges, and strengthen capacity of education systems to measure and track progress and generate data and evidence on the cost-effectiveness of interventions | * Need to be well-designed and well-implemented in order to incur benefits |  |
| **Conditional cash transfers (CCT)** | A form of RBF where families receive a cash transfer if they fulfil certain conditions, such as ensuring their children attend a school or health visits | * Documented success in increasing enrolment numbers and correlating dropout rates when transfers are contingent on school attendance | * Requires significant government investment * Has limited evidence in improving student learning outcomes | This [brief from the World Bank](https://documents.worldbank.org/en/publication/documents-reports/documentdetail/489331538646764960/promoting-early-childhood-development-through-combining-cash-transfer-and-parenting-programs) examines the existing evidence and potential for bringing together cash transfer programmes and parenting interventions on early child stimulation to improve child development outcomes, notably cognitive and language skills. Examples from Colombia, Mexico, Niger, and Peru are mentioned. |
| **Impact bonds** | A form of RBF that incorporates the use of private funding from investors to cover the upfront capital required for a provider to set up and deliver a service | * Focuses on outcomes and drives performance management and evaluation from all involved parties * Reduced risk for the outcome funder | * Can be costly and time-consuming to design and implement due to complexity and multiplicity of partners and funders | [South Africa impact bond innovation fund](https://golab.bsg.ox.ac.uk/knowledge-bank/case-studies/south-africa-impact-bond-innovation-fund/). This example discusses the Innovation Fund Impact Bond, the first early childhood development social impact bond to be launched in South Africa. |
| **Outcome funds** | A form of RBF that pools funding from one or more funders and contracts multiple implementers to achieve a set of pre-defined results. Payments from the fund only occur when those results are achieved. Outcome bonds build on the precedent of impact bonds but contracts multiple implementers under a common funding framework | * Focuses on outcomes and drives performance management * Reduced risk for outcome funder * Increased scale reduces transaction costs associated with design and implementation * Ability to test and compare different intervention models, generating data on their cost-effectivenes | * Can be costly and time-consuming to design and implement due to complexity and multiplicity of partners and funders | In Sierra Leone, the Education Outcomes Fund launched the [Education Innovation Challenge](https://www.educationoutcomesfund.org/post/the-education-outcomes-fund-and-the-government-of-sierra-leone-launch-innovative-partnership-to-imp), which supports public primary schools to improve literacy and numeracy over three years. |
| **Public-private partnerships (PPP)** | Form of partnership model that involves the government collaborating with a private entity in a mutually beneficial partnership to provide services for the public | * Brings localized and on-the-ground experience to service delivery * Accounts for equity in service delivery * Creates competition in the private sector which can improve quality | * Requires a well-functioning regulatory framework and capacity for monitoring and evaluation * Sometimes does not account for equity in service provision |  |
| **Vouchers** | A form of PPP where a voucher is given to generally low-income or marginalized students and represents a monetary value so that once the student is enrolled in a school, the school is reimbursed the cost of fees from the government | * Improves access and equity by enabling all children to receive affordable ECE * Strengthens parental choice * Can create competition among schools to improve quality and attract more students | * Requires significant government investment * Can cause private schools to deny access to specific groups or charge top-up fees for students using voucher | In Hong Kong, the [Pre-primary Education Voucher Scheme](https://hkier.cuhk.edu.hk/journal/document/EJ/ej_v36n1-2_153-170.pdf) offers direct subsidies to parents with kindergarteners. |
| **Subsidies or service-delivery initiatives** | A form of PPP where subsidies are provided directly to private preschools, based on characteristics such as the number of teachers employed or children enrolled. Can be in the form of an initial start-up subsidy or grant or an ongoing operational subsidy | * Can be utilized when public programs either do not exist or do not have sufficient space to accommodate demand | * Requires significant government investment | In South Africa, ECE subsidies have been provided by the government for registered ECD centres, which has helped reduce the cost of ECD services for parents and caregivers. For more information, see pp. 33-34 in [*Add today, multiply tomorrow*](https://www.unicef.org/media/129836/file/Add%20Today%20Multiply%20Tomorrow:%20Building%20an%20Investment%20Case%20for%20Early%20Childhood%20Education%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20%20.pdf)*.* |
| **Concessions** | A form of PPP where special agreements are made with individual private preschool providers, typically to provide support to that specific provider | * High potential for efficiency gains * Private sector bears significant share of risks | * May have underlying fiscal costs to government * Highly complex to implement and administer * May require close regulatory oversight | In Hong Kong, the government provides [vouchers](https://hkier.cuhk.edu.hk/journal/document/EJ/ej_v36n1-2_153-170.pdf) to the parents of kindergarten students to meet part of kindergarten school fees, with the aim to alleviate parents’ financial pressure and facilitate parental choice. |

*This table is adapted from* [*Add Today Multiple Tomorrow (UNICEF, 2022)*](https://www.unicef.org/reports/add-today-multiply-tomorrow)*.*