



Innovative Financing for Human Capital

20 June 2019

DG DEVCO

Matthieu Boussichas (FERDI)

Axel Gastambide (Consultant)

Human capital sectors: needs and financing

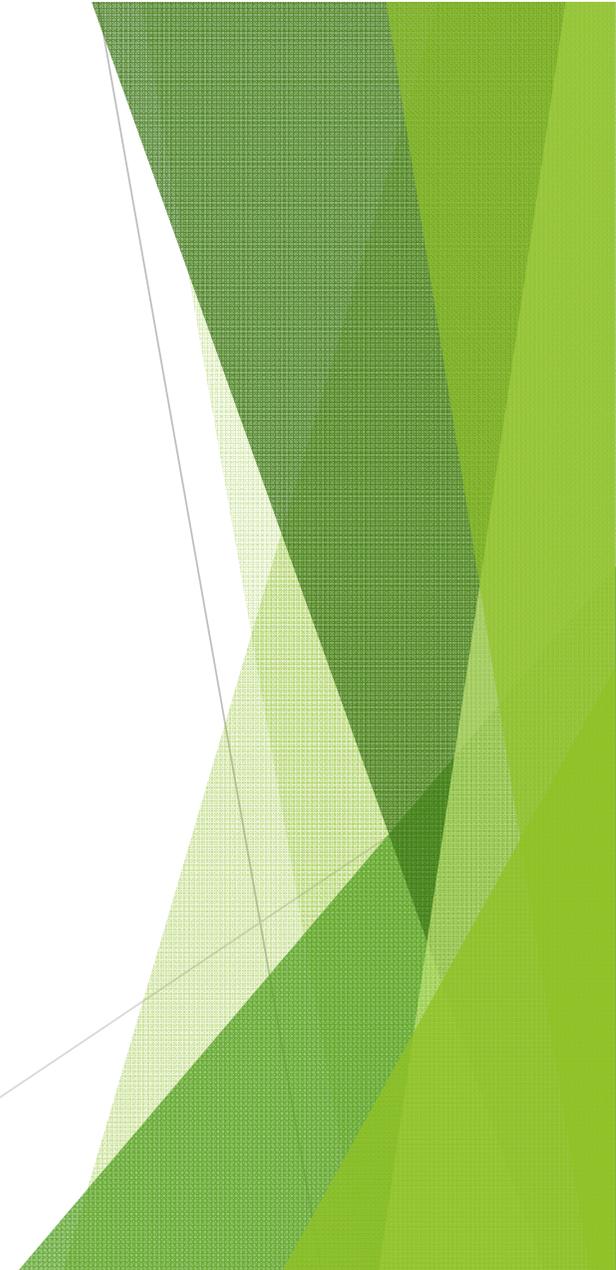
- ▶ Important progress since 2000 MDGs, but it remains huge needs esp. in sub-Saharan Africa and fragile states.
- ▶ At least, US\$ 1 trillion of additional spending in human capital sectors in EMEs and LIDCs in 2030 (Gaspar *et. al.*, 2019).
- ▶ The main tool to address human capital challenges is the fiscal policy...
- ▶ ...but, LIDCs will have to rely on additional external source of financing, including innovative financing.

What is innovative financing?

- ▶ « (...) mechanism outside the traditional ambit of ODA, which generates additional, sustainable and predictable revenues for development » (Dousté-Blazy and Filip, 2015).
- ▶ Innovative financing has been often applied to the creation of specific tax, but the terminology have been used for a very broad range of financial instruments: blending, results-based financing, voluntary contribution, social development bonds, ad-hoc mechanism/platform.
- ▶ Effort to consolidate a definition. Following WBG, innovative financing can be described as platforms that:
 - ▶ **i)** generate additional development funds by tapping new funding sources or by engaging new partners, such as emerging donors and actors in the private sector;
 - ▶ **ii)** enhance the efficiency of financial flows, by reducing delivery time and/or costs, especially for emergency needs and in crisis situations;
 - ▶ **iii)** make financial flows more results-oriented, by explicitly linking funding flows to measurable performance on the ground.

What is innovative financing?

- ▶ Innovative financing to raise additional resources for development
 - ▶ Compulsory charges
 - ▶ Blended finance
- ▶ Innovative financing to achieve specific development results
 - ▶ Results-based financing
 - ▶ Social/Development impact bond (SIB/DIB)
- ▶ Innovative financing as an ad hoc mechanism to fund human capital
 - ▶ Innovative financing for health sector
 - ▶ IFFIm
 - ▶ Advanced Market Commitments (AMC)
 - ▶ Innovative financing for the education sector
 - ▶ GPE Multiplier
 - ▶ Education Cannot Wait (ECW)
 - ▶ IFFEd



Findings and lessons learnt

- ▶ Innovative financing for health sector has achieved some concrete results in particular with:
 - ▶ GAVI Alliance
 - ▶ UNITAID
- ▶ Success of innovative financing in health is the result of:
 - ▶ Clear intervention framework
 - ▶ Strong support from public and private partners
 - ▶ Creation of innovative platforms focused on results
- ▶ Innovative financing in health has been a complementary source to traditional funding

Findings and lessons learnt

- ▶ Innovative financing in education has been modest so far due to specific constraints:
 - ▶ Long-term investment returns and high uncertainty
 - ▶ Intervention complexity
 - ▶ Recurrent costs
- ▶ Private sector has launched initiatives to support education with a focus on low-fees private school
 - ▶ Development impact bond
 - ▶ Limited evidence available on impact
- ▶ Momentum to launch international initiatives in education (IFFEd), but need to be cautious:
 - ▶ Low demand for loan in education
 - ▶ Capacity of absorption
 - ▶ Risk of debt of overhang
 - ▶ Avoid duplication and fragmentation in the education intervention system

Conclusion and recommendations

- ▶ In brief, innovative financing is a useful instrument to:
 - ▶ Highlight specific development challenge (especially in vulnerable countries)
 - ▶ Leverage private sector financing
 - ▶ Complement traditional financing source (e.g. ODA)
 - ▶ Disseminate results-oriented mechanisms
- ▶ Due to huge needs in LIDC, there is a room to develop innovative financing for human capital, especially in education, but need to:
 - ▶ Avoid duplication and fragmentation
 - ▶ Develop innovative mechanism to incite government to invest in education

Conclusion and recommendations

- ▶ Lines for further research:
 - ▶ **Innovative financing and fiscal policy.** How innovative financing/mechanism can incite government to invest more in human capital ?
 - ▶ **Innovative financing and evaluation.** What has been the impact of new initiatives launched in education (Education Cannot Wait, GPE Multiplier)?
 - ▶ **Innovative financing and education.** Does innovative financing from the private sector increase the risk of privatization of education?
 - ▶ **Innovative financing and health.** Based on previous concrete results, how should be evolved (or not) innovative financing in health sector?