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Fixing education finance under uncertainty: Threats and opportunities

Education in developing countries is financed from two major sources (**households and government**) and three minor ones (**private investors, philanthropy and aid donors**). These look shaky right now – African economic growth was lower in 2016 than the rest of this century, with serious implications for both household and government payments; philanthropy in education has still to take off; and aid is threatened, especially from the USA. Add growing political and economic uncertainty to this general shakiness and things could sour quickly. Yet there are things that can be done; and there are even opportunities to use uncertainty to improve education financing.

a) **Household** income is particularly vulnerable to political and economic shocks. Indeed, the poor already live in situations of great uncertainty and are always vulnerable – and proportionally the most vulnerable - to natural disasters (droughts, hurricanes, etc.), conflicts and downturns in markets for the goods and services they make or provide. There are opportunities to press for **free public education; stretch payments** with daily or weekly or monthly fees; Improve access to **affordable credit**; **e**xplore various types of **insurance and savings schemes;** and **improve accountability.**

b) **Governments** face three types of uncertainty: loss of revenues because of declining economic activity; natural disasters; and conflict and political risk. When revenues decline, governments must **prioritize public spending on education**. When natural disasters hit, governments should also prioritize education financing as restoring education is key to restoring normalcy. There are major opportunities to explore **insurance schemes**, as GPE is currently doing, and to **improve planning for uncertainty**, as IIEP is developing. Above all, responding to uncertainty can lead to **improvements in the current very inefficient allocation of government spending on education.**

c) **Private Investors** are increasingly important but remain relatively minor in education finance. The more that they can increase the flexibility of their funding so that it can be deployed when risks occur, the better.

d) **Philanthropy** in education is largely focused on scholarships for individuals and on institutional endowments. It **needs to find ways more to support education systems and their resilience to shocks**. In principle, philanthropic funds should be able to move faster in emergencies than public sector donor aid funds. There is also **opportunity to broaden the base of philanthropy to include many small contributors**.

e) **Donor aid funding** can be vulnerable to budget cuts in developed countries and to their own economic downturns. Aid for education is also especially vulnerable because the education sector has done such a poor job of making its case (*pace* The Education Commission). **Donors need to prioritize education when aid declines** as non-aid international sources are available for other development objectives such as infrastructure and energy. Aid for education in humanitarian situations has been both absent (<2% of humanitarian funds) and slow. Both need fixing; developments such as the new Education Cannot Wait fund are encouraging but insufficient and unlikely to disburse rapidly enough.