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**AFRICAN DEVELOPMENT
BANK GROUP**

PROJECT: FEASIBILITY STUDY ON THE ESTABLISHMENT OF THE AFRICAN EDUCATION FUND (AEF)

COUNTRY: Multinational

ECONOMIC & SECTOR WORK

September 2018

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ACRONYMS

AAU	Association of African Universities
ACT	African Child Trust
ADEA	Association for the Development of Education in Africa
ADF	African Development Fund
AEF	African Education Fund
AET	African Educational Trust Fund
AEFDC	AEF Development Committee
AfDB	African Development Bank
AMEF	African Ministers of Education and Finance
ANCEFA	African Network Campaign of Education for All
AU	African Union
AUC	African Union Commission
CESA 16-25	Continental Education Strategy for Africa 2016 – 2025
COMEDAF	Conference of Ministers of Education of the African Union
BADEA	Arab Bank for Africa's Economic Development
DBSA	Development Bank of South Africa
DCPs	Developed Countries Parties
EADB	East African Development Bank
EAC	East African Community
EC	Executive Council
ECOWAS	Economic Community of West African States
ECW	Education Cannot Wait
EFA	Education for All
EST	Education, Science and Technology
FRG	Fundraising Group
GDP	Gross Domestic Product
GEMR	Global Education Monitoring Report
GERs	Gross Enrolment Ratios
GET Fund	Ghana Educational Trust Fund
GFF	Global Finance Facility
GPE	Global Partnership for Education
HEST	Higher Education, Science and Technology
HRST	Human Resources, Science and Technology
IDA	International Development Association
ICFGEO	International Commission on Financing Global Education Opportunity
ICQN	Inter Country Quality Nodes
IsDB	Islamic Development Bank
ISESCO	Islamic States Educational, Scientific and Cultural Organization
JICA	Japan International Cooperation Agency
KIs	Key Indicators
LF	Loan Fund
LIC	Low Income Countries
LMIC	Low Middle Income Countries
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
NEPAD	New Partnership for Africa Development

NER	Net Enrolment Ratio
NTEF	Norwegian Education Trust Fund
NTF	Nigerian Tertiary Education Trust Fund
ODA	Official Development Assistance
OECD DAC	Organization for Economic Cooperation and Development's Development Assistance Committee
OIF	International Organization of French Speaking Countries
PFI s	Public Finance Initiatives
PRC	Permanent Representatives Council
RECs	Regional Economic Communities
SAED	South African Educational Development Trust
SDGs	Sustainable Development Goals
SSA	Sub-Saharan Africa
STEM	Science, Technology, Engineering and Mathematics
STI	Science, Technology and Innovation
SWFs	Sovereign Wealth Funds
TAPs	Technical Advisory Groups
TCF	Technical Cooperation Fund
TET Fund	Tertiary Education Trust Fund of Nigeria
TF	Trust Fund
ToR	Terms of Reference
TTF	Technical Task Force
TVET	Technical, Vocational Education and Training
UIS	UNESCO Institute of Statistics
UNECA	United Nations Economic Commission on Africa
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNRWA	United Nations Relief and Works Agencies
USAID	United States Agency for International Development
VAT	Value Added Tax
WB	World Bank
WCEFA	World Conference on Education for All
WEF	World Education Forum
WG	Working Groups
WIDE	World Inequality Database on Education

EXECUTIVE SUMMARY

This feasibility study for an African Education Fund (AEF) was commissioned by the African Development Bank (AfDB) and the Association for the Development of Education in Africa (ADEA) in a short period of three months commencing in October 2017. It was set up to determine the levels of interest and commitment of education stakeholders to the establishment of an AEF and make judgments about its feasibility and viability.

Education in Africa remains underfunded, especially in fragile states and low-income countries. Substantial external finance has been directed to Africa over the last two decades but has been shrinking in volume. The largest funds have single sub-sector priorities, e.g. basic education, or thematic concerns, such as gender, that overlook other parts of a balanced educational development strategy. Though there are many other sources of finance, they are fragmented and lack coherence in addressing Africa's educational needs at national and regional level. An additional US\$ 40 billion will be needed to finance education in Africa by 2030 and to finance achievement of the Sustainable Development Goals (SDGs) for education. There is therefore plenty of opportunity for a new African owned fund to develop innovative approaches to sustainable financing and to add value to existing mechanisms.

The AEF is a proposal for a unique, Africa-initiated, continental level education fund designed, owned, led, and managed by Africans. Its main purpose is to provide strategic support for the development of more efficient and effective education systems that are financially sustainable. The intention is that the AEF would have a substantial part of its funding from African sources to give meaning to ambitions for African ownership, continuity, accountability, and long-term sustainability. The AEF would complement rather than compete with existing funding mechanisms, and seek to fill financing gaps. It will assist in mobilizing additional resources for educational investment that are sustainable and from within Africa. It can also contribute to institutional development that can strengthen governance and accountability through technical assistance and other support for public expenditure reviews, evidence-based policy dialogue, inter-sectoral coordination of educational plans across ministries, regional educational initiatives, and new approaches to the management of private sector investment in education. The fund would be catalytic and designed to lead to robust gains in efficiency and effectiveness at system level that were self-sustaining and not dependent on long-term support from the AEF.

The AEF reflects a common interest in inclusive growth, sustainable development, and poverty reduction embodied in: (i) the United Nations 2030 Agenda for Sustainable Development (SDGs); (ii) Africa's Agenda 2063: The Africa We Want; (iii) the Continental Education Strategy for Africa 2016 – 2025 (CESA 16-25); (iv) ADEA's 2017 Strategic Framework for Action 2018-2022 and its Strategic Plan and (vi) the AfDB Ten Year Strategy, its Human Capital Strategy and the High 5s commitment to improve quality of life. The High Five Goals of the AfDB - electrification, food security, industrialization, integration, and quality of life – cannot be separated from investment programs in education and ownership by Africans. Education is part of the definition of the quality of life and is part of the meaning of development.

ADEA argues that an AEF would add value to the AfDB education program and is needed because of: (i) continuing structural problems in funding education from domestic revenue in many countries; (ii) inability of education systems to respond to demographic

challenges and changing demands from the labor market; and (iii) new needs to balance national and regional priorities in Africa with global goals which do not differentiate between countries. It is estimated that over the next three decades, Africa's youth population will double and the continent will have 33 percent of the world's youth aged 15-35. Such a large "youth bulge" can be an opportunity for change, progress and social dynamics, or a risk. Only 6% of young people in sub-Saharan Africa are enrolled in higher education institutions compared to the global average of 26 percent. It will be difficult for Africa to develop the skills necessary for its transformation without a consistent and substantial investment in education at all levels and especially in Technical and Vocational Education and Training (TVET) and Higher Education, Science and Technology (HEST).

To determine the feasibility of the AEF, seven broad areas of enquiry were identified. These are:

- How could the AEF be funded and how should it be replenished?
- What are the existing financial gaps and what magnitude of resources are needed?
- How will the fund coordinate with other global funding mechanisms, where will it be located and how will it be managed?
- Should the AEF selectively focus its support on specific sub-sectors?
- What should be the eligibility criteria for support: through grants, loans, credits, and technical assistance?
- How can the AEF benefit from innovative sources of finance in and outside Africa?
- What are the risks that need to be mitigated if the AEF is to develop?

The study used mixed methods approach to collect evidence and opinions on the feasibility and viability of the AEF. These data and information were collected mainly from stakeholders through reviews of the literature, analysis of large data sets, interviews, questionnaire survey, and focus groups.

The study found that the AEF is feasible and there are credible ways to foster the political will to establish it, mobilize public and private resources for its funding, and secure its hosting within an established Africa based multilateral institution. There is strong interest from African governments and other education stakeholders for the establishment of an AEF and several potential sources of funds have been identified.

Some of the key findings and recommendations from the study include:

- i. **An AEF is feasible and viable.** It has strong support from potential stakeholders and beneficiaries; there are many unmet needs for educational investment across Africa; and there are new opportunities for domestic resource mobilization and fiscal reform to support sustainable educational development and reduce aid dependence.
- ii. **The AEF can be funded from a variety of** sources, including member subscriptions, inclusion in an enhanced AfDB funding cycle, contributions from other Multilateral Development Banks (MDBs), leveraging of MDB assets to create a larger pool of loan and grant financing, fiscal reforms for new revenue collection, more efficient collection of existing taxes, corporate tax reform, philanthropy, greater use of levies and taxes on natural resources, mobilization of Africa's private capital in pension funds and elsewhere, and sequestration of proceeds of crime and tax evasion. Some or all of these sources of revenue could be ring-fenced and attributed to funding the AEF through multilateral agreements of interested governments.

- iii. **The AEF should benefit from efforts to replenish global funds that work predominantly in Africa** and from efforts to leverage the resources of MDBs, including the AfDB by international initiatives on finance. Funds raised from Africa, and from African collateral, should be used to benefit African institutions and contribute to their financial sustainability.
- iv. **The AEF could give grants, concessional loans or provide loan guarantees.** A Trust Fund (TF) giving grants is much simpler to establish than a lending fund and more relevant to the poorest countries. A TF needs capitalizing and periodic replenishment; a Loan Fund (LF) could become self-sustaining from interest payments over time but would need initial capitalization. Member states need to decide which option suits their purposes.
- v. **The AEF is a development fund. It should favor grants and concessional loans that respond to need and lack of ability to generate domestic resources.** It should focus support on the poorer African countries and the poorest populations. It might also support innovations in higher income countries that have regional benefits.
- vi. **The most attractive location for the AEF is for it to be hosted by the AfDB.** This is consistent with African location and ownership, and would minimize start up and transaction costs associated with a new funding institution. Other locations and more decentralized models for the AEF should be explored if they can show local ownership, accountability, and mobilization of resources.
- vii. **The financing gaps for education in Africa are very large and no fund could fill the gap between what is currently provided and what is needed.** African countries need to allocate 6% of GDP to education to achieve their goals. However, 48 percent of countries in Africa spend less than 4% of their GDP on education and only 22 percent spend more than 6% *including* aid. About 43 percent of countries allocate less than 15 percent of government budgets to education and 26 percent allocate more than 20 percent. To reach or exceed 6% of GDP would cost at least another US\$ 15.5 billion per year for the Low Income Countries (LICs) and US\$ 26 billion for the Low Middle Income Countries (LMICs). Most of the additional cost would be in expanded lower and upper secondary school, and at tertiary level. The additional cost would be much greater for the LMICs than the LICs.
- viii. **The AEF could be established as a small fund (less than US\$ 50 million), a medium fund (less than US\$ 500 million), or a large fund (more than US\$ 500 million).**¹ Its reach and possible functions depend on its magnitude and replenishment methods. A choice needs to be made by stakeholders and a technical development group established to develop detailed plans for each option.
- ix. **The AEF should start on a scale consistent with realistic goals for initial capitalization.** This is likely to be in the range of US\$ 50 million to US\$ 250 million, depending on the willingness of member states to commit resources. The proposed fundraising group will be tasked with seeking the necessary funding.
- x. **A grant giving TF is much simpler to establish and administer** than a lending fund, quicker to start up, and more relevant to the poorest countries. It needs periodic replenishment. An LF needs larger capitalization but could become self-financing in the medium-term. Its loans generate debt with the risk of default.
- xi. **The AEF should coordinate with other sources of multilateral and bilateral financing for education to avoid duplication and add value.** One aspect of this coordination will be for partners to agree on thematic priorities for the AEF. These

¹ If these amounts were annual, they would be equivalent to between US\$150 million, and US\$ 1.5 billion over a three-year period. The larger amounts would be more difficult to finance.

- could include Science, Technology, Engineering and Mathematics (STEM) and HEST, and other areas of critical under investment.
- xii. **The AEF should be open to all African countries.** However, the AEF will need to be selective, especially in a startup period since it cannot work across all countries at the outset. It therefore needs to make strategic choices about which countries might be founding members, which sub-sectors it should invest in, and what level of activity it could sustain.
 - xiii. **Innovative sources of finance could contribute to the funding of the AEF.** There are many possible sources that include development bonds, debt rescheduling, philanthropic pledges, hypothecated taxes, corporate tax reforms, and general fiscal reforms. Most funding for the AEF should come from streams of revenue rather than ad hoc replenishments.
 - xiv. **The proposed AEF carries with it risks that can all be mitigated.** These are risks of getting the full support of governments, limited initial funding, failure to replenish, lack of agreement on location, slow development of programs for grants and loans, and difficulty in establishing its African identity.

The next steps in establishing the AEF will require formation of a (i) **Technical Task Force** (TTF) with an appropriate budget to make a specific proposal for the funding, location, and modus operandi of the AEF leading to a detailed business case and strategically focused advocacy to mobilize support at the highest levels. Terms of Reference (ToR) will be needed that reflect the findings of this feasibility study; (ii) a **professional Fundraising Group** (FRG) is needed to start work on the initial capitalization and medium-term replenishment of the AEF from the sources identified in this report. ToR will be needed that reflect the findings of this feasibility study, and (iii) an **AEF Development Committee** (AEFDC) needs to be established with representation of key stakeholders. It will have to be funded to take forward the AEF proposal under the leadership of a high profile African professional Chief Executive Officer with a successful track record in education and development. This committee can be given the authority to make the choices that this feasibility study identifies as necessary for the development of the AEF on behalf of member states.

Overall, the success of the AEF will very much be dependent on its ability to serve as a tool for reinforcing education as a national priority, matching resources to education sector needs, as well as a bridge to funding gaps, **and** an investment and regional integration instrument.

1. INTRODUCTION

1.1 Introduction

1.1.1 This feasibility study for an African Education Fund (AEF) was commissioned by the African Development Bank (AfDB) and the Association for the Development of Education in Africa (ADEA) in October 2017. It seeks to determine the levels of interest and commitment of stakeholders to the establishment of an AEF and make judgements about its feasibility.

1.1.2. In summary, the study found that the AEF is feasible and there are credible ways to foster the political will to establish it, mobilize public and private resources for its funding, and secure its hosting within an established Africa-based multilateral institution. There is strong interest from African governments and other education stakeholders for the establishment of an AEF and a range of potential sources of funds have been identified.

1.1.3 The proposed AEF is different from existing international education financing initiatives because of its Africa-centric approach and mobilization of African resources. It would capitalize on all the advantages that come from location in Africa, staff with long experience in different education systems, facilitation in most African languages, and easy access to all the human capacity of the continent. It would seek to support development in sub-sectors that are currently underfunded and overlooked by conventional funds.

1.1.4 Education in Africa remains underfunded, especially in fragile states and low-income countries. Substantial external finance has been directed to Africa over the last two decades but has been shrinking in volume. The largest funds have single sub-sector priorities, e.g. basic education, or thematic concerns, e.g. gender, that overlook other parts of a balanced educational development strategy. Though there are many other sources of finance, they are fragmented and lack coherence in addressing Africa's educational needs.

1.1.5 An additional US\$ 40 billion will be needed per year to finance education in Africa by 2030 to support achievement of the Sustainable Development Goals (SDGs) for education. Most of the resources needed will have to come from African governments who will need to increase domestic revenues and make better use of the resources available. Aid is likely to diminish as a proportion of total educational financing. There is therefore plenty of opportunity for a new African owned Fund to develop innovative approaches to sustainable financing and to add value to new approaches to development that are endogenously financed and driven.

1.1.6 An AEF can contribute to institutional development that can strengthen governance and accountability through technical assistance and other support for public expenditure reviews, evidence-based policy dialogue, inter-sectoral coordination of educational plans across ministries, regional educational initiatives, and new approaches to the management of private sector investment in education. The fund would be catalytic and designed to lead to robust gains in efficiency and effectiveness at system level that were self-sustaining.

1.1.7 This report introduces the concept of the AEF, reviews the financing challenges for education in Africa, using large scale data sets, reports on feedback from stakeholders about different aspects of the AEF, and identifies ways forward for the AfDB, ADEA, and AU. A participatory process of consultations through face-to-face, telephone calls, email communications and physical meetings was undertaken. This consultation process was conducted using a set of detailed questions framed as an aide memoire for interviews, along with a questionnaire for key informants.

1.2 Concept of the African Education Fund

1.2.1 Despite impressive progress in educational growth and development over the last few decades, the African continent still faces daunting challenges in meeting the education needs of its school age population. Issues of equitable access, quality, efficiency, and effectiveness continue to constrain educational systems across the continent. These problems are further compounded by high population growth rates, poverty, and inefficient public expenditure. While there are many causes of this situation, one clear and constant obstacle remains the inadequacy of education funding. There is therefore a need to address the funding issue with renewed interest in light of the necessity to devise new and more innovative and effective ways to address the perennial issues of education funding.

1.2.2 The proposed AEF is a unique, Africa-initiated, continental level education fund owned, designed, led and managed by Africans. Its main purpose is to provide strategic support for the development of more efficient and effective education systems which are financially sustainable (ADEA 2017a). It seeks to complement and add to existing funding mechanisms at the national, regional, continental and international levels rather than to enter into competition. The intention is that the AEF would receive much of its funding from African sources to give meaning to ambitions of African ownership. This does not preclude assistance from outside Africa. This is the best long-term strategy to retain the identity, diversity, and ambitions of different African education systems. Their independence and interdependence are a strength that an AEF can nurture through support for gains in efficiency, effectiveness and equity, and for sustainable financing.

1.2.3 Economic growth and fiscal reform make it increasingly possible for African governments to self-finance from domestic resources. The benefits of the AEF will be to demonstrate Africa's ability to manage investment in education at a national and regional level, meet new needs for educational financing that will otherwise remain unmet, and catalyze investments in human capital that can respond to changing labor markets and emerging global opportunities.

“We can no longer continue to make policy for ourselves, in our country, in our region, in our continent on the basis of whatever support that the western world or France, or the European Union can give us. It will not work. It has not worked and it will not work....It is not right for a country like Ghana 60 years after independence still having its health and education budget being financed off the generosity and charity of European taxpayers. By now we should be able to finance our basic needs ourselves.... Our concern should be with what do we need to do in this 21st century to move Africa away from being cap in hand begging for Aid, for charity, for handouts. The African continent when you look at its resources should be giving monies to other places. We have huge wealth on this continent.”

Akufo Addo, Dec 4th 2017.

1.2.4 External assistance has played an important role in accelerating educational development. There are many contributors including the World Bank (WB), the Global Partnership for Education (GPE), other multilateral agencies, bilateral assistance programs, philanthropy, sovereign wealth funds, and private sector contributions. The GPE is providing on average about US\$ 10-15 million per year averaged across more than sixty GPE member countries, and has just achieved a US\$ 2.3 billion replenishment for the three years 2018-2020 (GPE 2018). Education Cannot Wait (ECW) has mobilized US\$ 200 million. The WB provides about US\$ 1.4 billion a year globally for education and UNICEF spends about US\$ 600 million globally and the Islamic Development Bank (IsDB) allocated about US\$300 million. Currently, the AfDB is a minor contributor to educational aid and it allocates about US\$ 83 million to concessional loans and US\$ 56 million to non-concessional loans to education per year. Organization for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) countries disburse about US\$ 12 billion to educational aid in total each year. Large though the global numbers are, they represent no more than about 5% of recurrent expenditure on education and ebb and flow with the geopolitics of aid.

1.2.5 For the AfDB and ADEA, the AEF initiative takes place within a strategic context framed by policies and strategies that share a common interest in inclusive growth, sustainable development, and poverty reduction. These are embodied in: (i) the United Nations 2030 Agenda for Sustainable Development (UN 2016); (ii) Africa's Agenda 2063 which aims at repositioning education for sustainable development (AUC 2015); (iii) the Continental Education Strategy for Africa 2016 – 2025 (CESA 16-25) (AUC 2016); (iv) the AfDB Ten Year Strategy and its emphasis on the High 5s (AfDB 2016); and (v) ADEA's 2018 Strategic Framework for Action and Strategic Plan 2018-2022 (ADEA 2017) with its focus on quality improvement and learning outcomes (ADEA 2018).

1.2.6 The vision for an African Education Fund (AEF) was first formulated by the African Union (AU) at its Summit in January 2007. The AU called for an education fund, following the recommendations of Conference of Ministers of Education of the African Union (COMEDAF II) of September 2006 during the launch of the 2nd Decade of Education for Africa Plan of Action. The momentum for an AEF was regenerated and endorsed at the highest political levels at the ADEA Triennale held in March 2017 in Dakar, Senegal. Most recently, the AfDB's President re-enforced the Bank's support for the establishment of the AEF in his keynote speech, delivered at the Science, Technology and Innovation (STI) Forum in Cairo in mid-February 2018, suggesting a tripartite arrangement between AfDB, IsDB, and ADEA in setting up the AEF.

1.3 Rationale for the AEF

1.3.1 ADEA argues that an AEF is needed because of: (i) continuing structural problems in funding education from domestic revenue in many countries; (ii) inability of education systems to respond to demographic challenges and changing demands from the labor market; and (iii) new needs to balance national and regional priorities in Africa with global goals which do not differentiate between countries. Their proposal for an AEF is outlined in a three-page concept note. This is the basis for this feasibility study (Annex 1: ADEA 2017). The ADEA rationale for the AEF is included in Annex 2.

1.3.2 The reasons for establishing the AEF mirror those for setting up the AfDB in 1964. The purpose of the AfDB is to contribute to the sustainable economic development and social progress of its regional members in Africa (AfDB 2011). It makes use of all the advantages that come from location in Africa, a majority of staff from African member states speaking most African languages, and easy access to the human and physical infrastructure of the continent. The AfDB aims to “mobilise and increase in Africa, and outside Africa, resources for the financing of investment projects and programmes; (and) promote investment in Africa of public and private capital in projects or programmes designed to contribute to the economic development or social progress of its regional member.” It seeks to “provide such technical assistance as may be needed in Africa for the study, preparation, financing and execution of development projects or programmes” (AfDB 2011). The AfDB now has assets of over US\$100 billion and its Africa Development Fund (ADF) was recently replenished with US\$14 billion. Despite this, the AfDB’s education programs remain a minor part of its activities, much smaller than other international education funds in Africa, and are dwarfed by the financing needs of the SDGs for education.

1.3.3 Like the AfDB, the intention of the AEF is not to compete with other similar funds but to “co-operate with other international organisations pursuing and running similar funds in support of Africa’s education” but to do so with the advantages that stem from an African location of problem diagnosis, management, and funding. Global financial institutions that cover all regions with a high level of generality cannot have an African identity and sensitivity to Africa’s needs as finely tuned as an AEF driven by African investment priorities.

1.4 Purpose and Structure of the Feasibility Study

1.4.1 The overarching question of this study is whether the creation of an AEF is a feasible strategic option. This enquiry used documentary analysis, interviews with key informants, the responses to a questionnaire, and the analysis of secondary data to provide evidence for its conclusions and recommendations. The study methods are described in Annex 3.

1.4.2 This feasibility study is not itself a detailed business plan for an AEF. It provides a basis for decision-making on how to proceed and identifies many issues that will inform the development of a business plan. A business plan should be developed with stakeholders if the recommendations of this report are accepted.

1.4.3 This study is important for three reasons. First, this analysis will help key stakeholders make informed decisions about options for educational financing and approaches to closing funding gaps in African educational systems. This should put them in a better position to raise new resources for their systems and own the process of sustainable financing. Second, the study collates opinions from a wide range of stakeholders within and outside Africa that indicates the strength of support for the proposal made for an AEF and identifies possible contributors. Third, the study shows how relevant, timely, appropriate, and useful an AEF is and how it can complement existing resources to enhance access, efficiency, and effectiveness in education.

1.4.4 This summary study report is organized in four chapters. Following this introductory chapter, the second chapter profiles financing issues for education in Africa. Chapter three contains the findings of the feasibility study. Chapter four collects together the conclusions and recommendations. The main report contains extensive further analysis and recommendations.

2. EDUCATIONAL FINANCING IN AFRICA

2.1 Educational Financing Status Report

2.1.1 The problems of funding educational development in Africa have many dimensions. They result from the interplay of the fundamental determinants of demand on public budgets. These are the desired levels of enrolment and completion of school, the number of children in the school age population, and the cost per child of providing educational services. These variables determine what proportion of GDP and the national budget is needed to provide school places for all children and the level of participation that is judged desirable at higher levels in publicly funded institutions. African countries are distributed across three groups. These are Low Income Countries (LICs), Low Middle Income Countries (LMICs) and a small number of Upper Middle Income Countries (UMICs) (Annex 5, figure 8). Differences in demography, costs, fiscal efficiency and political create greatly varying problems of educational financing (Lewin 2015).

2.1.2 After five decades of independence, and massive volumes of external assistance, Africa has the largest proportion of children who do not attend primary school, the smallest proportion of its population completing secondary schools, and the largest challenges in financing mass higher education of any region of the world (UNESCO 2015). Financial sustainability is fundamental to cumulative development, balanced investment, and national identity (Lewin 2008, UNICEF 2015)

2.1.3 The profile of the LICs and LMICs in Africa on Key Indicators (KI)² is as follows.³ LICs have an average GDP per capita of about US\$600 (PPP 1,680) and LMICs about US\$ 2,775 (PPP 7,200). LMICs are on average about four and a half times richer than LICs on a per capita basis. The total GDP of all LMICs is about US\$1,980 billion and the LICs is US\$ 340 billion. Financially, Africa's wealth and the resources for education are concentrated in LMICs, and especially in the largest and richest LMICs.

Table 1: Gross Domestic Product (GDP)/Capita and allocation to education

	GDP per Capita	Purchasing Power Parity per Capita	Education as % GDP	Education as % Government Budget
	US\$	PPPS		
LICs	598	1,680	4.1	16.6
LMICs	2,775	7,206	4.8	17.2

2.1.4 The allocations to education by governments average 4.1% of GDP in LICs and 4.8% in LMICs in Africa. These amounts include external assistance to education which in some countries may exceed a third of the public budget. Education as a proportion of all government spending is about 16.6 percent of total government spending for education in LICs, and 17.2 percent for LMICs. Within this, the proportions allocated to primary, secondary, and tertiary education in the LICs are 1.8%, 1.3% and 1%, and in LMICs are 1.7%, 1.9%, and 0.9%. There is therefore a tendency for LMICs to allocate more to secondary and a little less to tertiary as a percentage of their total commitment.

² Data are for the last year available from UNESCO Institute of Statistics (UIS). In most cases this is 2016.

³ The number of UMICs is too small for statistical averages to be meaningful.

2.1.5 There is surprisingly little difference between LICs and LMICs in the average proportion of government budgets allocated to education and there is thus no obvious sense that richer countries in Africa prioritize education more than poorer ones. However, there are large differences in the proportion allocated between individual countries and this is significant in terms of indicating the level of political will to support educational development and extend its reach to all of the population (Annex 4). It also seems that allocations to health as a percentage of GDP are now likely to be larger than they are for education (Annex 4).

2.1.6 The demand for educational financing depends on how many children are enrolled. The population of the African LICs is about 570 million and of the LMICs about 670 million. LICs have a younger population with 15.5 percent being of primary school age compared to 13 percent in LMICs. These proportions are high and indicate that demographic transition has not occurred in most countries.⁴

2.1.7 Child population growth rates are lower in the LMICs, especially those with high GDP per capita where demographic transition may be starting (UN Population, 2015). Most countries will not see a decline in the number of children until after 2050. The result of continued high growth is that demand for school places will grow rapidly. Most of these new places are at secondary level and above where expansion is made up of population growth and increased participation.

2.1.8 Out of school children are concentrated in LICs where UNESCO Institute of Statistics (UIS) estimates that there are about 13 million primary age children with a further 2.3 million in LMICs as shown in table 3. UIS estimates as many as 32 million primary age children are out of school in Africa if projections for missing data are included.

Table 2: Demographics and out of school children

	Total Population	Population Growth %	Child Population Growth %	Primary Age %	Out of School Primary ‘000
LICs	573,301	2.7	2.1	15.5	13,127
LMICs	671,478	1.8	1.4	13.2	2,330

2.1.9 LICs and LMICs have similar Gross Enrolment Rates (GERs) at primary level. These now average 102 percent and 103 percent, respectively. Primary school completion rates do differ and average 50 percent in LICs, and 75 percent in LMICs, indicating that as many as half of all children are not completing primary school on schedule in LICs. At the same time, 30 percent of students are overage in LICs and 21 percent in LMICs. Low completion rates are correlated with overage enrolment and progression.

2.1.10 GERs for the whole of secondary school average nearly 40 percent in LICs and 70 percent in LMICs. The Net Enrolment Ratio (NER) for Lower Secondary is 60 percent in LICs and about 80 percent in LMICs. The implication is that less than half of all children in LICs complete lower secondary and fewer do so on schedule with appropriate levels of learning achievement. The largest

⁴ The exceptions are in North Africa and in some small island states.

gaps in school enrolment between rich and poor are in secondary in LICs. These gaps are much larger than those correlated with gender. LICs have far fewer students at tertiary level with only 7% GER in LICs compared to 20 percent in LMICs as illustrated in table 4.

Table 3: Enrolment rates at different levels

	GER Primary	Primary Completion	GER Secondary	NER Lower Secondary	GER Tertiary
	%	%	%	%	%
LICs	102	49	38	59	7
LMICs	103	74	65	82	20

2.1.11 Costs per student are central to financial gaps. Costs per student can be varied whereas the proportion of school age children in the age group is fixed in the short-term. Surprisingly, average costs per student as a percentage of GDP per capita at primary are similar in LICs and LMICs and average about 12 percent as shown in table 5. LICs have relatively more expensive secondary school systems than LMICs. Tertiary education is much more expensive.

2.1.12 These differences are reflected in the US\$ costs which show that though LMICs are more efficient at secondary and tertiary levels in terms of cost per student as a percentage of GDP, the actual amounts that this represents in US\$ are four times greater at primary and secondary levels than they are in LICs. Thus, gaps in funding arising from per student costs will be at least four times more expensive to fill in LMICs than in LICs. This is a critical observation for the proposed AEF. The same amount of money can have far more impact in LICs all things being equal. LICs are more likely to need grants or highly concessional forms of financing than LMICs.

Table 4: Cost per student

	Primary/ Student % GDP/Cap	Secondary/ Student % GDP/Cap	Tertiary/ Student %GDP/Cap	Primary/ Student US\$	Secondary/ Student US\$	Tertiary/ Student US\$
LICs	12	24	171	185	321	2,271
LMICs	13	20	68	820	1,239	4,222

2.2 Analysis of Financial Gaps

2.2.1 The study estimated the gaps in funding necessary to achieve the goals set by governments and the SDGs using country by country data. African countries are separated into the LICs and LMICs since the richer countries have much higher costs and bigger financing gaps in US\$ values, but lower absolute levels of educational need.

2.2.2 Detailed modelling undertaken for this report indicates that if both primary and lower secondary schools were to be universalized in Africa, the amounts needed for education would be about 6.6% of GDP in LICs and 6.1% in LMICs.⁵ Table 5: scenario 1 below uses average values of

⁵ Universal pre-primary school would add between 10 percent and 20 percent to these estimates, depending on the delivery methods and costs per child.

key parameters chosen for education systems in Africa. With the levels of enrolment and costs shown, LICs currently spend about 3.6% of GDP on education and LMICs spend 4.2%. This is consistent with the 4.1% and 4.8% reported in aggregate figures by UIS (table 2) which includes rather than excludes the contribution of aid. Our estimates differ from those of the International Finance Commission (ICFGE) since our model is bespoke for AU member states and makes more inclusive assumptions based on African aspirations.

2.2.3 The model shows what would be necessary to achieve full enrolment, i.e. GER 105 percent in primary and secondary schools in LICs and LMICs, GER 30 percent at tertiary in LICs and GER 50 percent in LMICs in table 5: scenario 2. This can be achieved with a little over 6.6% of GDP in LICs and 6.1% of GDP in LMICs if cost saving reforms reduced costs per student at lower and upper secondary and higher education. In this model, it would also be possible to increase costs per child at primary level from 12 percent to 14 percent of GDP per capita to improve quality. This scenario does not compute the costs of providing universal access to pre-school that would add between 0.5% of GDP to the total cost.

Table 5: Projections of financial gaps

	Scenario 1				Scenario2				
	GER	Cost per Child USD	% GDP Needed	Total Billion USD	GER	Cost per Child USD	% GDP Needed	Total Billion USD	" Gap " Billion USD
LICs									
Primary	102	12	1.9	9.7	105	14	2.2	11.1	1.4
Lower Secondary	60	20	0.8	4.3	105	20	1.4	7.2	2.9
Upper Secondary	20	30	0.4	1.8	105	30	1.8	9.2	7.4
Higher	7	170	0.5	2.4	30	100	1.2	6.2	3.7
Total			3.6	18.3			6.6	33.7	15.4
LMICs									
Primary	103	13	1.7	24.8	105	14	2.0	27.9	3.1
Lower Secondary	85	20	1.0	14.5	105	20	1.2	17.1	2.6
Upper Secondary	50	25	0.7	9.8	105	30	1.7	23.5	13.7
Higher	20	75	0.8	10.7	50	50	1.3	17.8	7.1
Total			4.2	59.8			6.1	86.4	26.5

2.2.4 The result of the modelling is to show that to reach or exceed 6% of GDP would cost at least another US\$ 15.5 billion per year for the LICs and US\$ 26 billion for the LMICs. Most of the additional costs would be in expanded participation in lower and upper secondary school, and at tertiary level. The additional costs would be much greater for the LMICs than the LICs because their systems are much more expensive. However, the LMICs are more likely to be able to finance the additional costs themselves if the political will exists.

2.2.5 The analysis leads to the conclusion that the amounts needed are much larger than current or planned disbursements of aid which are unlikely to realize much more than US\$ 5 billion per annum

for Africa. The recent GPE replenishment appears to have raised about US\$ 750 million per annum for three years for its global fund. The financing gap is recurrent and would have to be supported from domestic revenue sooner or later. Grants are not useful for recurrent financing. If African countries did allocate 6% of GDP to education, they could go a long way towards financing universal access to grade 9, and expanded access to higher levels. However, 48 percent of countries in Africa spend less than 4% of GDP on education and only 22 percent spend more than 6% *including* contributions from aid. About 43 percent of countries allocate less than 15 percent of government budgets to education and 26 percent allocate more than 20 percent.

2.2.6 If the share of the government budget for education was not to exceed 20 percent of the total government spending (which is about 15 percent greater than is the current average), the amount collected from domestic revenue would have to increase sharply from the current average of about 17 percent of GDP to over 25 percent to achieve spending on education over 6% of GDP. If countries did allocate 20 percent of the government budget to education, and only collected 17 percent of GDP in domestic revenue to fund government services, then only 3.4% of GDP would be allocated to education (20 percent of 17 percent). This is not nearly enough. Thus, achieving substantial increases in levels of domestic revenue needed to finance government spending on education requires very substantial fiscal reform and much more effective revenue collection. It also requires more efficient translation of revenue into high quality educational services that result in learning. This could be an important focus of AEF investment and technical assistance alongside building on AFDB thematic concerns, e.g. STEM and HEST and TVET, all of which have shortfalls on the supply side in terms of labor market needs.

2.2.7 Estimates of recurrent costs include projections of the cost of teachers' salaries. These are factored into the cost per student. This does not account for the cost of training teachers. The number of new teachers needed is very large. Assuming growth in enrolment to 105 percent at all levels and child population growth of 2% in LICs and 1% in LMICs the number of students will increase from 122 million to 239 million in LICs and 131 million to 221 million in LMICs. Over 60 percent of new teachers will be at secondary level. In all, at least 15 million new teachers will be needed to meet increasing student numbers and compensate for attrition estimated at 3% per year. In addition, as many as 2 million more pre-school teachers will be needed. The number of tertiary college lecturers would also have to expand but this needs costing separately since there are so many ways this could be achieved.

2.2.8 The issues that surround teacher supply and demand will be prominent in all African countries. This is both to ensure that there are enough qualified teachers to staff schools with acceptable class sizes, and because quality improvement in learning depends most directly on the quality of teachers. The AEF may choose to address these issues at one or other levels where shortages are endemic and a real constraint on growth.

2.2.9 The capital costs of expansion are additional to these estimates. A total of 9.2 million new classrooms will be needed in LICs in Africa and 8.6 million in LMICs. Most of the new classrooms will be at secondary level. The study estimates 65 percent in LICs and 55 percent in LMICs. If the costs of classrooms are US\$ 10,000 per classroom at primary and US\$15,000 at secondary levels, then the total cost to meet demand until 2030 is about US\$ 73 billion in LICs and US\$53 billion in LMICs. These amounts appear large but are for an investment over as much as 50 years. Looked at

this way, the annual spending could be managed to be less than US\$ 10 billion a year across Africa initially tapering off to much less as the stock of buildings increases and demographic transition eventually happens.

2.2.10 The growing need for both increased government spending and publicly accountable innovative financing for education that does not generate debt in Africa can fill financing gaps over time. It can lead to improved and more equitable student learning outcomes; increased equity and gender equality and inclusion, and more effective and efficient education systems. This will be accelerated by strengthening education sector planning and policy implementation, mobilizing more and better financing, and building stronger partnerships across education systems Africa.

2.2.11 An organizational framework will be developed by a TTF to illustrate how the AEF will develop mechanism to refine its institutional goals, establish its governance and manage its loans and grants. It will need to develop its theories of change in relation to its support programs. This will have to be done in association with stakeholder to ensure ownership and fitness for purpose.

2.3 The Financing Dilemma

2.3.1 The analysis shows that:

- The gap between what African countries spend on education and what they need to spend is very large. In LICs, an additional US\$15.4 billion a year would be needed and in LMICs about US\$26.5 billion. These gaps would require a doubling of current expenditure in LICs and a 50 percent increase in LMICs.
- The most intractable financial gaps are in recurrent expenditure. The demand needs allocations of 6% of GDP to education and more than 20 percent of the government budget.
- At least US\$120 billion of capital spending will be needed to provide space for expanded cohorts of learners.
- An additional 15 million teachers will need to be recruited and trained by 2030.
- Costs per student are uneven between levels. Twice as much is spent on a secondary school child as a primary school child and up to 15 times as much on a tertiary student.
- On average, 52 percent of the population live below national poverty lines in LICs and 27 percent in LMICs in Africa. Costs in LICs and LMICs make private education above primary level widely unaffordable for most children below the second quintile of household income.
- Structural changes could facilitate greater enrolment and expanded access without diminishing quality, greater productivity could lead to better salaries for teachers, and more equitable methods of cost sharing could be facilitated.
- Large amounts of external finance can begin to create dependence which may undermine domestic politics and discourage tax collection to support public services like schools.
- The analysis of financial gaps indicates critical areas of need including tertiary level financing, TVET reform, and pre-school.
- Fundraising for the AEF within Africa should concentrate on those countries with the largest economies with the most capacity and will to finance a pan-African initiative.

2.3.2 This analysis leads to the conclusion that the bulk of financing for African development will need to come from domestic resources. As the President of the AfDB has said “I personally think African countries will look a lot to the domestic market to mobilize the huge amount of capital that is there. What is needed is to have better regulations so that the pension funds can invest in asset

classes such as infrastructure and so on” (Adesina 2016). Pension funds are one of several possible sources of funds to finance the AEF along with enhanced tax revenues and hypothecated levies, prevention of fraud and corruption, and sequestration of the proceeds of crime. The main options are discussed later in this report. ADEA has made the case for a new approach to financing education driven by domestic commitments and financed more from within the continent than from outside (ADEA, 2017b).

3. STUDY FINDINGS

3.1 Overview

3.1.1 This chapter synthesizes insights from the consultation exercise with key informants under the thematic questions that framed the study. It then collates insights into funding the AEF and identifies a wide range of options. The next section provides a risk analysis and mitigation strategies. Lastly, the matrix of possibilities is introduced which presents options for the development of the AEF. This can be the basis for the development of a detailed business plan.

3.2.1 Responses to the Key Questions

3.2.1 This section collates findings from the survey questionnaire and focus groups conducted during the consultations and from analysis of other data. Detailed information from the interviews, questionnaires and focus groups is reported separately in the main report. The responses are organized in relation to thematic headings - funding and location, financial gaps and magnitude, agency co-ordination, selectivity, eligibility, and innovative finance. Perceptions of risks are discussed in a separate section.

3.2.2 Funding and Location of an AEF

3.2.2 Views on the method of funding for the AEF varied. Many different possible sources were mentioned. These included member subscriptions, endowment fund financing and Waqf, integration into the budget system of the AfDB, loans from another MDB, resources generated by debt rescheduling, subscription from AEF members, earmarked taxes, and confiscation of proceeds of crime. Other sources mentioned include corporate contributions, philanthropists, and matching funding systems, e.g. the GPE. It was felt that if resources were raised in Africa the assets realized should be under the control of African organizations and accountable to African institutions.

3.2.3 There was a strong preference for the AEF to be hosted within the AfDB. This was seen to be efficient in terms of infrastructure and procedures. This would open up options for funding including incorporating the AEF into the AfDB replenishment cycle, leveraging the AfDB loan book, and co-financing from other MDBs and JICA. There was interest in establishing an endowment fund financed by donation of start-up capital or land assets as is the case with Waqf.

3.2.4 There was general agreement that if the AEF was to be an African institution, it would have to raise a majority of its finance from African sources. If each country in Africa contributed US\$ 10

million on average, then this would generate over US\$ 500 million per year. Improved revenue collection under existing tax legislation and reductions in tax avoidance could be used to finance the contributions. Non-African agencies took different views on the extent that it would be possible to be minority shareholders and contributors to an AEF that was African managed and controlled.

3.2.5 Those interviewed favored an AEF that was a TF giving grants, rather than a development bank giving loans. Several reasons were given. These include first, that needs for a new fund were for a catalytic facility that could offer inputs for specific purposes rather than general budget support or loans for service delivery. Second, grants do not generate debt that has to be managed and has risks of default. Third, concessional loans under IDA have been expanded. LICs already qualify for these and there would be no value added in competing with IDA. There was disagreement with the proposition that the AEF should give concessional loans to LMICs as the ICFGEO is proposing. Most informants favored short-term grant financing for specific purposes, with fixed end points and clear exit routes.

3.2.3 Financial Gaps and Magnitude of the AEF

3.2.6 There was agreement that the size of the financing gaps in Africa was so large that there was plenty of headroom for a new fund to contribute to closing gaps without duplicating existing mechanisms. Meeting the education SDGs across SSA is estimated to cost as much as US\$40 billion a year more than national governments' recurrent expenditure on education in 2016. There are 55 African member States of the AFDB. If US\$ 1 billion was raised each year and allocated equally per person, it would amount to about 80 cents per person. If it was allocated per child (3 years - 18 years) it would be equivalent to about US\$ 3 per child. On average, low income countries currently spend about US\$ 100 per year per primary school child. No imaginable fund would be large enough to fill all the finance gaps in education in Africa. If the overall gap between what is spent and what is needed was met through external assistance, it would require volumes of external assistance that would create unprecedented levels of dependence (Annex 5).

3.2.7 It was noted that if US\$1 billion was divided equally by 50 countries, each country would have access on average to about US\$ 20 million. The average SSA country has an education budget of around US\$ 1 billion, so this would represent about 2% of annual education spending. Clearly, there is a case to focus support to where it is most needed and might have most effect. The AEF is not intended to fill gaps in recurrent expenditure but to fund evidence-based policy initiatives and catalytic reforms that focus on underfunded sub-sectors and lead to sustainable financing in a defined time period. This is likely to include STEM, HEST, and TVET but cannot cover all sub-sectors with the resources likely to be available.

3.2.8 The opinion of informants was that the capitalization level of the AEF should be linked to the goals of the AEF and its funding modalities. Grant giving requires a different approach to loan disbursement. The AEF could be capitalized anywhere between small (less than US\$ 50 million) medium size (US\$ 50-500 million) or large (US\$ 500 million to more than US\$ 1 billion). Several of the informants were in favor of a small- to medium-size fund that could demonstrate proof of concept at a lower level of risk than a very large fund. Some argued that a small fund with special interests was the most likely to get initial funding.

3.2.9 Respondents distinguished between support for recurrent budgets and investment in development spending for capital projects and infrastructure. Funding from a continental development fund financed by some African countries to support recurrent costs in other African countries was thought to have political and practical problems. Funding for development projects that could have mutual benefits was thought to be more likely to attract support, especially if they had regional dimensions and could be seen to benefit more than one country.

3.2.10 Informants had many views on the gaps the AEF might fill and the functions to which it could add value. Depending on its success raising funds, it was thought that the AEF could make a useful contribution: (i) in a small number of poor countries with large financing gaps, (ii) in a larger number of countries through niche focus on sub-sector of education, and (iii) in most countries through technical assistance support for evidence-based policy development. Much less than US\$ 50 million would not support programs of scale in any but the smallest and poorest countries. US\$ 500 to 1 billion would still need selective targeting.

3.2.11 Other key issues raised were: Should the AEF identify a cluster of countries – say 5 to 10 - in greatest need of additional financing where additional financing could be large enough to be catalytic and transformational but not so large as to create dependence? Should the AEF concentrate funding on supporting countries that have the largest numbers of out-of-school children and the lowest completion rates for secondary school with ambitions limited to progress on Key Indicators (KIs)? What should be the minimum size of country programs that justifies their fixed costs of administration and evaluation?

3.2.4 Agency Coordination

3.2.12 Most respondents indicated that an AEF would have to complement rather than compete with other multilateral institutions which fund education and development. Some felt the question of coordination with other agencies was premature since the modes of cooperation were impossible to identify in advance of the creation of the AEF. It was suggested that the AEF would be well advised to avoid focusing on areas where there was already extensive financial support available e.g. basic education, and should concentrate on those which were underfunded and where there was evidence of unmet labor market needs.

3.2.13 The AEF would need to meet the requirements of the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action through harmonization and coordination with other stakeholders. Its grants and loans will interact with different forms of finance available from multilateral and bi-lateral agencies already funding education in Africa and this needs to be planned. It was pointed out that coordination should be no more difficult than it is currently for the AfDB and the other agencies that have overlapping mandates.

3.2.5 Selectivity

3.2.14 The predominant view was that the AEF should concentrate its activities towards populations and countries that had the poorest educational indicators if it is offering grants and heavily concessional loans. The view was that even if the fund was very large, it would not be big enough to have an impact in all African countries so some focus would be necessary. Since there are already

funds that specialize in fragile states and this requires special expertise, the AEF should start with activities in the poorest states that are not necessarily high on indicators of fragility.

3.2.15 The opinions favored an AEF that had a focus on a small number of countries in the first instance. The focus could be further refined if the AEF identified core competencies where it might have a comparative advantage and where there were unmet needs. There was no consensus amongst informants about what sub-sectors might be the most appropriate. This was unsurprising given the range of perspectives of the informants. However, there was some support for several possible thematic emphases. These included: (i) STEM and TVET education and training at all levels to help provide the skills needed in the labor market and address the issue of youth unemployment; (ii) HEST in light of the exploding numbers of students across the continent and the huge amounts of resources being spent by African families for overseas schooling due in part to lack of quality in-country facilities and programs; (iii) Investment in educational quality improvement through teacher training and investment in learning resources to increase low levels of achievement; and (iv) Innovations in educational finance and fiscal reform focused on facilitating sustainable financing from domestic resources.

3.2.16 There was some support also for the idea that the AEF could start as a Technical Cooperation Fund (TCF), using African expertise to act as a source of advice and assistance to African governments with limited capacity in planning and evidence-based policy dialogue. This has the attraction of relatively low start-up costs, African ownership and management, and low risks. Such a fund could leverage other sources of finance and could also make catalytic inputs to the needs for fiscal reform to close financial gaps. If the AEF were securely financed from African resources it would have the comparative advantages of regionally accountable programming, insulation from the global politics of aid, and consistent disbursement according to African priorities.

3.2.6 Eligibility

3.2.17 Respondents found it difficult to discuss the specificities of eligibility for support until the AEF was established. Criteria for grants, loans, and credit guarantees might be different. There was a consensus that the AEF should focus its resources on the poorest countries with the least capacity. Eligibility questions were seen to be linked to size and functions of the AEF. If it were small scale, grant based and technical assistance orientated criteria for eligibility should be simple.

3.2.18 Linking eligibility to things like the size of the child population, the proportion of children out of school, and the proportion of households with income below US\$ 2 was thought cumbersome. A judgement of the significance and impact of support to particular interventions might be more important. If the AEF were large scale, then detailed criteria are likely to be necessary to justify disbursement, as is the case with other large scale funds. There was also a view that loan finance should not be advanced where there was high level of indebtedness.

3.2.7 Innovative Finance

3.2.19 Respondents note that the vast bulk of finance to support education is public and derived from domestic revenue in all but the poorest and most fragile states. They also note that a growing

proportion of financing is being provided by households and that this could be inequitable. Several points were made about innovative financing.

3.2.20 It was felt that corporate entities could contribute more to educational financing. Corporate responsibility programs could contribute to an AEF in cash or in kind (e.g. the time of technical staff and use of facilities and capabilities). Most importantly, they could contribute through ethical approaches to corporate taxation that reflect tax justice and the principle of paying tax in the country where the revenue is generated. Africa loses many billions of dollars each year through tax evasion, transfer pricing, bribery and corruption, and uncollected taxes.

3.2.21 Philanthropists were mentioned as a source of support for the AEF. It was noted that the richest twenty people in Africa have assets of more than US\$ 100 billion. The AEF could be funded on an endowment basis by philanthropic capital that provided a core foundation fund that was invested to generate income that could be translated into grants and small-scale concessional loans.

3.2.22 Development bonds were discussed. These have been used on a small-scale, mostly outside Africa. There was not much enthusiasm for these bonds since they subcontract educational investment programs to private providers, who have to make financial returns for shareholders who may not be in Africa. It was argued that experience with Public Finance Initiatives (PFIs) also shows these are generally more expensive than direct financing.

3.2.23 The general perception was that innovatory financing had yet to demonstrate that it is capable of generating reliable sources of additional funding in volume with low transaction costs and equitable reach. As a complementary source of funding for the AEF for specific purposes, such finance would be welcome, but as core funding for the AEF, the most viable option was to encourage contributions to a TF from both state and non-state stakeholders. An increase by 1% in national tax revenue would be more than enough to fund an AEF.

3.3 Funding the AEF

3.3.1 This section summarizes the analysis of funding issues in relation to feasibility. There are three levels of financing of the AEF itself that are possible. First, there is the high level option of US\$ 1 billion + over three years to be replenished. Second, a more realistic initial ambition for a fund might be of US\$ 250-500 million over three years to finance a start-up. The third option is to seek more modest funding focused on with high levels of catalytic activity designed to nudge policy and practice to increase domestic revenue and investment in education since this is the only sustainable way of closing gaps. US\$ 50 million would be sufficient to fund an AEF start-up with this ambition.

3.3.2 The ADEA Concept note identifies US\$1 billion as the target capitalization to be replenished after three years. Larger amounts were identified in earlier documents. These are very substantial sums but are nevertheless small in relation to the gaps calculated in this report.

3.3.3 The simplest approach to funding the AEF is to set up a TF with an initial endowment of capital, some of which could be in income generating assets. This is preferable to using loans to generate operating capital since these would have a long lead time and have to be serviced with

repayments. In addition, TF grants are preferable to loans for the poorest countries since they do not generate debt.

3.3.4 A fund with the capacity to finance loans and credit guarantees would be acting like a development bank and should probably be part of an MDB to minimize its transaction costs and regulatory obligations. A grant giving trust could be viable at a much smaller scale since its procedures could be much simpler and it would have a greater freedom over what it could finance.

3.3.5 The most attractive financing methods generate recurrent flows of income. These include the assignment of revenue streams, e.g. a regular binding subscription, % of rising income tax, % of VAT or corporate tax, a % of oil revenue, financial transaction taxes. These do not require repeated negotiation and have less volatility than ad hoc arrangements for replenishment.

3.3.6 Two well-known initiatives are relevant. These are the Ghana Education Trust Fund (GET Fund) in Ghana and the Nigerian Tertiary Education Trust Fund (NTF).⁶ These two funds generate substantial revenue on a recurrent basis from VAT on the one hand and oil revenues on the other, and are generally thought to be successful. This kind of “recurrent endowment” is well suited to financing an AEF and could be used as a reliable way of replenishing the AEF on an annual basis without protracted negotiations.

3.3.7 The AEF could be integrated into the normal process of MDB replenishment. This means that the AEF would establish a budgetary position within the host institution that is part of normal operations. In addition, if it proves possible to mobilize MDB revenue streams to finance borrowing, the resources could be used to support the AEF.

3.3.8 The AEF could benefit from efforts to leverage the resources of MDBs by the ICFGEO. If this succeeds in increased lending capacity of the AfDB as a result of portfolio insurance that leverages loans and grants from sovereign and non-sovereign sources, then the benefit could be used to partly finance the AEF. In general, if there is capacity to leverage more resources from African institutions, the benefits should flow back through investment in African institutions.

3.3.9 The AEF has attracted commitments from the highest political levels as noted in chapter 1. The goals of the AEF imply that Africa’s development must be endogenously driven. The High Five Goals of the AfDB - electrification, food security, industrialization, integration, and quality of life - cannot be separated from investment in education and ownership by Africans. The first four depend on investments in human capital. The last High Five is quality of life. Education is part of the definition of the quality of life and is part of the meaning of development.

3.3.10 Since independence, many African countries have accepted large amounts of external finance in the form of aid and concessionary loans. Aid flows peaked in the early 1990s and has fallen as a proportion of GDP as most African countries have experienced substantial economic growth. Aid to Africa was greater than tax receipts from 1986 to 1995. Tax revenues are now twice the value of aid as a percent of GDP.

⁶ The GET Fund and Nigeria Tertiary Education Fund (NTF) are described in more detail in the main report.

3.3.11 If the AEF is funded largely from African resources after it is established, it would not be “fishing in the same pond” as development partners seeking bilateral and multilateral funding for education from outside Africa. If the AEF were funded from tax revenue, replenishment would not be an issue. A 0.1% improvement in domestic tax collection across Africa would easily finance an AEF of scale. If pension fund assets which total over US\$ 334 billion) and Sovereign Wealth Funds (SWFs) (at least US\$ 164 billion) were mobilized they could also finance the AEF.

3.3.12 LICs and LMICs in Africa collect most revenue in indirect taxes. Direct taxes on income, property and assets account for about 31 percent of revenue in Africa compared to 55 percent in the OECD countries. As countries develop and modern sectors grow, direct taxes will become a larger share of revenue in Africa. Taxes will also become more difficult to avoid with better biometric identification and electronic transfers and tracking of transactions.

3.3.13 “Fiscal States” have the capacity to borrow to invest and grow without reference to aid and its conditionalities provided they do so responsibly. African governments can and will become more effective at converting tax legislation into revenue streams with lower rates of avoidance and higher capture rates. Greater budget transparency is part of the solution and could enhance education spending (IBP 2017). Corporate tax evasion is variously estimated at US\$ 50 billion to US\$ 100 billion a year as small proportion of which would fund the AEF.

3.3.14 Thus in Africa, tax, not aid, is now the dominant source of public finance in most countries. Growing revenue from individuals appears to have been coming from households in the middle of the income distribution and from flat rate indirect taxes on everyone like VAT. The wealthy in Africa in the top quintile of households contribute less to the revenue base than they do in the rest of the world. Redressing this inequity could fund the AEF.

3.3.15 The problem of gaps in educational finance is shifting from absolute shortages of domestic revenue, to problems of unbalanced allocation, inefficient mobilization, and poor conversion of inputs and assets into outcomes. This is where an AEF can add value. Africa can finance an AEF from its own resources with catalytic assistance from development partners sympathetic to its aims. The AEF can promote fiscal reforms and increased efficiency and effectiveness. This would ensure that the benefits of economic growth were fed into educational investment to develop sustainable financing for African education systems that does not depend on external grants and loans.

3.3.16 If the AEF were to require US\$ 1 billion to be replenished every three years, this is equivalent to about 0.01% of Africa’s annual GDP. It is about 0.3% of the GDP of each of the seven largest economies. It is about 0.1% of all domestic tax revenue. It is a bit less than 0.4 % of all public education budgets. This is also less than 1% of annual spending on defense in Africa. A small peace dividend from reduced military expenditure that ensured that there were more teachers than soldiers could finance the AEF.

3.3.17 The proposed AEF can have long-term funding sourced from Africa if there is political will. It can then be African owned and African managed, and driven by the development agendas of African member states. This configuration does not preclude the AEF from accepting support from bilateral and multilateral sources outside Africa. It just means that such partners should be in the minority and they should agree to support a developmental pathway designed, developed, and

implemented by Africans. A sizeable AEF would cost a tiny proportion of Africa’s GDP. The question is not whether it can be afforded but whether Africa wants to commit its resources.

3.4 Risks and Mitigation Measures

3.4.1 Seven risks are identified from documents, discussions with ADEA and AfDB, and interviews with key informants. Strategies to mitigate these risks are indicated.

Table 6: Risks and mitigating measures

No	Risks	Level	Mitigating measures
1	AEF will not be able to raise sufficient funding for a credible start up. The amount needed to start an AEF depends on the level of ambition chosen and the likelihood of raising start-up capital.	Medium	(i) seeking a realistic initial capitalization; (ii) phasing start up to match financial resources available; (iii) reaching agreement to initiate the AEF in a sub-set of 5-10 countries which already have regional collaboration agreements.
2	AEF will not be able to establish a unique identity that differentiates it from other sources of support for Africa educational development.	Low	The identity of the AEF must come from an Africa perspective on its purposes. This has been developed and could be strengthened by: (i) convening a meeting of stakeholders with this purpose; (ii) inviting a competition of ideas and proposals to a consortium of potential funders; (iii) inviting a sub-set of AU countries to demonstrate proof of concept on an appropriate scale.
3	Fundraising for the AEF could compete with other large scale initiatives seeking to enhance the financial resources available for education in Africa.	Low	Competition can be minimized and complementarity encouraged if (i) African sources of finance are directed towards the AEF; (ii) international funds are encouraged to bring new money to Africa rather than raise money in Africa; (iii) the AEF focuses on areas not well served by existing multilateral and bilateral finance.
4	It will not be possible to reach agreement on governance and the location(s) of the AEF.	Low	The consultation has not identified a wide range of options for the location of the AEF. The AfDB is the most obvious location to host the fund. If there are credible alternatives these need to be identified.

5	AEF will struggle to form a productive relationship with other development agencies.	Low	i) major development partners are invited to support the development of the AEF; (ii) it is clear where the African leadership of the AEF is located; (iii) the AEF does not seek majority funding from outside Africa and development partners do not raise money for their funds in Africa.
6	An initial fund to capitalize the AEF will not be replenished on a regular basis.	Medium	(i) establishing the extent of sponsors long-term commitment; (ii) mobilizing sources of funding which provide a stream of income (e.g. a proportion of growing tax revenue, a proportion of VAT or natural resource revenues, tourist taxes etc.); (iii) linking the AEF to an endowment large enough to support its disbursements.
7	The largest and richest African countries with the most resources do not buy in to the AEF.	Medium	Commitment and leadership of the largest and richest countries based on (i) the AEF emphasizing its contribution to regional African development; (ii) identifying synergies with successful African initiatives; (iii) developing consensus in the AU that Africa should fund its own development and reduce its dependence on aid.

3.5 Matrix of Possibilities

3.5.1 The main options for the AEF can be located in a matrix of possibilities (Annex 6). This is structured around the themes of this study. The matrix profiles possible configurations of the AEF, identifies options for funding, size, location, selectivity and eligibility, and innovative finance. Risks and their mitigation have been discussed above. The main report discusses the strengths and weaknesses of the various options.

3.5.2 These possibilities determine the feasibility of the AEF. Each is associated with different strengths and weaknesses that need to be assessed as the AEF is developed. The community of interest that is proposing the AEF must now begin to make decisions as to what kind of AEF it wants. The costs and the sources and magnitude of funding depend on this. So do decisions on institutional location, selectivity, eligibility, and innovative financing.

4. CONCLUSION AND RECOMMENDATIONS

4.1 Conclusion

4.1.1 The establishment of an AEF is feasible. The evidence presented in depth in the main report leads to clear conclusions that there are many unsatisfied needs for educational financing, existing funds cannot meet all the needs, and there is a growing political will to support the development of an African funding institution located in Africa. This would have many comparative advantages including African ownership and accountability within the continent, fund development and management by African staff embedded in national contexts, responsiveness to African priorities, independence from volatile and unpredictable finance from international donors, ability to earmark funds for specific purposes, and capacity building and deployment of African technical assistance.

4.1.2 The AEF is long overdue more than 60 years after the independence of most African states. The opportunity exists to demonstrate that an Africa-centric approach that mobilizes domestic and international funding could address the limitations of the existing systems for investment in educational development through grants, loans, and credit guarantees.

4.1.3 This report asked seven questions about the AEF of a wide range of stakeholders and developed an extensive analysis of the challenges for educational finance in Africa. These questions are answered in summary in this report, and in detail in the main report. This report concludes that the AEF should be established and that the risks associated with the development of the AEF can be mitigated. The proposal has strong support from potential stakeholders and beneficiaries, there are many unmet needs for educational investment across Africa, and there are new opportunities for domestic resource mobilization and fiscal reform.

4.1.4 The AEF can be financed from a variety of sources including member subscriptions, inclusion in the AfDB budget, contributions from other MDBs, fiscal reforms for fairer revenue collection, more efficient collection of taxes, corporate tax reform, philanthropy, greater use of levies and taxes on natural resources, mobilization of private capital in pension funds and sequestration of proceeds of crime. Some of the sources of revenue could be ring-fenced and attributed to funding the AEF. Innovative sources of finance could also contribute to the funding of the AEF.

4.1.5 The financing gaps for education in Africa are very large and no fund could fill all the gaps. About 48 percent of countries spend less than 4% of GDP on education and only 22 percent spend more than 6% including aid. About 43 percent of countries allocate less than 15 percent of government budgets to education, and 26 percent allocate more than 20 percent. To reach 6% of GDP would cost at least another US\$ 15.5 billion per year for the LICs and US\$ 26 billion for the LMICs.

4.1.6 The AEF is a development fund. It should respond to needs for pro-poor financing and innovations that have regional benefits. The AEF could give grants, concessional loans or provide loan guarantees. A grant giving TF is much simpler to establish and administer than a lending fund, quicker to start-up, and more relevant to the poorest countries. It needs periodic replenishment. An LF needs larger capitalization but could become self-financing in the medium-term. Its loans generate debt with the risk of default.

4.1.7 The AEF could be established as a small fund (less the US\$ 50 million), a medium fund (less than US\$ 500 million), or a large fund (more than US\$ 500 million). Large funds have the scope to give grants and concessional loans, and fill finance gaps. Small funds should concentrate on technical assistance grants and research, and development. The AEF should start on a scale consistent with realistic goals for initial capitalization. This is most likely to be in the range of US\$ 50 million to US\$ 250 million, depending on the willingness of member states to commit resources.

4.1.8 The AEF should benefit from efforts to replenish global funds that work predominantly in Africa and from leveraging the resources of MDBs including the AfDB by international initiatives on finance. About 0.01% of Africa's annual GDP would be sufficient to replenish the AEF with US\$ 1 billion every three years or about 0.1% of all domestic tax revenue.

4.1.9 The most attractive location for the AEF is for it to be hosted by the AfDB. This is consistent with African location and ownership, and would minimize start-up and transaction costs associated with a new funding institution. It would also assist the coordination of the AEF with other sources of multilateral and bilateral financing for education to avoid duplication and add value. One aspect of this will be for partners to agree with thematic priorities for the AEF. These could include STEM and HEST and other areas of critical under-investment in Africa.

4.2 Recommendations

4.2.1 This study should now be shared with potential owners and beneficiaries of the fund including the AU, governments, Regional Economic Communities (RECs), regional development banks, the IsDB and the government of Japan, the Development Bank of South Africa (DBSA), the East African Development Bank (EADB), and key private sector stakeholders. One objective is to prepare a submission for the AU Heads of State Summit (July 2018).

4.2.2 The next steps in establishing and AEF will require formation of a **TTF** with an appropriate budget to make proposals for the funding, location, and modus operandi of the AEF leading to a detailed business case and strategic advocacy.

4.2.3 In parallel, a professional **FRG** is needed to start work on the initial capitalization and mechanisms for replenishment of the AEF.

4.2.4 An AEFDC needs to be established with representation of key stakeholders as indicated above including AfDB, IsDB, and ADEA. It should be tasked to take forward the AEF proposal under the leadership of a high profile African professional Chief Executive Officer.

4.2.5 Specific recommendations of the steps that need to be taken to develop the AEF so it can evolve from an idea into an institution are attached. Annex 6 presents a matrix of possibilities related to the key issues. Annex 7 provides a road map of short, medium, and long-term actions by AfDB, ADEA, the AU, and governments.

4.2.6 More than anything else, the AEF will need the full commitment of African member states who will be the owners of the AEF. They will be both contributors to and beneficiaries of the AEF. They will need to agree on a vigorous, high-level leadership of unimpeachable integrity, and the appointment of a founding Chief Executive Officer who can inspire commitment, create organizational structures, and embed institutional values in a new fund for Africa that is pro-active, pro-poor and able to translate development dreams into educational realities.

Annex 1: Summary of the reasons for creating the AEF according to ADEA

Reasons	Description
Dwindling financial support	Competing emerging priorities in other development sectors; decline in education aid; shifting priorities of development cooperation partners; insufficient budget resources.
Population growth	By 2030, the African population is expected to peak at 1.6 billion from 1.2 billion in 2015 (represent 19 percent of the world's population of 8.5 billion). Of the current population, 41.5 percent is under the age of 15.
Limited absorptive capacity	The expansion of access to primary education has resulted in growing demand for secondary and tertiary education which has been hard to meet. In spite of the growth in tertiary institutions, only 6% of young people in sub-Saharan Africa are enrolled in higher education institutions compared to the global average of 26 percent.
Economic growth and capacity	Economic growth has been impressive in Africa in the past decade. Its sustainability and structural transformation from primary producers requires capacity. Capacity comes from quality education and training, particularly in science and technology and costs money.
The unfinished business	Education for All (EFA) goals are still unfinished business rolled over into the post-2015 education agenda. Despite progress in access, fundamental challenges remain and they include lack of teachers (number and quality) and poor infrastructure; inequality in access and career paths; low quality of educational/learning outcomes; outmoded teaching practices; and lack of teaching aids, including ICT.
Existing education funds	Existing international funds are not comprehensive and inclusive in funding education development and transformation for the whole continent; they are not continental in orientation and do not focus on the whole spectrum of education transformation. They operate on scale in a few countries, focus on one segment of the population (e.g. girls or marginalized women) or address one educational challenge (e.g. basic education). Ownership of funds is distant from the African continent and the institutions are located elsewhere. The proposed AEF will be different and will be embedded in the countries it seeks to serve.

Source: ADEA 2017

Annex 2: Data Collection Methods

1. Study questions

The framework for this feasibility study was provided by AfDB and ADEA. After discussion, the feasibility study was organized around seven questions. These are:

- How could the AEF be funded and how should it be replenished?
- What are the existing financial gaps and what magnitude of resources are needed?
- How will the fund coordinate with other global funding mechanisms, where will it be located, and how will it be managed?
- Should the AEF selectively focus its support on specific sub-sectors?
- What should be the eligibility criteria for support: through grants, loans, credits, and technical assistance?
- How can the AEF benefit from innovative sources of finance located in and outside Africa?
- What are the risks that need to be mitigated if the AEF is to develop?

2. Data Collection

A sample of over 70 stakeholders was identified by ADEA and the AfDB across the African continent and in OECD development partner countries. This included officers from ministries of education, former and current ADEA executive committee chairs as well as all its former executive secretaries; representatives of development and cooperation agencies, members of the ADEA steering committee; representatives of the African Union Commission (AUC) Department of Human Resources, Science and Technology (HRST); representatives of sub-regional African organizations, including major Regional Economic Communities (RECs) and other key stakeholders from different backgrounds. The sample was non-random and designed to yield the most insight.

First, a comprehensive literature review and analysis of available data and documents was undertaken and developed over the length of the study. This was informed by the seven themes identified from the ToR. Data sources included published analyses, education plans, policy documents, global funding initiatives, donors' reports, professional journals, and evaluations of aid.

Second, a survey questionnaire was built around the seven themes mentioned earlier to collect quantitative data for the study. The instrument is a Likert type forced scale instrument that was pilot-tested on a small scale in November 2017, and administered to a non-random sample of seventy (70) key ADEA stakeholders, comprising representatives of ministries of education, finance, development partners, civil society organizations, regional and sub-regional organizations and institutions of higher education in November and December 2017. The survey questionnaire yielded a return rate of 63 percent, a high proportion given the constraints and administrative delays. Descriptive statistics were produced relating to the number of respondents agreeing, strongly agreeing, disagreeing or strongly disagreeing with the propositions.

Third, an interview guide and a focus group protocol were developed to collect qualitative data from an opportunistic sample of informants in twelve countries. The countries were Botswana, Burkina Faso, Central African Republic, Côte d'Ivoire, Ethiopia, Gabon, Ghana, Morocco, Nigeria, Senegal, South Africa, and Uganda. The interviews were conducted face to face with a few exceptions which had to take place

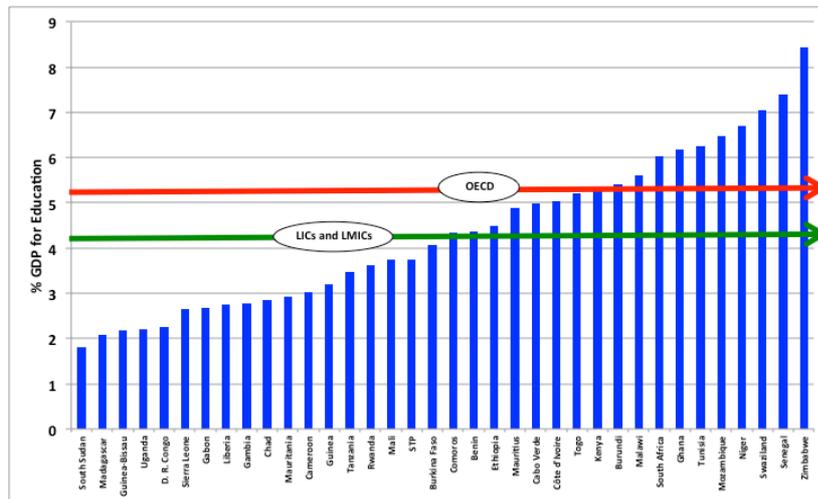
telephonically. Focus groups that brought together forty stakeholders were also conducted in CAR, Gabon, Ghana, Morocco, and Nigeria. Interview and focus group data was recorded in contemporaneous notes, content analyzed and clustered into narrative forms. The interview guide was derived from the questionnaire. Its purpose was to collect qualitative data from the same sample of informants as the questionnaire organized by the seven thematic questions of the feasibility study each of which was linked to a series of supplementary questions.

Fourth, in parallel with this data collection, large scale data sets were constructed with enrolment participation and financial data for all African countries, using data from the UNESCO Institute of Statistics and other national and international sources. These data sets were compiled, cleaned, checked, and formatted to make detailed analysis possible. The data analysis used descriptive statistics to undertake macro analyses across the data set and identify in detail educational financing gaps across the continent. Country level data were used to estimate current costs of the school system country by country and project these forward to establish the gaps between current spending and likely demand, given specified levels of participation in the future.

Annex 3: Levels of Commitment and Financing Gaps

African countries have different levels of commitment to financing education. This partly determines the size of the funding gaps that are generated by goal driven policy linked to the SDGs. Public expenditure on education as a % of GDP varies widely across the countries in the data set as figure 1 shows.

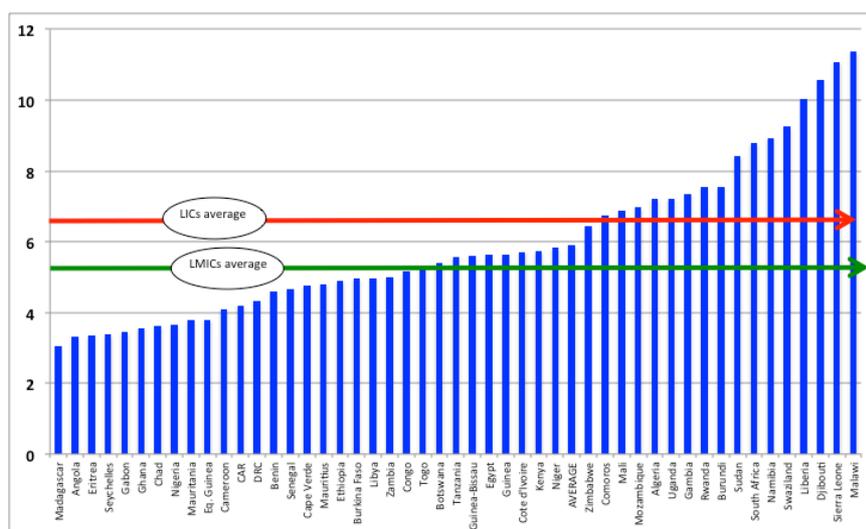
• **Figure 1: Proportion of GDP spent on education**



The lowest commitments are in South Sudan, Madagascar, Guinea-Bissau, Uganda, and the Congo with 20 percent or less. The greatest allocations are in Zimbabwe, Senegal, Swaziland, Niger, Mozambique, Tunisia, and Ghana. The overall allocation does not indicate which sub-sectors are most heavily financed. OECD countries tend to allocate more to education as a percentage of GDP than do LICs and LMICs. A low allocation to education as a proportion of GDP indicates lack of political will. However, a high allocation may not be balanced and equitable and may direct more public spending to the richest households.

Governments appear to spend more on health than education (figure 2). The average % of GDP allocated by LMICs I SSA is about 5.2% and for LICs 6.2% of GDP.

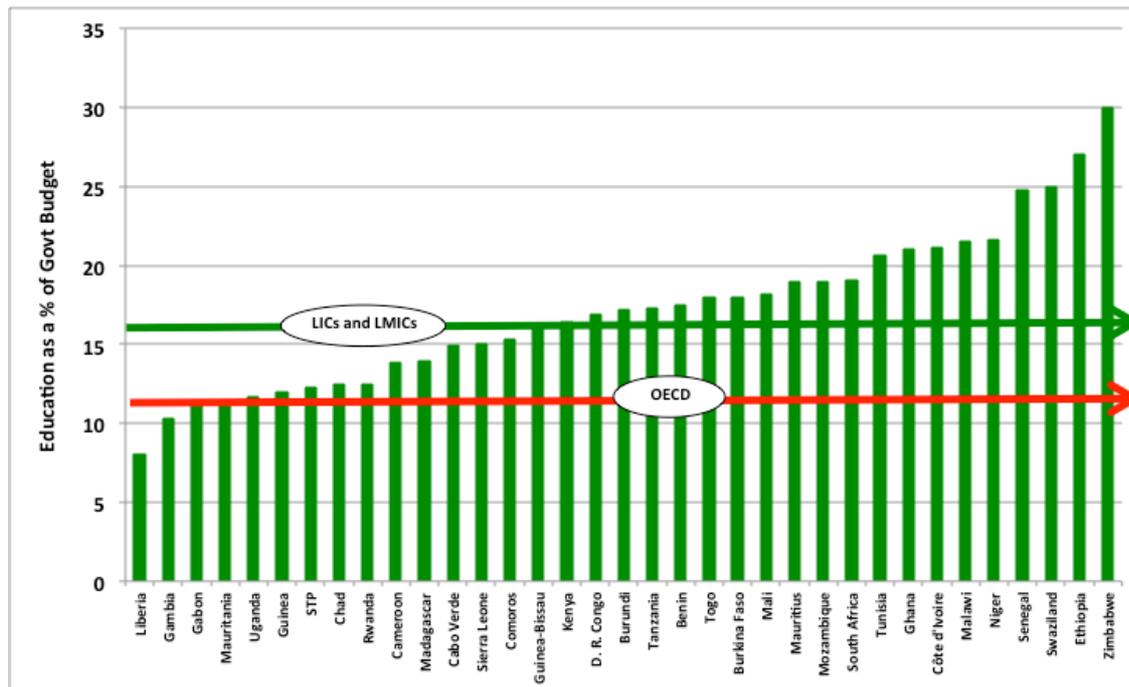
• **Figure 2: Proportion of GDP spent on health in LICs and LMICs**



The AEF will have to consider what approach it has to countries that allocate a low or high proportion of GDP to education. It will also have to consider how resources are allocated to other sectors e.g. health. Where the allocation to education is small it may indicate a lack of political will which will not be resolved by external assistance. It may be the result of other constraints and priorities on the economy. If the amount allocated is high, this may be an indicator that more assistance is not wise, especially if it leads to increased debt.

The level of commitment in relation to GDP must be seen as complemented by the proportion of government expenditure allocated to education. This varies across Africa as shown below in figure 3.

• **Figure 3.:Proportion of government budget allocated to education**

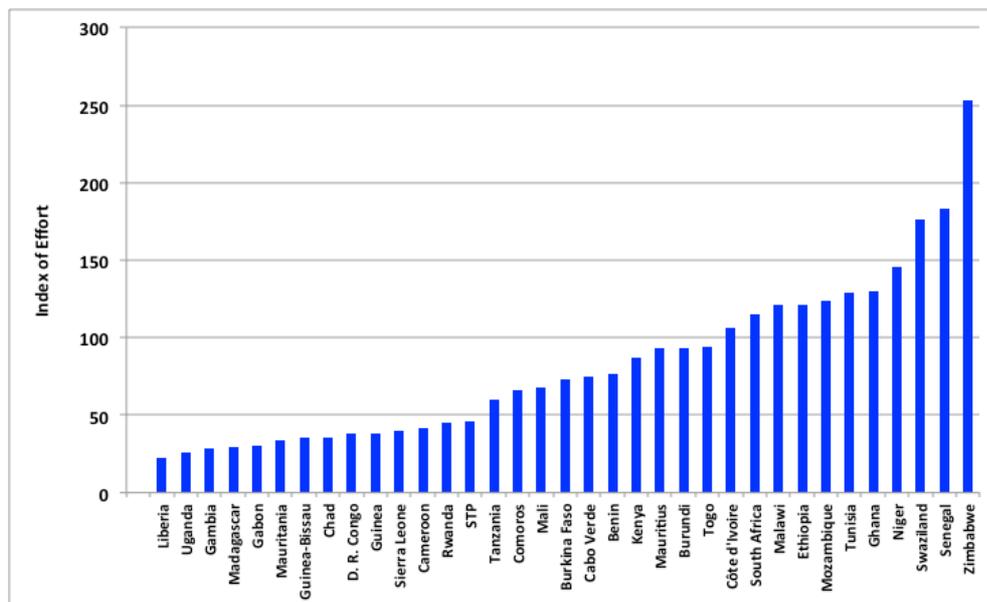


Liberia, the Gambia, Gabon, Mauritania, Uganda, Guinea, STP, Chad, and Rwanda all allocate 11 percent or less of their spending to education. In contrast, Zimbabwe, Ethiopia, Swaziland, and Senegal allocate close to 25 percent of their public budgets to education. Some of the countries that have low allocations already receive a lot of external finance. So also do some with high allocations. OECD countries spend less as a proportion of their government budgets than do LICs and LMICs. This is partly because they have experienced a demographic dividend.

The AEF needs to take a view as to whether low allocations are the result of substitution. Governments may spend least where aid is most generous. Or whether aid is itself responsible for high level of education budgeting. There will be many cases where more assistance is warranted but this can only be established on a case by case basis.

If an *index of effort* is constructed by multiplying the percentage of GDP allocated to education by the proportion of the government budget allocated, the result is that there appear to be three groups of countries: those scoring below 50 on the index, those between 50 and 150, and those above 150. The average score for LICs is 67, for LMICs, it is 88, suggesting that as national income increases, more is allocated to education. This is perfectly illustrated in figure 4 below.

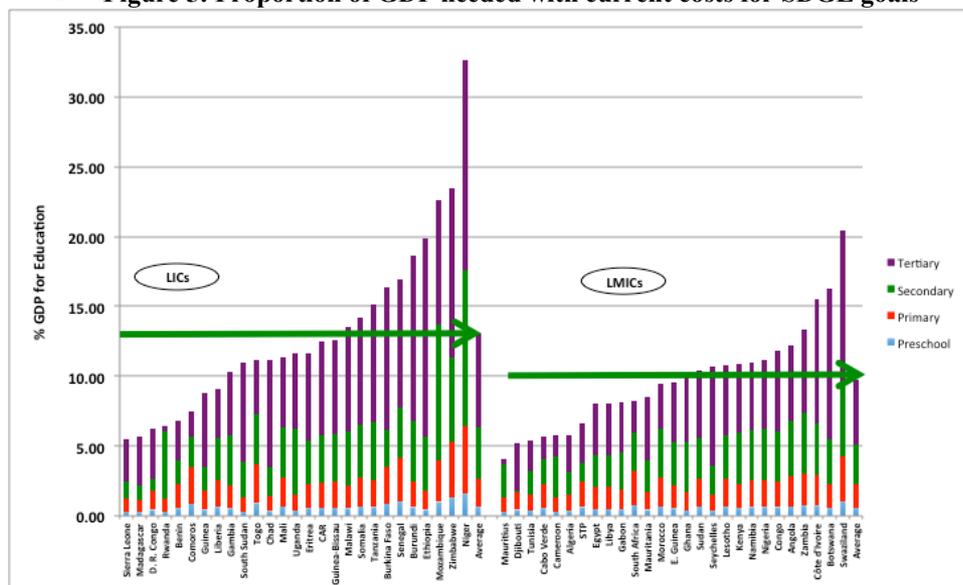
- **Figure 4: Index of effort - %GDP to education x education as % public budget**



There is a strong correlation between governments that make a high allocation of their government budget to education and those that allocate a high proportion of GDP as shown below in figure 4.

If the current patterns of educational participation and financing in each country are projected forward to result in universal access to two years of pre-school, full participation in primary and secondary school for two years, and higher education age participation rates of 30 percent in LICs and 50 percent in LMICs respectively, using existing costs per student, the result is as shown in figure 5. This level of participation is denoted SDGL (Limited) as it is a limited form of implementation of the SDGs which does not include large scale TVET, adult and non-formal education, and various other possibilities.

- **Figure 5: Proportion of GDP needed with current costs for SDGL goals**

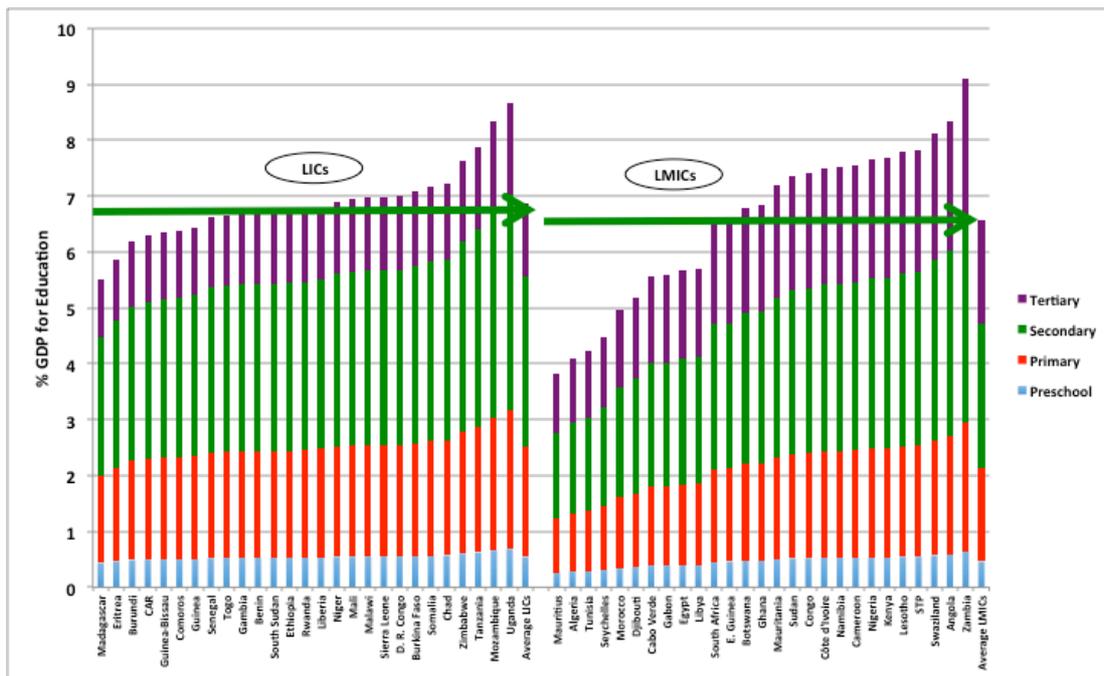


The result is that on average in LICs, 13.5 percent of GDP would be needed to implement SDG (Limited) and about 9.75% in LMICs. Much of the cost lies in expanding tertiary education systems without reducing public subsidies. Most of the rest is in the cost of universalizing secondary education.

These projected amounts are not realizable since they are double or triple current costs. They can be compared with the current average allocations of GDP to education of about 4.1% (LICs) and 4.8% (LMICs).⁷ The implication is that expanding existing systems without reforms that reduce costs per student relative to GDP is simply not an option. The AEF could contribute to more general understanding of this fundamental fact of educational financing in Africa.

If African education systems were reformed such that the same enrolment goals were achieved but the costs per student per year were reduced to 12 percent (preschool), 12 percent (primary), 20 percent (secondary), and 30 percent (tertiary) of GDP per capita, the result is as shown below in figure 6. This scenario is SDG (Reform).

• **Figure 6: Proportion of GDP needed for SDG(R) with Cot Reforms**



In this case, most countries could afford to finance universal access up to grade 12 with expanded tertiary education with about 6.5% of GDP allocated to education. This would require some radical approaches to restructuring educational finance and delivery systems especially at secondary level and above. In summary, the emerging systems using this profile of reform to costs would have most of their funding needs and funding gaps in secondary education and higher education.

⁷ Including contributions from aid.

Annex 4: External Finance as % GDP and Dependence

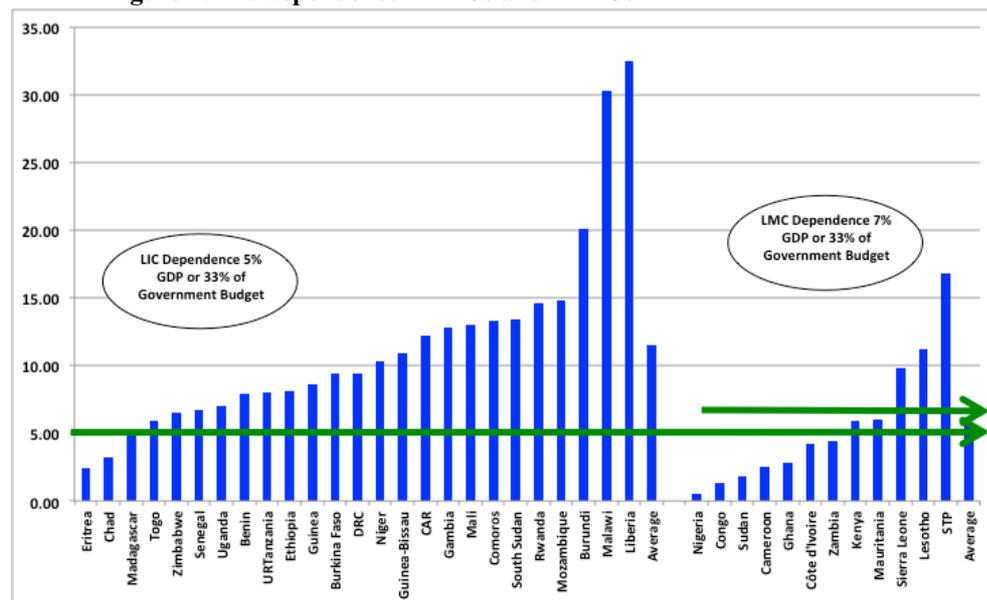
1. Dependence

More aid could help raise spending towards 6% of GDP. However, higher levels of external support may create aid dependence and distort domestic decision to reflect externally defined priorities. If the AEF is Africa-owned and African-managed, it will be sensitive to external dependence for recurrent and capital financing. If external support is intended to be catalytic, leading to transformations that generate sustained development, then, it must ebb and flow according to need and impact. Over time, aid should decrease rather than increase.

A simple indicator of aid dependence is the value of aid as a proportion of GDP. More than half of supported countries have more than 5% of GDP accounted for by aid overall; 35 percent receive more than 10 percent of GDP. Above 10 percent of GDP, aid is likely to be financing half or more of government spending and be a very visible component of national politics (figure 6).

It is likely that about a third of the Developed Countries Parties (DCPs) are approaching thresholds of aid dependence. Using the available data, the picture for LICs and LMICs in Africa is as shown. This data set does not include the richest countries e.g. Algeria, Angola, Botswana, Egypt, Gabon, Mauritius, Morocco, Namibia, South Africa, and Tunisia. Nor does it include the poorest on which there is no data but aid dependence is probably high e.g. South Sudan, and Somalia.

• **Figure 7: Aid dependence in LICs and LMICs**



If national budgets represent 15 percent of GDP as they do on average in LICs, then external resources equivalent to 5% of GDP mean that a third of domestic resources are being provided from outside. The threshold is higher in LMICs since they raise more domestic revenue.

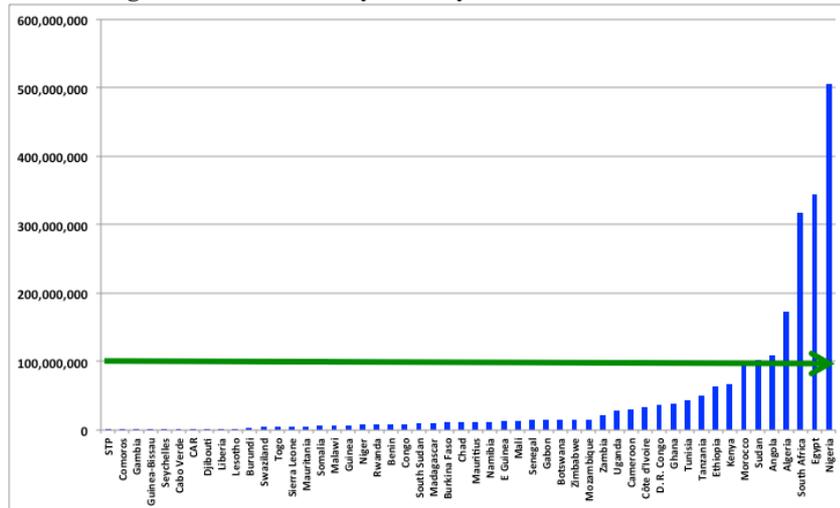
It is therefore important at country level to ascertain how much external assistance currently contributes to GDP as a whole and, if it can be attributed to education, how much of education spending is externally financed. Feasible plans should include judgements of sustainability which are likely to plan for a falling share of aid as a proportion of GDP over a defined period. Analysis may also suggest that above a particular threshold, AEF resources should not be allocated if they increase external dependence. The AEF could finance Technical Advisory Groups (TAPs) free of

conflicts of interest to give advice and negotiate financing and corporate contracts that resulted in increased domestic revenue from appropriate fiscal reforms.

2. African Funding of Education and the AEF

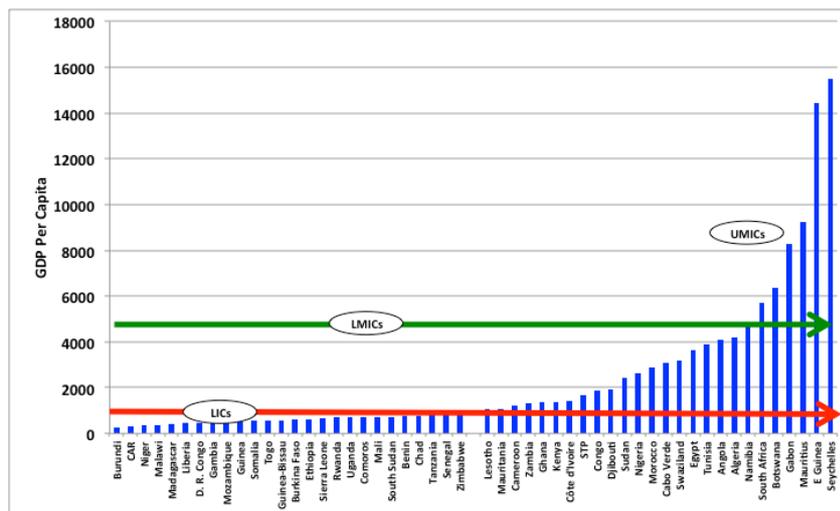
There are seven US\$ 100 billion economies that account for over 70 percent of the total of Africa’s GDP. About 30 percent of this total GDP is located in North Africa. This is about 40 percent of the GDP of the LMICs. About 40 percent of GDP is located in just three countries in SSA – Nigeria, South Africa, and Angola. The next ten economies from US\$ 100 billion to US\$ 20 billion account for about 10 percent of Africa’s GDP. Fully 37 countries account for the remaining 20 percent (figure 7).

• **Figure 8: Total GDP by country**



Half of the countries in Africa have incomes per capita less than US\$ 1000. A further 20 fall below US\$ 5000. Six are now low middle income countries (figure 8). Some of the richer countries are small. All include significant middle classes with relatively high incomes. But even richer countries include poor inhabitants at the lower end of the income distribution.

• **Figure 9: GDP per capita Africa**



These economic realities are important for the AEF. It means that in terms of domestic resources in Africa, these are concentrated amongst the largest and richest economies. If the AEF is to be endogenously financed, it will need to gather most of its resources from where there is most capacity to finance pan-African initiatives that are African owned. If it is to target the poorest, then it will have to identify where they are living. LMICs and UMICs include many low income households that may not be materially different from those in the middle of the income distribution in LICs.

Annex 5: Matrix of Possibilities

FINANCING OF THE AEF	Possible Sources	Potential Value	Replenishment
Endowment fund TF Waqf	Grant or gift from: Government, MDBs, bilaterals philanthropists corporate	Limited by size of endowment Could be US\$ 50-500 million if there were multiple partners	Not necessary if AEF runs from endowment income. Otherwise replenishment of endowment needed periodically.
Loan finance from an MDB	AfDB, IsDB, JICA etc.	US\$50-US\$ 500 million	Interest-free loan with no maturity time. Or loan serviced by interest on AEF loans and fees.
IFFC leveraging the assets of the MDBs	AfDB	US\$ 100- US\$ 1000 million +	Not relevant. One-off leverage to use flows of revenue to increase borrowing by an MDB as per finance commission.
Integration into budget of AfDB or other multilateral development organization	AfDB or other MDO	US\$50-US\$ 500 million	Integrated into MBD core budget and replenishment process.
Subscription base of member states	Member states, ministries of finance, education, planning	US\$ 50-100 million annually? Or more?	Annual subscription.
Hypothecated tax which could be pooled	Based on % of VAT, tourism, mining, financial transactions, mobile phones, etc.	US\$50-US\$1000 million++	Replenishment automatic.

LOCATION	Governance	Capacity	Non Money Contributions
AfDB	AfDB board + AEF Board	AfDB *****	Space, common services, continental network.
ADEA	ADEA board, AfDB Board, AEF board	ADEA *	ADEA assets shrinking.
AU	ADEA Board, AEF board, AU	AU **	AU infrastructure.
New site	AEF board + stakeholders	TBD	None if green field site. Some if located next to existing facility with common services.

GAPS IN NATIONAL FINANCING OF EDUCATION	Size of Gaps	Type of Gaps	Possible Contribution of AEF
Recurrent finance of education systems to meet the SDGs	US\$ 15 Billion recurrent in LICs. US\$ 27 billion in LMICs.	Gaps largest in secondary, especially upper secondary, and higher education. Gap largest in LMICs.	Limited through direct funding. Potentially substantial through catalytic inputs to efficiency, effectiveness, and fiscal policy.
Capital spending to meet SDGs	US\$ 73 billion in LICs and US\$ 53 billion in LMICs.	Gap largest in LICs. Largest gaps at higher education and in secondary.	Limited through direct funding. Potentially substantial through catalytic inputs to efficiency, effectiveness, and fiscal policy.
Gaps in technical capability to promote efficiency and effectiveness	Considerable limits in capacity.	Evidence-based policy analysis, planning, data collation, monitoring, and evaluation.	Capacity development for African-owned and managed technical assistance for fund mobilization, policy studies, M and E, data analysis.
Gaps in incubation of low-cost high gain innovations in system reform and delivery of educational services	Widespread needs for system evolution.	Curriculum in core subjects, high stakes assessment, demand led employer based TVET, adult literacy.	Proof of concept innovations.

COORDINATION	Modality	Scale	Cost
AfDB	Close integration with AfDB procedures and priorities.	*****	Cost should be small if AEF aid located in ADB.
World Bank (WB)	Resonance and complementarity with IDA and IBRD loans in African countries.	***	Transaction cost of coordination – small.
GPE	Complementarity of grants and loans linked to planning and program implementation grants. Operation in non-competing sub-sectors. Support for countries without significant GPE support.	***	Significant costs if active coordination; little cost to non-competing sector awards.
IFFC	IFFC mobilization of new money creates opportunities to finance the AEF as one of the lines of new funding.	****	Net gain to AEF since funds would be provided at low cost to AEF either as endowment or loan.

SELECTIVITY	Modality	Criteria	Costs
Sub-sectoral preferences	Identify focus level for AEF support.	Preschool, primary, lower or upper secondary TVET/FE, higher basic education is targeted by major multi- and bilateral donors. AEF could make more impact on other sub-sectors. AFDB has some comparative advantages in STEM, HEST and TVET.	Costs of interventions may be higher at higher levels but these have to be balanced against benefits external finance may have greater gain and lower opportunity costs at post-basic level.
Thematic curriculum preferences	Identify curriculum priorities for investment.	STEM, HEST, TVET and related service sector related skills all have strong labor market demand and supply side shortages.	Cost may be higher in curriculum areas using equipment. This can be mediated by on-the-job training and CPD and generic approaches to skill acquisition.
Geographic and regional preferences	Identify cognate groupings of recipients to lower overheads and transaction costs.	Decide on regional and poverty linked priorities - North/East/West/Central/Southern Francophone/Lusophone/Anglophone.	Control cost through shared facilities, regional knowledge hubs, travel coordination, and shared development programs.
ELIGIBILITY	Modality	Criteria	Costs
Country income level	Rank income indicators.	GNI per capita World Bank income distribution etc.	Low for clustering of recipients.
Education development indicators	Rank education indicators.	Completion rates. Education spending as % of GDP Education spending as % of government spending.	Low for clustering of recipients.
Fragile states	Classification system (WB, GPE or other).	Normal indicators.	Low for clustering of recipients.
Grants	Grant committee.	Criteria for grants to be devised including government domestic resources, and effort on education.	Low.
Loans	Loans board.	Criteria for grants to be devised including government domestic resources and effort on education.	High.
Credit guarantees	Loans board.	Criteria for grants to be devised including government domestic resources and effort on education.	Medium.

INNOVATIVE FINANCE	Possible Sources	Potential Value	Replenishment
Corporate sponsors	Large MNCs with on-scale operations domestic corps.	US\$1 million - US\$ 100 million.	Fundraising operation needed continuously.

Philanthropists	High Net Worth individuals > US\$ 1 million.	US\$1 million – US\$ 100 million.	Fundraising operation needed continuously.
Marketed services	AEF capabilities generate income.	US\$ 1 million – US\$10 million.	Revenue from paid services, licenses and patents, and intellectual property rights.
Matching funds	Any of the above.	A multiplier of funds raised 2:1 up to 5:1?	Replenishment depends on core fundraising.
Tax amnesty on tax fraud and illicit transfer pricing	Capture illicit flows of money through electronic banking systems; offer forfeit of 50 percent for amnesty on past gains.	Up to US\$ 50 billion p.a. in tax evasion for Africa.	Plenty of headroom to increase efficiency of tax amnesty in exchange for a percentage of assets illegally acquired.
Confiscation of proceeds of crime	Bank accounts, property and other assets globally.	Many US\$ billions -	Consequences of continued law enforcement.

Consideration should be given to the development of a detailed investment strategy by the TTF. The elements of this are identified below.

INVESTMENT STRATEGY:
<ul style="list-style-type: none"> ◦ Business strategy, objectives and plans for the future. ◦ Performance indicators/ Type of fund (open or close). ◦ Legal structure and formation – LPs, GPs, advisors, etc. ◦ Fund value proposition. ◦ Role of different actors – LPs, GPs, government, private sector etc.; How to include private sector in operation stage? ◦ Target sub-sector of education – investment mix and diversification (preschool, primary, secondary, tertiary (higher), vocational, special). ◦ Existing education fund across the globe and Africa. What are the key challenges and learning points which could be taken from these funds which would assist in establishing the feasible AEF? ◦ Role of technology - ◦ How is this fund innovative in addressing the African education requirement? ◦ Greenfield or brownfield assets and its risk mitigation. ◦ Investment criteria's. ◦ Duration and target commercial and economic return. ◦ Investment size (deals). ◦ Investment currencies and its risk mitigation. ◦ Deal flow – poorest population - strategy. ◦ Investors exit options.
Investor strategy: <ul style="list-style-type: none"> ◦ Target investor group, required capital and fund-raising strategy. ◦ Min/max investments. ◦ Returns expectation of investors and how fund is achieving the expected returns directly or indirectly? ◦ Investor outreach strategy. ◦ Investor relation.
Fund structure/ governance: <ul style="list-style-type: none"> ◦ GP profile. ◦ Management and operation team. ◦ Investment and advisory committee members. ◦ Management fee. ◦ Operation strategy. ◦ Profit and loss sharing mechanism. ◦ Tax strategy. ◦ Legal structure. ◦ Audit.
Asset management and reporting <ul style="list-style-type: none"> ◦ Please describe in detail how portfolio performance is monitored. Provide examples of reports or internal evaluations. ◦ Explain how reported value is calculated for the fund's unrealized investments. ◦ How are maintenance and capital expenditure costs handled? Who determines maintenance and cap ex costs? What kind of processes are in place if costs exceed original business plan expectations?

Annex 6: Strategic Recommendations

1. Short-term actions to be taken by July 2018

Recommendations	Responsible Institution
i. Review the outcomes of the feasibility study, especially the key options outlined, and decide on a course of action;	AfDB/ADEA
ii. Share the outcomes of the feasibility study with potential contributors, including governments, RECs, regional development banks, the IsDB, and the government of Japan, to allow them to determine how they could engage with AEF;	AfDB/ADEA
iii. Prepare and plan for the Nouakchott AU July 2018 Heads of State Summit by doing the following: <ul style="list-style-type: none"> a) Liaise with the appropriate entities (HRST and/or the chairperson’s office) within the AUC in Addis Ababa to have a common understanding of what needs to be done by AfDB and ADEA before the summit, b) Prepare accordingly, the AEF documents for consideration by the Permanent Representatives Council (PRC) and the Executive Council (EC) during their pre-summit sessions as per the AUC guidelines, c) Strategize regularly (an expert team) to ensure an on-going follow-up of the process till the summit and after, d) Lobby some of the key players in the process namely, ministers of education and foreign affairs in order to raise their awareness about the AEF initiative, e) Give a presentation to the bureau of ambassadors accredited to the AUC in Addis Ababa on the initiative to raise their awareness, f) Mobilize commitment at the highest political level across the continent, targeting some key heads of state and governments, g) Prepare the AEF documents for the internal AfDB review process entities all the way to the council of governors, h) Prepare the report for the ADEA bureau of ministers extraordinary committee meeting to adopt the report, i) Submit the report to the AU council of education ministers meeting at the appropriate date, j) Prepare the resolutions for adoption by the AU Heads of State Summit in collaboration with the AUC partners. 	AfDB/ADEA

2. Medium-term actions to be taken by December 2018

Recommendations	Responsible institution
i. Put in place a <i>technical task force</i> with an appropriate budget to make a specific proposal for the funding, location, and modus operandi of the AEF leading to a detailed business plan and strategically focused advocacy.	AfDB
ii. Put in place a <i>professional fundraising development group</i> to explore all possible sources of funding for the AEF and start work on the initial capitalization and replenishment of the AEF.	AfDB
iii. Initiate the process of preparing an operation concept note in line with AfDB format.	AfDB
iv. Engage in dialogue with RMCs and discuss the idea of committing part of their resource allocation as an initial subscription to AEF.	AfDB/ADEA
v. Engage with the AU to convene a series of meetings to operationalize the concept, and agree on sharing of tasks to set up the AEF; these meetings should include government officials in charge of education funding, RECs, sub-regional development banks such as DBSA and EADB, and representatives of the private sector.	AfDB/ADEA
vi. Engage with the AU to endorse the proposal for an AEF and agree on hosting arrangements for the AEF.	AfDB/ADEA
vii. Liaise with the Islamic States Educational, Scientific and Cultural Organization (ISESCO) to establish contact with the Arab Bank for Africa's Economic Development (BADEA).	AfDB/ADEA
viii. Plan regional and national investment conferences targeting multinational companies such as petroleum companies, mining companies, insurance companies, mobile phone companies, big banks, and foundations, among others.	AfDB/ADEA
ix. Plan information sharing conferences targeting RECs and RECs parliaments (e.g. ECOWAS parliament, SADC Parliament), Sub-regional organizations and similar organizations.	AfDB/ADEA
x. Develop a communication strategy for the AEF.	AfDB/ADEA
xi. Plan and undertake advocacy campaigns in some key countries.	AfDB/ADEA
xii. Involve the United Nations Economic Commission on Africa (UNECA) in the process at an early stage.	AfDB/ADEA
xiii. Involve all the Regional Economic Communities (RECs) in the process at an early stage.	

3. Continuous actions to be taken in 2018

Recommendations	Responsible Institution

i. Plan visits to development partners headquarters where the AEF will be presented and discussed,	ADEA
ii. Continue engaging African artists and sports celebrities as advocates and fundraisers for education,	ADEA
iii. Work with the chair of the bureau of ministers, the minister of higher education and scientific research of Senegal to push the AEF approval process,	ADEA
iv. Liaise with the office of President of Senegal to seek the support of the 10 heads of state champions of education,	ADEA
v. Get the Working Groups (WG) and Inter Country Quality Nodes (ICQNs) to showcase the initiative in their respective jurisdictions,	ADEA
vi. Continue advocacy actions towards ministers of education to confirm their commitment and political support for AEF, and	ADEA
vii. Continue dialogue with IsDB with a view to using IsDB's network of public and private financial institutions in its member countries, to leverage financial and technical resources for the AEF.	ADEA/AfDB

4. Recommendations for the African Union and African governments

Recommendations	Responsible Institution
i. Identify fiscal reforms at the country level to enhance domestic revenue generation to provide sustainable financing for education that would benefit from support from an AEF.	Governments
ii. Work within national and regional frameworks that already exist to secure their support.	Governments
iii. Explore how to allocate resources and manage them well at all levels with support from an AEF.	Governments
iv. Promote efficiency and effectiveness to make better use of scarce financial resources.	Governments
v. Develop credible plans for funding education.	Governments
vi. Organize stakeholders' fora at the national level for development partners, policymakers and the private sector to showcase the AEF initiative.	Governments
vii. Take advantage of the launch of the AEF to make the financing of education in Africa the theme of the 31 st (2019) or 32 nd (2020) Summit of the AU.	African Union
viii. Commit to allocate at least 10 percent of the funds raised within the AU self-financing initiative to the AEF,	African Union
ix. Take advantage of the launch of the AEF to discuss the financing of CESA.	African Union
x. Consult regularly with ADEA and AfDB to ensure the smooth implementation and follow up of the AEF initiative.	African Union
xi. Update the AfDB on the proposed 0.2% tax on commercial transactions to finance its operational	African Union

<p>budget and programs and whether part of these resources could be used for the AEF.</p> <p>xii. Leverage the committee of 10 champions, heads of state and government on Education, Science and Technology (EST) to promote African ownership of the AEF.</p>	<p>African Union</p>
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