India's learning crisis -

Role of blended finance in creating scalable and inclusive solutions

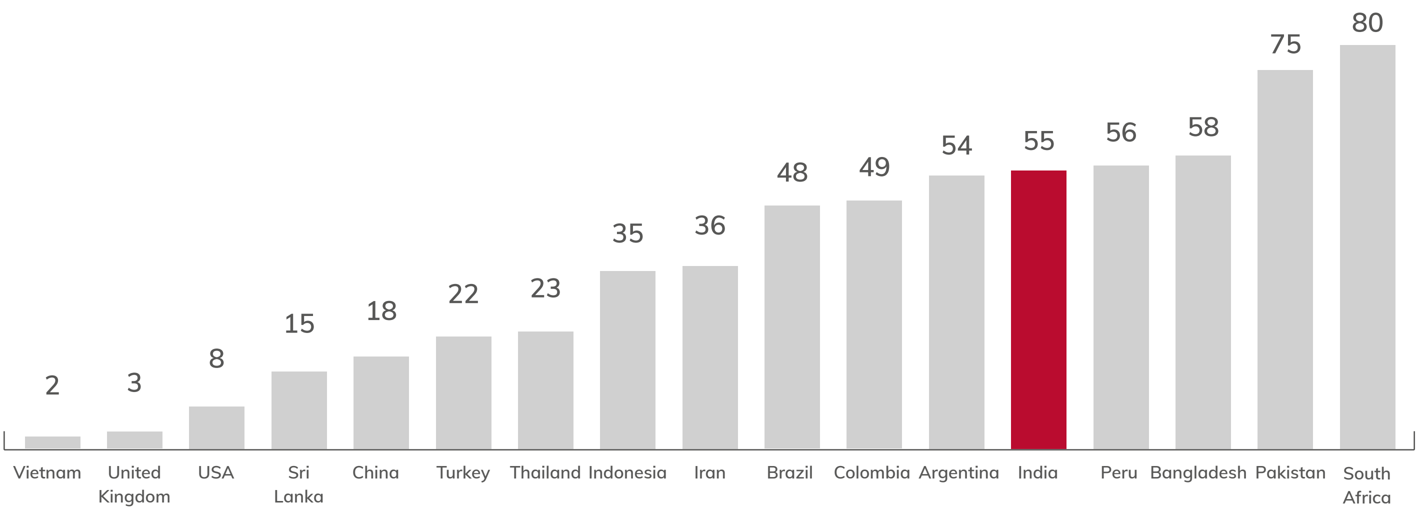
India's Education Landscape

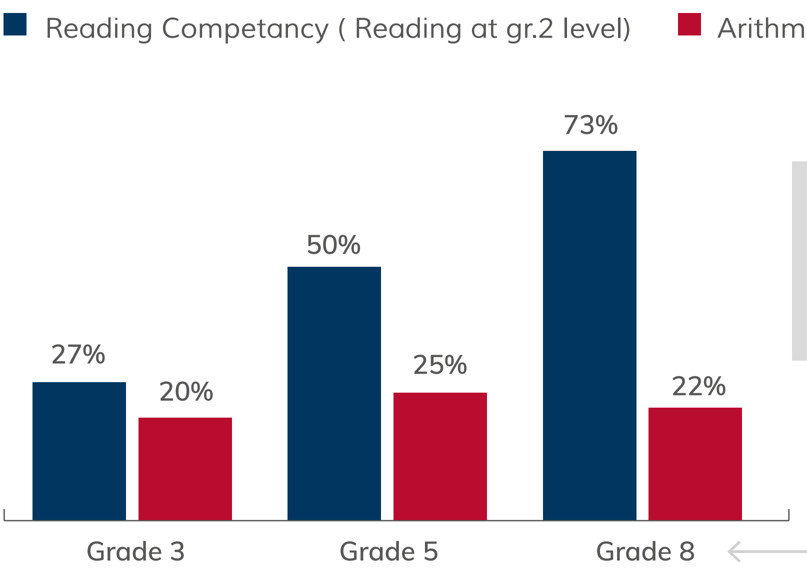
1. India has long faced a learning crisis and Foundational Literacy and numeracy (FLN) continues to be a pressing issue.

Even prior to the pandemic, ~50 million children were estimated to lack foundational literacy and numeracy skills.

Comparison of countries on the proportion of students experiencing learning poverty

% students, Global, 2019





While the gap in reading starts to get bridged in higher grades, <25% of grade 8 students can perform simple subtraction calculations

2. The pandemic has further exacerbated the learning crisis in india

An overwhelming majority of children assessed faced learning losses in FLN due to COVID-19 like 92% of students across Grades 2 to 6 lost at least one of four foundational language abilities, 82% of them lost at least one of four foundational math abilities and 76% parents of students aged 5-13 years felt that students were learning somewhat less than they would in a school in the non-covid setting. The magnitude of learning loss measured in both literacy and numeracy is worrying. As schools reopen, a concerted effort is needed to bridge the learning gap. Proven FLN solutions need to be scaled quickly in partnership with the government. Simultaneously, new innovations exploring the role of parents and communities need to be tested.

3. Growth of EdTech in recent years mismatched with accessibility in rural areas

In spite of the growing reach of mobile and internet access across the country and the expansion of the EdTech market, not every child is able to reap its benefits. In India, only one in four students has access to digital learning. Although EdTech solutions for virtual learning are growing, they are still out of reach for millions of families without smartphones or high-speed internet. However, there has never been a better time to utilize these technologies to close the learning gaps that have widened during the pandemic. According to a study by Azim Premji University, 92% of Indian children have regressed in their language learning and 82% have regressed in math.

Clearly, the need of the hour is to look beyond traditional models of economic development and embrace more sustainable and innovative models of financing equitable growth. To meet the funding requirements of the education sector greater participation between the Government, multilateral organisations and the private sector is crucial. This intersection can not only unlock new pools of capital to strengthen education systems but also align investments towards achieving national education priorities.

Need for Blended Finance in Education

1. Lack of understanding of what works at scale and limited state capacity has impacted the success of existing Government programmes

Limited attention and funding focused on building state capacity has restricted the state's ability to implement impactful interventions effectively . While pockets of excellence exist, interventions have not been designed/proven to work across the state education system. State-level support programs and initiatives do not provide sufficient funding for testing and experimentation at scale and have historically taken 3-4 years to determine the right approach to implementation. Effective interventions hence may not be implemented as the state waits to pilot/experiment. Even if proven on a small scale they are often too expensive and labour-intensive to be operated at scale. NGOs need funding support to distil their intervention into the core components to make them lean, cheap, and scalable in the government school system but without losing the effectiveness of their intervention.

2. Public finance is the largest source of funding to influence Foundational, Literacy and Numeracy (FLN) for public school students but does not respond to performance due to equity concerns

There is a misalignment between needs and resources available, such as having access to broadband and computers for online education. Such gaps provide an opportunity for blended finance transactions to fund the extraordinary efforts required to plug them. There is a need for continuous and long-term funding in the education sector to finance interventions to solve for inadequacies and inequities in India's education system exposed in the pandemic. Blended finance solutions like a conditional grant to districts can create a financial incentive to better manage district resources and provides funding for further innovation. Other innovative solutions like Technical Assistance ensure poorer-performing districts get the capacity-building support they need.

3. Need to drive efficiencies in India's education sector by improving the quality of education delivery through teacher and headteacher training, whole-school development, and educational technology.

Innovative blended finance solutions help leverage economies of scale by sharing best practices across solutions and making common functions like fund management and monitoring and evaluation more efficient. For e.g., the Back-to-School Outcomes Fund or the Quality Education India (QEI) Development Impact Bond. Such structures can raise additional funding in the future to remain operational.

Opportunities for Blended Finance in Education

In the short term, there is an opportunity to directly scale up known and effective solutions like Foundational, Literacy and Numeracy (FLN) solutions operating in states with outcomes-based financing, building on the momentum and existing structures like QEI DIB. Lessons from demonstrating outcomes at scale can be incorporated into government FLN efforts.

In the medium term, there is an opportunity to incite innovation and prepare FLN solutions like home and community-based learnings in wake of pandemic, establishing business models in immature areas and create robust evidence for scale-up through outcomes-based funding or private investment.

In the longer term, there is scope to create incentives within government structures to optimize for outcomes, encouraging them to drive or procure innovations and effective solutions available in the ecosystem because effective solutions must be scaled through government mechanisms. Yet Govts are currently not incentivized to manage for outcomes. Blended finance can potentially increase outcomes focus and capability of government.

Blended Finance in Action –
Summary of Blended Finance transactions in the Education Sector

Structure I: **Strengthening vaccine supply and delivery systems**

Duration:
2018-2022

Instrument:
Development Impact Bond

Target Geography:
Delhi
Gujarat
Maharashtra
Uttar Pradesh

Transaction Size:
$11 million

Key Stakeholders:

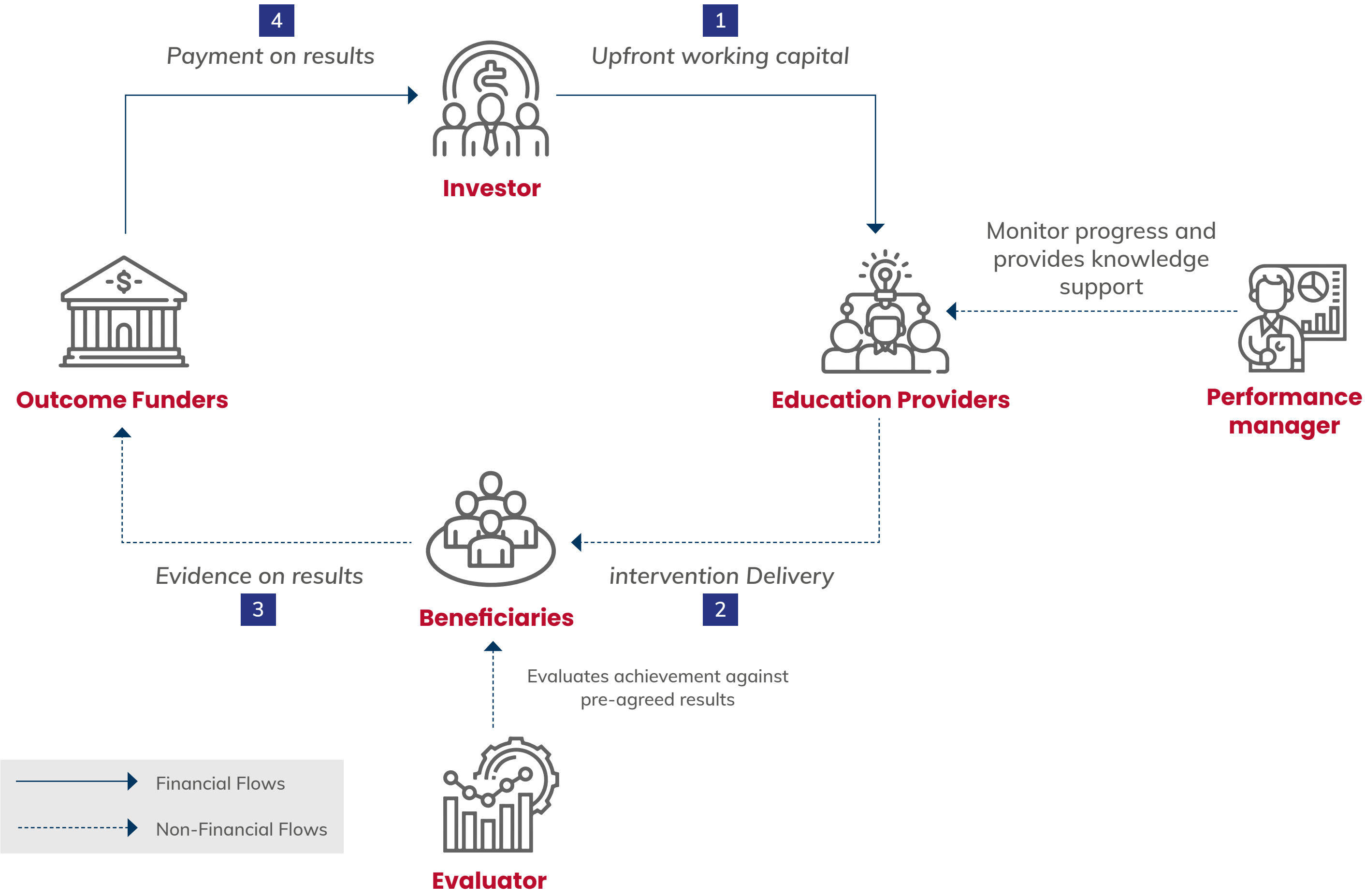
- **Investor:**
  UBS Optimus Foundation
- **Outcomes Funders:**
  Michael & Susan Dell Foundation, Comic Relief, The Larry Ellison Foundation, The Mittal Foundation and BT
- **Convener & Intermediary:**
  British Asian Trust
- **Education Providers:**
  Gyan Shala, Kaivalya Education Foundation and Society for All Round Development, Educational Initiatives-Pratham Infotech Foundation
- **Outcome Evaluator:**
  ConveGenius Insights
- **Performance Manager:**
  Dalberg Advisors
- **Knowledge & Technical Partners:**
  Foreign, Commonwealth & Development Office, Tata Trusts, Brookings Centre for Universal Education and Ecorys

About:

The Quality Education India Development Impact Bond (QEI DIB) aimed to improve learning outcomes for **~200,000** primary school children.

At $11 million, it is the world's largest education DIB and was launched in 2018 and running till 2022. Over four years, the QEI DIB aimed to identify education interventions that can be successfully scaled and generate evidence, to shape philanthropic and budgetary allocation in future years. The education providers implemented a diverse range of models such as principal and teacher training, computer-based adaptive learning platform, community-based learning centres and supplementary remedial programme, to achieve learning gains.

Financial Structure:



Impact:

- **Students saw increased levels of learning, despite the COVID-19 pandemic**: Students in the programme learned 2.5 times more than those in non-participating schools. Despite the challenges of COVID-19, students continued to show learning gains in the programme. Twice as many students achieved age-appropriate learning levels compared to non-participating schools. Personalised and Adaptive Learning through technology showed 5x the learning gains for students. Community support also played a significant role in increasing engagement and learning gains as it involved higher contact time with the students.

- **Shifting to an outcomes-based funding approach can be a catalyst for change:** Outcomes-based funding programmes support flexible and adaptable programme delivery and help create a high-performance environment with high levels of accountability. Education providers were able to create a step change in learning outcomes achievement compared to their previous grant programmes. Factors which helped drive this success included robust performance management, regular engagement with each education provider and flexibility in funding and approach. This suggests funders may need to consider how they can create more opportunities to fund outcome-linked programmes over those which are activity or input based.

- **Funders got better impact because they were paying for outcomes:** The outcomes of the programme were delivered at a significantly lower price per outcome than anticipated. The actual price per outcome was 46% lesser than the original expected price, showing that DIBs can provide better value for money for funders.

- **The investor achieved the targeted return:** The investor, UBS Optimus Foundation received a return of 8% on its investment, showing that impact focussed investors can make a return, whilst assuming the responsibility for implementation and the associated risk in such programmes

Structure II: Bharat EdTech Initiative

Duration:
2021-2025

Instrument:
Performance-linked grant

Target Geography:
Pan-India

Transaction Size:
~$5m

Key Stakeholders:

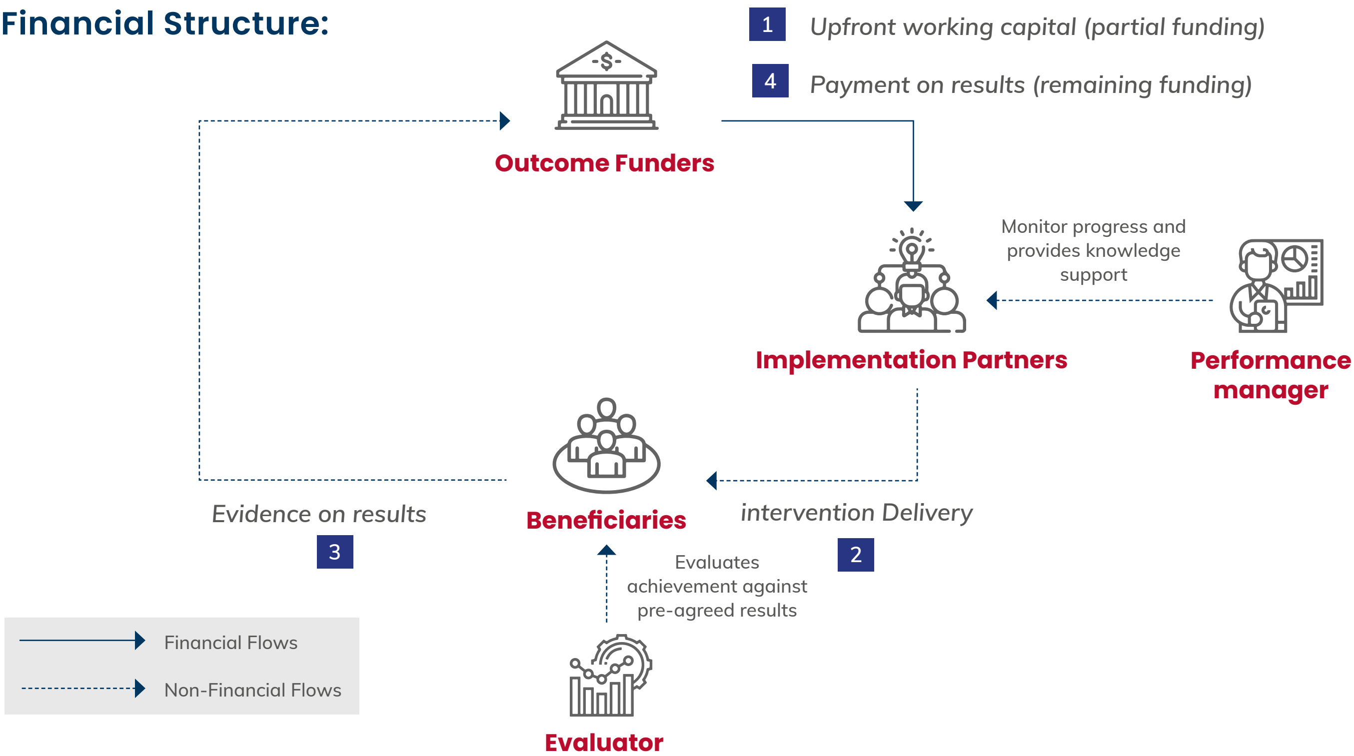
- **Lead Anchor:** Sattva Consulting
- **Lead Donors:** Michael & Susan Dell Foundation
- **Outcome Partner:** British Asian Trust
- **Donor Relationships & Fund Management:** Give India

Bharat EdTech Initiative is a collaboration of 30+ partner organisations across various industries, such as philanthropy, social impact, EdTech, finance, and analytics. These organisations support the initiative in several capacities and categories, such as fundraising, educational technologies, non-profit organisations, monitoring and evaluation, financial management, marketing communications, and program management.

About:

Launched in 2021, Bharat EdTech aspires to enable digital access to one million, first-generation digital learners in India and demonstrate improved learning outcomes by 2025. BEI's objective is to complement classroom teaching with at-home learning, making it a permanent feature of education among the economically underprivileged.

Financial Structure:



Impact:

As of October 2022, Bharat EdTech Initiative has onboarded 117,000 students from underprivileged families on its EdTech platform as part of its mission to bridge the learning loss.

Structure III: Haryana Early Literacy Programme

Duration:
2020-2022

Instrument:
Impact Gurantee/Reverse Development Impact Bond

Target Geography:
Haryana

Transaction Size:
INR 16.8 crore

Key Stakeholders:

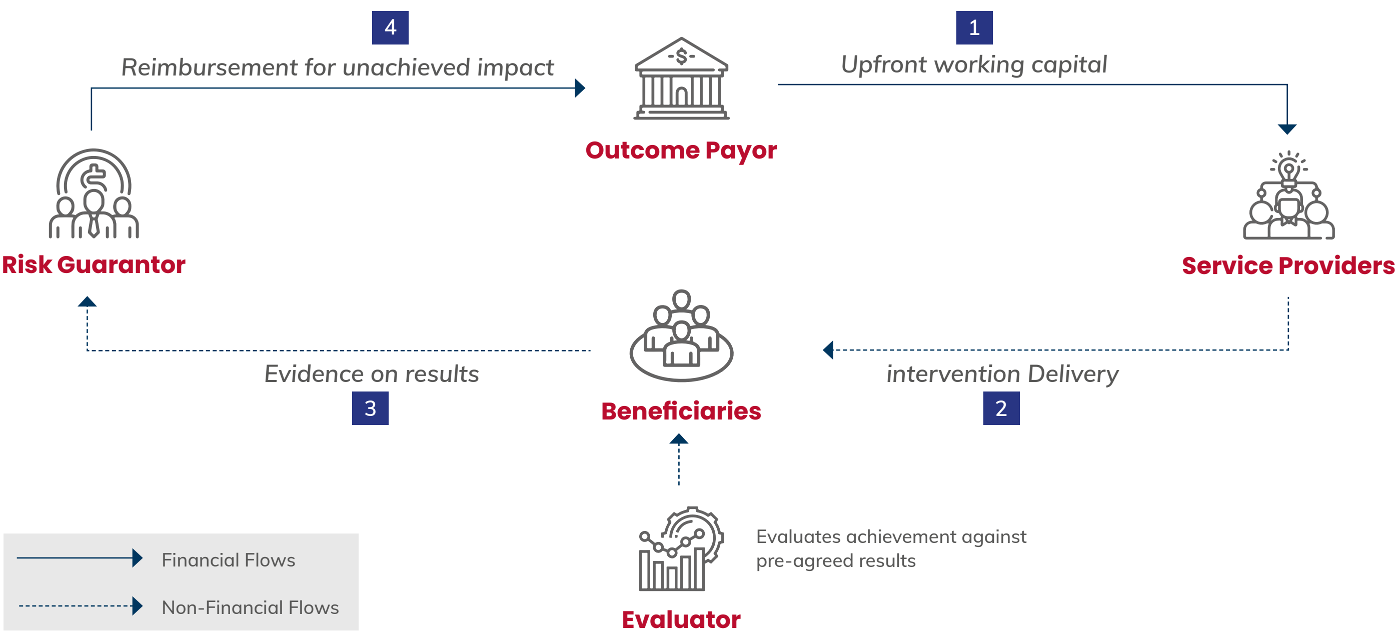
- **Outcome Payor (CSR Partners):** IndusInd Bank & SBI Capital Markets (through SBI Foundation)
- **Risk Guarantor:** Central Square Foundation
- **Service Provider:** Language and Learning Foundation
- **Evaluator:** Educational Initiatives

About:

The Haryana Early literacy Outcomes Development Impact Bond (DIB) aims to improve foundational language learning is underway in Haryana. The programme is led by Haryana School Shiksha Pariyojna Parishad (HSSPP) in partnership with IndusInd Bank and SBI Capital Markets and implemented by Language and Learning Foundation. HSSPP has built a robust programme to help strengthen the academic support provided by the state resource personnel (including the BRPs, ABRPs and others to Hindi teachers) to develop a state-specific early literacy and learning package to help improve students' language learning outcomes.

The project is working to bring Language and Learning Foundation's evidence-based program to 115,000 children in 3,330 schools across 7 districts in Haryana till March 2022, a significant increase over the current successful intervention covering 3,500 students across 175 Schools.

Financial Structure:



Impact:

The Haryana Development Impact Bond (DIB) used an innovative construct to open the doors for CSR groups in India to participate in outcomes-based financing structures. The DIB focuses on improving foundational literacy outcomes for ~115,000 children across 3,300 primary government schools.

Structure IV: Varthana

Duration:
2012-2022 (ongoing)

Instrument:
Social Success Note

Target Geography:
India

Transaction Size:
$90.35m
*Includes disclosed values of debt, equity, grant capital
(Source: Crunchbase)

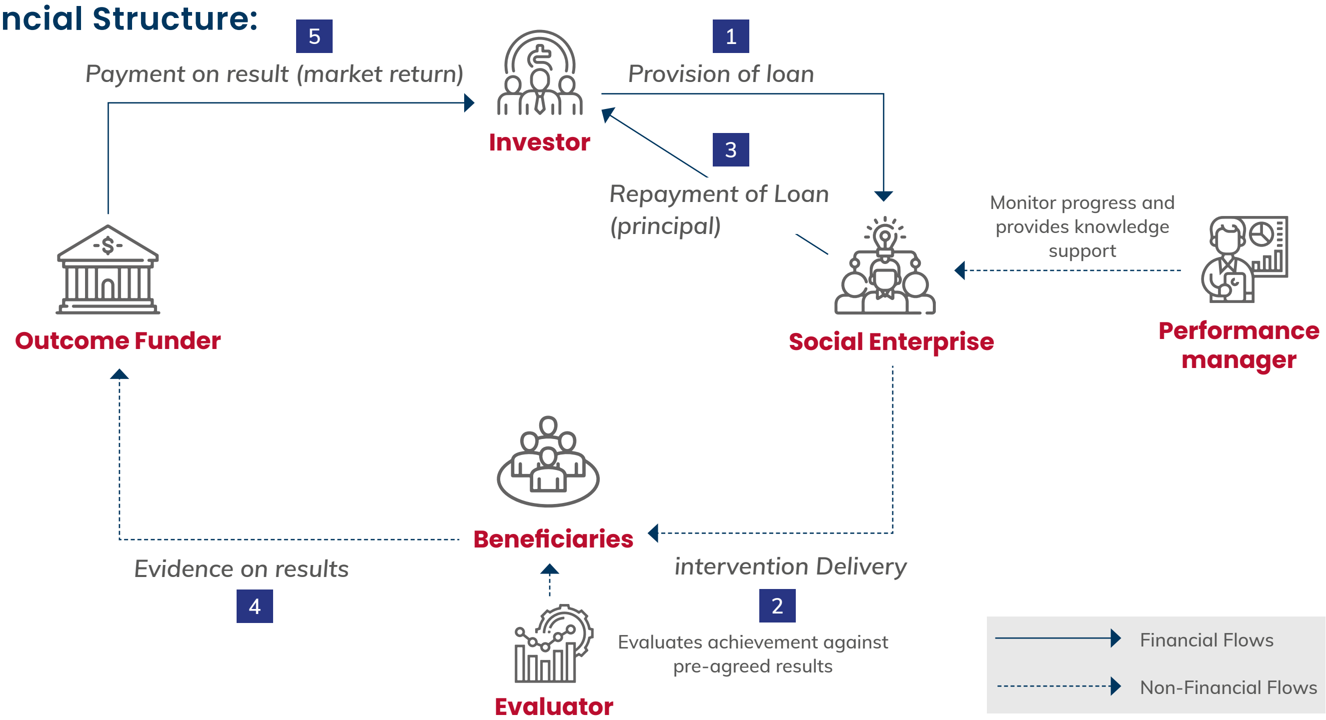
Key Stakeholders:

- **Guarantee provider:** DFC (formerly OPIC)
- **Grant provider:** MSDF
- **Equity & Debt Investors:** DFC, Kaizen Private Equity, ChrysCapital Advisors LLP, Calvert Impact Capital, PG Impact Investments, Omidyar Network
- **Learning outcomes evaluator:** Gray Matters India

About:

Varthana is a company in the microfinance industry with an in-house NBFC for extending credit finance to schools. It aims to improve access to affordable education across India by providing access to capital to schools that are servicing low- and middle-income families. It provides loans at prevailing market rates to low-cost private primary and secondary schools and educational institutions which serve India's rapidly growing student age population. Loans are typically used to improve school facilities and grow capacity. Apart from loans, Varthana focuses on working with schools to improve their learning outcomes by bettering their teaching quality and technology etc.

Financial Structure:



Results Achieved:

Since 2013, it has supported nearly 4,500 schools teaching three million students. The school transformation programme (STP) of Varthana which provides debt financing, education assessments, hands-on support, vendor connections, and financial rewards to schools in different states, currently covers 337 schools across five states, and is estimated to have an impact on more than 200,000 students.

Knowledge Partner: British Asian Trust (BAT) and Dalberg

British Asian Trust

The British Asian Trust was founded in 2007, to tackle widespread poverty, inequality and injustice in South Asia. BAT is a global pioneer in social finance, with a strong track record of driving successful collaborations and applying social finance approaches to solve social and economic challenges in South Asia.

Dalberg

Dalberg Global Development Advisors is a strategy and policy advisory firm. Founded in 2001, the company specializes in global development. Its mission is to raise living standards in developing countries and mobilize effective responses to the world's most pressing issues.

Glossary

Returnable Grants: An innovative financial instrument that aims to leverage the best of grant capital structured in the form of a loan. Through this mechanism, the borrower receives a zero-interest loan with only a moral obligation to repay. Once returned, the grant capital forms part of a revolving fund that can then be re-disbursed, thereby creating enormous leverage on the initial grant capital. This type of financing appeals to developmental funders and philanthropic donors as they can regularly receive the reflows and deploy the funds across other programs or priorities.

Guarantee: In this instrument, the guarantor agrees to pay part of the entire value of the loan tothe lender as a risk-mitigation measure in the event of non-payment or loss of value. This instrument aids in shifting the risk-return profile of the investment and reduces the cost of capital, making the investments commercially viable. A partial credit guarantee can attract private investors by improving an investment's creditworthiness by limiting the downside losses reducing the required return for that level of risk for other investors.

Interest Subvention: In this instrument, based on the social impact that is achieved by the business enterprise, the interest component on loan gets paid fully or partially by a developmental funder or a donor to promote the achievement of social goals. Interest subvention instrument acts as a great incentive for the business enterprises to expand their portfolio of products/services while creating social impact and not compromising on their commercial viability.

Portfolio Level Social Success Note (SSN): An altered version of a traditional SSN wherein multiple social enterprises with a proven business model are covered under an umbrella of low-cost loans offered by the same financial institution. Each of the social enterprises which form part of the portfolio have to achieve quantifiable and measurable impact indicators basis which the quantum of outcome payments are linked. If the social enterprises within the portfolio achieve the predetermined impact indicators and outcomes, the outcome payer (donor/ philanthropic funder) offers the risk investor (financial institution) an added incentive depending on the outcomes which have been achieved.

Development Impact Bonds (DIBs): Results-based contracts in which one or more private investors provide working capital for social programs, implemented by service providers (e.g., Social Enterprises), and one or more outcome funders (e.g., public sector agencies, donors, etc.) pays back the investors their principal plus a return if, and only if, these programmes succeed in delivering results. In a DIB the outcome payer is typically a private donor or a development agency.