Innovative Finance for Education

Working Paper

11

Innovative financing for education

A systematic literature review

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EXECUTIVE SUMMARY

Since the 1970s, government commitments to global development have soared. Education has been at the forefront, particularly when targeting development in low- and middle-income countries. Yet budgets, which governments underfund, are increasingly under strain as these same governments aim to achieve the targets set out in the United Nations Sustainable Development Goals, thus requiring the mobilisation of resources through existing and new financial sources.

In parallel, the role of the state and how it should manage the public sector have also experienced a shift, with management teams instituting new public management approaches that take their cues from the private sector: opening the way for increases in privatisation and public-private partnerships, and a focus on outcomes instead of processes and inputs and on the pre-eminence of efficiency. This has enabled private actors themselves to actively provide and finance public services. As a result, new ways of funding development are emerging. Termed "innovative financing", this approach looks for non-traditional ways to raise new funds and to spend existing funds in more efficient and effective ways through the use of market-like practices.

The innovative financing for education narrative connects the need for more funding for the education sector to proposals for new ways of sharing responsibilities between public and private actors. The solutions include identifying new sources, engaging new actors, and sharing costs and risks with these new stakeholders. While many say that innovative financing for education is not about privatisation, the overall narrative does indeed indicate greater private actor involvement and new relationships between the public and the private realms. Innovative finance for education involves a reform of the state according to market practices, such as a focus on measurable outcomes and a combination of financial and social returns, offering the possibility of private actors profiting from underfunded social and educational initiatives. Despite agreement in the sector about the need for more funding and to find new ways to mobilise resources, the explanation for the lack of funds – and thus the argued solutions – differ. While innovative financing proponents and enthusiasts do not discuss the reasons for a lack of funds, critics argue this is a political choice in the context of neoliberal and austere policies.

As a whole, the field of innovative financing for education remains fragmented in concept and practice. The diverse mechanisms that have been used for education have their own logic, history and internal contradictions, and a lack of empirical data as to the claimed benefits and reported challenges and issues. Three fundamental tensions lie in evaluating the potential benefits and challenges claimed in the use of innovative financing mechanisms:

1. The lack of empirical research supporting the claim that innovative financing mechanisms can address the education funding gap;

2. Availability of data and evidence on the cost effectiveness of innovative financing mechanisms given that international and national regulations make implementing them for education difficult, such that it can result in no additional funding or could even further weaken the structures that are in place and replace them with novel ones that rely on market preferences;

3. The contradiction between the claim of promoting improvements and innovation in education and the risk of the harmful side-effects of increasing inequality and damaging the right to education, creating tension between financial risks, such as returns on investment for investors, and social risks, such as harming social justice and exacerbating social and education inequality.

Further research into innovative financing for education is required to empirically examine the potential benefits that proponents of innovative financing for education envision, with a focus on monitoring the impact on equity and financial additionality leveraged by the solution studied. Advancing innovative financing for education will require studies that can tackle these tensions and evaluate both financial and development (including ethical and equity) aspects.

1

INTRODUCTION

Governments worldwide have made international commitments in the past 30 years to promote global development, with education as a basic human right gaining prominence, particularly as a strategic tool for development in low- and middle-income countries.

However, achieving the global education targets laid out in the United Nations (UN) Sustainable Development Goals (SDGs) has put increasing pressure on global and national budgets, requiring the mobilisation of resources through existing and new financial sources. In parallel, the role of the state and how it should manage the public sector have also experienced a shift. In line with this new public management (NPM) approach, public sector management teams have increasingly adopted private sector management techniques. Among other changes, NPM has opened the way for increases in privatisation and public-private partnerships, as well as a focus on outcomes instead of processes and inputs and on the pre-eminence of efficiency. NPM has not only allowed for private sector approaches to become the benchmark for all sectors, it has enabled private actors themselves to actively provide and finance public services. As a result of the need for more funding for development and NPM, a search for new ways to fund development is emerging. Termed "innovative financing", this approach looks for non-traditional ways to raise new funds and to spend existing funds in more efficient and effective ways through the use of market-like practices.

While development institutions have paid some attention to innovative financing, there has been very little research into the conceptualisation and use of innovative financing for education. This could be partly due to the relatively small amounts of funds flowing into education compared to other sectors (Bellinger et al., 2016) or the lack of a concrete definition or boundaries regarding what constitutes innovative financing. Nonetheless, there is growing interest in the use of innovative financing for education as multilateral organisations and education finance initiatives start to look for possible solutions to the underfinancing of education within these non-traditional approaches. Some examples include the Global Partnership for Education (GPE) multiplier fund, the development of the International Financing Facility for Education and the Education Outcomes Fund. However, there are no systematic analyses of the diverse perspectives or of the empirical evidence for the use of innovative financing for education.

Thus, this paper provides an overview and in-depth analysis of the emerging phenomena of innovative financing for education. With the support of a systematic literature review, it addresses how the education sector has understood and conceptualised innovative financing, how the sector has employed it and what are its benefits and limitations.

The first part of this paper frames the debate, exploring the global commitments that have revealed the need for more funding for development, NPM and the emergence of innovative financing. The second part describes the method used in the study and the third part describes the mechanisms employed in education, analysing the argued benefits and limitations of these innovative financing mechanisms in education. To conclude, the paper discusses the general characteristics of this emerging field of practice and research.

2

THE EMERGENCE OF INNOVATIVE FINANCING FOR EDUCATION

The exploration of innovative financing in development started with international pressure to mobilise funds for development and the simultaneous adoption of NPM practices. The use of new financing solutions is related to "a growing conviction that market models bring a discipline, efficiency, and accountability to development that traditional grants lack" (Keohane, 2016, p. 22).

Thus, it promotes the growing role and presence of private actors, even allowing for and encouraging for-profit endeavours in social services. The development community first used the term "innovative financing" at the 2002 International Conference on Financing for Development in Monterrey, Mexico. In the past few years, various stakeholders, including governments, philanthropy and private investors, have paid it increasing attention. Innovative financing as used in the development community differs from the term "financial innovation" used in the financial industry. Financial innovation often refers to the creation of new financial instruments or products to update technology and address risk management and other related issues. Innovative finance, on the other hand, can involve the creation of new instruments or products with a specific purpose: to "solve problems, overcome market and political failure, and meet the needs of the poor with the products and services that improve lives" (Keohane, 2016, p. 28).

Since 2002, the field has evolved from the initial exploration of modifying traditional development aid modalities to the growing of private sector engagement. Estimates indicate that innovative financing in development raised nearly USD 100 billion between 2000 and 2013, with the global health sector having raised USD 7 billion and the energy and environment sector raising USD 14 billion (Guarnaschelli et al., 2014). Historically, the education sector has had limited experience with innovative financing; however, the planning and implementation of the SDGs in recent years has led to the development and implementation of several pilot initiatives.

Global commitments to development and education

National governments have made global commitments to provide basic education for all children since the signing of the Universal Declaration of Human Rights in 1948. However, the realisation of this commitment has required multiple global agreements and renewed commitments, such as Jomtien Education for All (1990), the Dakar Framework for Action for Education for All (2000), the Millennium Development Goals (MDGs; 2000) and, most recently, SDG 4: Quality Education (2015). These global commitments have always struggled with insufficient funding within national education budgets and the international aid allocation to education (Bruns et al., 2003; Burnett, 2010; Greenhill & Ali, 2013; Steer & Smith, 2015).Global aid organisations, within the Dakar Framework for Action specifically focused on solving the budget shortage issue by stating their intent, "no countries seriously committed to education for all will be thwarted in their achievement of this goal by a lack of resources" (UNESCO, 2000). As a result, a global partnership between donor and recipient countries was established in the form of the Education for All – Fast Track Initiative (now evolved into the GPE) to accelerate the allocation of domestic and aid funds to education (Bruns et al., 2003). The GPE has experienced notable success in mobilising grant funding from international donors for education in low- and lower-middle income countries. Moreover, the developing countries in the partnership have also increased domestic budget allocations for the sector as conveyed in the GPE's results reports every year (GPE, 2019).

Even after accounting for the increase in donor and domestic government funds for education, the UN has estimated an annual gap of USD 39 billion for the SDG 4 targets (UNESCO, 2015); the International Commission on Financing Global Education Opportunity (2016) has estimated it to be even higher, at USD 1.2 trillion. Individual countries, such as India, have estimated significant gaps (USD 565 billion) in meeting their own national education plans (Bhamra et al., 2015). The chronic shortfall in funding for education has led education leaders to explore innovative approaches to raising financial resources from existing and new sources. The economic crisis and austere policies of the past decades have aggravated the situation and given further momentum to the search for new ways to fund social services (Neyland, 2018).

New public management: Privatisation and focus on outcomes

As governments adopted these commitments, they experienced a shift in their role in them and their management approaches. In the 1990s, NPM brought forth the idea that private sector management was superior to public sector bureaucracy, or the belief that the private sector is naturally more efficient and innovative than the public sector. By importing market practices and increasing private engagement in public matters, education governance also changed in some marked ways.

First, this has meant a shift to managing outputs, or results, instead of inputs and processes. Thus, a focus on measurable results within the monitoring and evaluation of donor-funded projects and the success of national education reforms have become central to public management. This is clearly seen in global institutional preoccupation with learning assessments, with initiatives such as the Learning Metrics Task Force and large-scale assessments becoming a global phenomenon through global, national and local exams (Verger, Lubienski et al., 2016; Verger et al., 2018).

Second, the relationship between public and private actors shifted considerably, with the growing engagement of private actors in public governance and the provision of social services and its financing. In education, there has been a global surge in public-private partnerships, with diverse formats and models. These include, but are not limited to, charter and academy schools, low-fee private schools, the provision of auxiliary services by private organisations and the engagement of philanthropy in advocacy and policymaking. This transition means that governments are moving away from hierarchical structures towards more flexible and dynamic networks in which governing is shared with other actors (Ball & Junemann, 2012; Rhodes, 1996). In this context, the lines between public and private, business and social, profit and non-profit have become increasingly blurry.

The influx of private actors and approaches in education has also opened doors for the financialisation of the sector. Financialisation is "the growth of the financial sector, its increased power over the real economy, the explosion in the power of wealth, and the reduction of all of society to the realm of finance" (Konczal & Abernathy, 2015, p. 4). It has made the development sector even more conducive to the adoption of market-based approaches. Investors from the private capital market are increasingly interested in impact investing, that is, gaining both financial and social returns from their capital investment. In particular, investors perceive financial markets as "central in supporting solutions to critical threats facing the world" (Bouri et al., 2018). This is leading to the financialisation of the development sector as a whole. Private industries, for their part, are increasingly recognising education service delivery as a profitable market, especially in emerging economies. Private investment firms are encouraging their investors to finance for-profit education companies by providing estimates, such as the industry size being USD 16–18 billion in Africa alone (Caerus Capital, 2017) or globally amounting to USD 4.3 trillion (Robertson & Komljenovic, 2016). Investors no longer expect returns only from private investment in the development sector; even government financing, donor grants or loans and philanthropic donations are all treated as investments that should yield some type of measurable return, even if it is a social outcome. Innovative financing, with its use of private and financial sector approaches, reconfigures the "partnerships among government, commercial investors, philanthropies, non-profit intermediaries and others that seek more and better capital" (Keohane, 2016, p. 32).

Although the empirical research on innovative financing, especially systematic reviews, is limited, the development sector as a whole (Keohane, 2016; Sandor, 2011; Ketkar & Ratha, 2008) and the health (Atun et al., 2012; Gartner, 2015) and climate change (Ghosh, 2010; Zerbib, 2019; Ng & Tao, 2016) sectors have examined its benefits and challenges using empirical data to an extent. Research on innovative financing in development has examined the use of innovative financing to bring additional funding and the actors behind the SDG agenda, analysing emerging economies' increasing ownership of their development strategies and the greater alignment of outcomes with aid funding. At the same time, it has criticised the complexity of certain financial structures, the redefinition of success in the social sector and challenges with trusting new actors.

However, in spite of growing interest, there is no systematic review of innovative financing for education to identify its idiosyncrasies in how actors in this field are conducting the debate, how they are using innovative financing for education, its potential and its challenges, and evidence of its possible benefits and dangers in education. Using a systematic literature review approach to analyse both the grey and academic literature on innovative financing for education, this study examines how these issues have been dealt with in the literature and hopes to inform future consideration of and dialogue on innovative financing that more appropriately fits the purpose of achieving national and global education goals.

3

MAPPING THE TERRAIN WITH A SYSTEMATIC LITERATURE REVIEW

This paper uses a systematic literature review methodology. Using extensive and exhaustive searches and systematic analysis of data, we aimed to develop a comprehensive identification, systematisation and synthesis of the existing empirical evidence and knowledge on a specific theme (Petticrew & Roberts, 2008; Popay et al., 2006; Verger, Fontdevila et al., 2016) – in this case, the use of innovative financing mechanisms in education.

The primary question of how the actors are implementing innovative financing for education initially guided the research. Aiming to grasp this understanding, we established the following secondary questions: a) What innovative financing mechanisms has the education sector conceptualised and implemented? b) What are the benefits, potential, limitations and challenges of innovative financing for education?

As this study aims to understand innovative financing in the context of the funding gap that mobilised actors to achieve the MDG and SDG agendas, we only considered research pieces published between 2000 and 2019 in this literature review. We also included a few seminal papers written before 2000 as they heavily influenced the initial proposals for the use of innovative financing in global education development – namely, the first ones to discuss debt swaps and income-contingent loans (Zaiser, 1992; Rodgers, 1993; Chapman, 1997). Even though the term "innovative financing" appeared in a few texts published in the 1970s and 1980s, we disregarded them in the scope of this study as the term referred to another concept of "innovation" in education financing. Additionally, we only included texts that directly address both innovative financing and education. Finally, considering the nascent quality of the topic, as well as the diversity of stakeholders involved in innovative financing for education discussions, we included both academic and grey literature. The academic literature comprises journal articles and books or book chapters that have been peer reviewed. The grey literature includes working papers, institutional reports and a few other types. However, from the grey literature, we only included the pieces that present data and/or analyses. We did not consider presentations, brochures, blog posts or concept briefs for this literature review. The search for grey literature is not exhaustive as no central databases for grey literature in education exist; therefore, we relied on expert recommendations for website searches.

We derived a list of search keywords from the primary research question. In addition to searching for the key terms "innovative financing" and "education" (and variances of the former such as "innovative finance" and "non-traditional financing"), we also searched for the names of mechanisms. These included debt swaps, social impact bonds (SIBs) and development impact bonds (DIBs), impact investing, income share agreements (ISAs), income-contingent loans (ICLs), remittance, and other mechanisms as well as variances of these terms. We conducted the searches in the following sources to identify the literature pieces to review: electronic databases (Education Resource Information Center [ERIC], Jstor, Scopus, Web of Science, ProQuest and Scielo); a manual search of the grey literature (various document types produced by governments, international organisations and scholars); and recommendations made by thematic experts. We conducted the searches solely in English, but also took articles with English abstracts originally written in Portuguese, Spanish or French into consideration.

We reviewed and put more than 130 documents through the process of data extraction. We also developed a standardised form for data collection for use during the revision of texts. The form included information about innovative financing definitions, reported innovative financing mechanisms, design information and argued benefits and reported issues, as well as reported results of innovative financing. We handled the quality and relevance assessments during this stage and excluded papers considered irrelevant against the inclusion criteria. Thus, we set aside more than 20 pieces during this stage. Finally, we compiled the data from 110 pieces into spreadsheets for analysis and examined it based on a thematic analysis. The analysis process followed the classic steps of familiarising ourselves with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes and, finally, producing the report (Braun & Clarke, 2012).

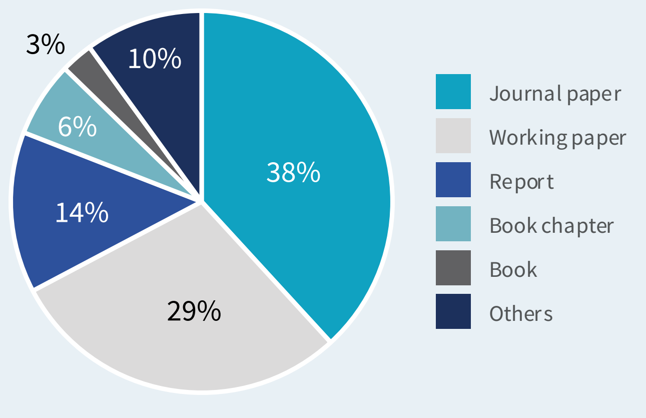

Figure 1: Type of literature analysed

Academic and grey literature constituted similar shares of the total in the final selection of the literature, with 46% academic and 54% grey. As shown in Figure 1, journal articles represented the largest number of research pieces, followed by working papers, reports, books and book chapters.

In examining the timing of publication (Figure 2), interest in the topic shows clear growth, with a very recent increase in the number of publications that meet the inclusion criteria of this systematic literature review. In 2007, a prominent body of grey literature led the writing on the topic as it started to grow substantially. This was the case until 2012, when the publication of academic literature increased substantially. The last four years have been marked by the highest numbers of pieces published, showing the ever-growing importance of the topic in the global education dialogue. More specifically, innovative financing literature production peaked in 2018 and 2019, pointing to the continuing expansion of the debate on the topic following the SDG commitments.

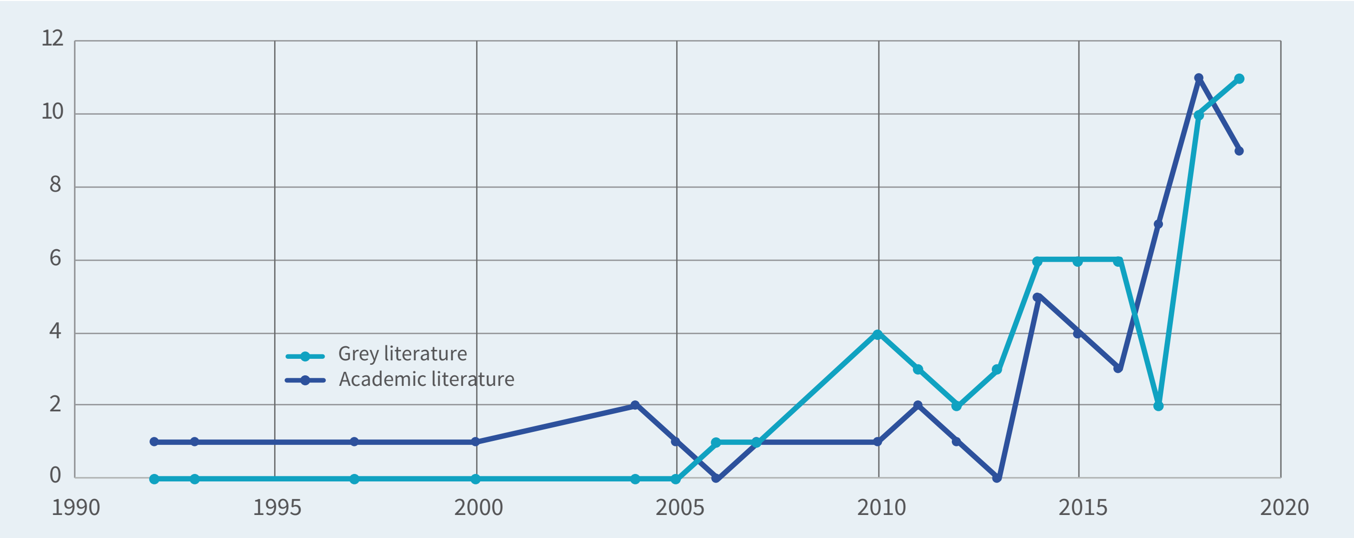

Figure 2: Number of publications in academic and grey literatures over time

4

A NARRATIVE DEFINITION OF INNOVATIVE FINANCING FOR EDUCATION

Despite the increasing prominence of innovative financing in the global education dialogue, such as in the recommendations in the Learning Generations Report, GPE's Multiplier Fund report or the Education Cannot Wait Case for Investment report, the education sector does not formally define innovative financing.

Instead, there is a "narrative definition" shared by most authors which revolves around the issue of an urgent need for more funding for education and a proposed solution of searching for new ways of sharing costs, risks and responsibilities among social actors. The proposed solution focuses on inviting and encouraging private actors to partake in education and employing market discipline in education funding. Although the actors have reached a consensus, authors tell a "policy story" (Kingdon, 2013) about the policy problems and solutions for financing education. The authors formulate and reformulate this story with different emphases but a similar core argument.

First, they give a few reasons to justify the need to innovate in financing education. The central one focuses on the lack of funding for education. Almost two-thirds of the texts analysed mention the lack of funds in a wider understanding, such as an economic crisis or the cost of expanding higher education, not necessarily connected to the SDGs, and one-third mention the so-called "funding gap" to reach the SDGs. With a decline in aid to education and public spending falling short of the global recommendations, there was a USD 38 billion funding gap in providing good quality basic and lower-secondary education for all by 2015 (Altman, 2010; Bellinger et al., 2016; Bellinger & Fletcher, 2014; International Commission on Financing Global Education Opportunity, 2016). This created pressure to identify new financing sources as this amount surpasses what developing countries have been able to mobilise. Since 2000, the international development community agreed through the Dakar Framework for Action that a lack of financing should not limit the ability of countries to commit to Education for All (Cassimon & Essers, 2009). The traditional funding mechanisms are insufficient (Altman, 2010) and new sources are needed (Ambler et al., 2015; De Arcangelis et al., 2015). A few texts conversely mention the political and economic reasons for the chronic underfinancing of education, such as austere policies (Carnoy & Marachi, 2020; Cássio et al., 2018; Chattopadhyay, 2007; Panigrahi, 2018; Saltman, 2018; Tse & Warner, 2018).

In response to this problem, the solution presented is a new "sharing" of costs, of risks and returns and of responsibilities and roles. This is embedded in the development of a shift from hierarchical government to network governance (Jessop, 2002). Authors argue there is a need to rework the public-private relationship in order to tap into new private funding (Bellinger & Fletcher, 2014; Bellinger et al., 2016; Bloomgarden et al., 2014; Innovative Finance Foundation, 2013; Neyland, 2018; Putcha et al., 2016). They argue that public authorities should share the costs for education as opposed to fully covering them (Amogechukwu, 2017; Barr, 2014; Chapman, 2006; Panigrahi, 2018; Stiglitz, 2014) and that such sharing would allow for the raising of new funding sources. Although the specific term "cost sharing" mostly appears in texts on post-secondary student financing, other mechanisms echo the argument.

The new public-private relationship is not limited to the interest in tapping into new funding sources. This new balance between public and private is also concerned with the use of market-based solutions and market-like thinking to address social problems. Authors argue that greater involvement from private actors, including for-profit companies, could bring about innovation (Bloomgarden et al., 2014; UBS, 2015; UBS Optimus Foundation, 2018), reinforce efficiency and market discipline (Capital Partners, 2013) or simply enable the use of solutions that are applied to the market for social problems (Neyland, 2018). As mentioned previously, this is connected to an underlying belief that the market is naturally more innovative and that there is a win-win solution in which social problems could be turned into investment opportunities that can provide returns (social and financial) to private investors while also addressing the lack of funds for education (CapitalPlus Exchange, 2017). All of this reinforces the idea that innovative financing is a more effective way of financing development, which can have a meaningful impact (Gustafsson-Wright & Gardiner, 2016; Putcha et al., 2016; Steer & Smith, 2015; UNESCO, 2011).

This narrative is not homogeneous; there are slightly different versions of it and secondary policy problems. Other reasons mentioned regarding innovative financing include a learning crisis and a need to improve education outcomes, as well as a need to address economic issues and market failures. These arguments, however, do not apply to all mechanisms and some of them have a varying narrative for the use of a particular innovative financing mechanism.[1]

First, in contrast to the overall narrative of a lack of funds being the main problem, the social impact bond (SIB) mechanism starts from a different policy problem. For SIBs, the assumption is that education is in need of innovation and a focus on outcomes. Authors cite this fairly commonly as a secondary rationale for using innovative financing in general. The solution proposed by this mechanism is similar to the overall solution of inviting and encouraging private actors to partake in education and employing market discipline in education funding. Second, another slightly divergent narrative is the one presented by the mechanisms of post-secondary student financing (ICLs and ISAs). These mechanisms draw from the argument that the expansion of higher education is too expensive for the state to fully finance. Furthermore, because higher education is not a universal service, it would be regressive to use taxpayer money to finance it completely (which could create inverse income distribution). The policy problem presented fits partially into the overall narrative. In this case, the authors still assume that there are insufficient funds to expand higher education. However, most texts concerning these mechanisms also bring income distribution and justice issues in funding by questioning who should pay for a non-universal service. In this case, the presented solution lies in cost sharing between the state and the households (Chapman et al., 2014; Dearden et al., 2008; Johnstone, 2004).

Notwithstanding the shared narrative present in the literature, the term "innovative financing" is somewhat unimportant. The innovative financing for education literature does not widely use it: only 39% of the texts mention it. Since its initial use at the Monterrey Consensus in 2002, it has barely infiltrated into academic research in education. In the academic literature, less than one-third of the authors mentioned the term, while nearly half of the authors in the grey literature used the term, as shown in Figure 3.

More importantly, not only is the concept of innovative financing not widely used in the analysed literature, but it is uncommon for authors to discuss it as a field, a unified concept, technique or object of analysis. In contrast, most texts, especially in the academic literature, discuss and analyse specific mechanisms. Only grey literature authors who have a development background attempt to discuss innovative financing as a whole (Bellinger et al., 2016; Bellinger & Fletcher, 2014; Burnett & Bermingham, 2010; Education Task Force, 2012; Innovative Finance Foundation, 2013; Writing Committee to the Task Force on Innovative Financing for Education, 2010) (with the exception of Saltman, 2018).

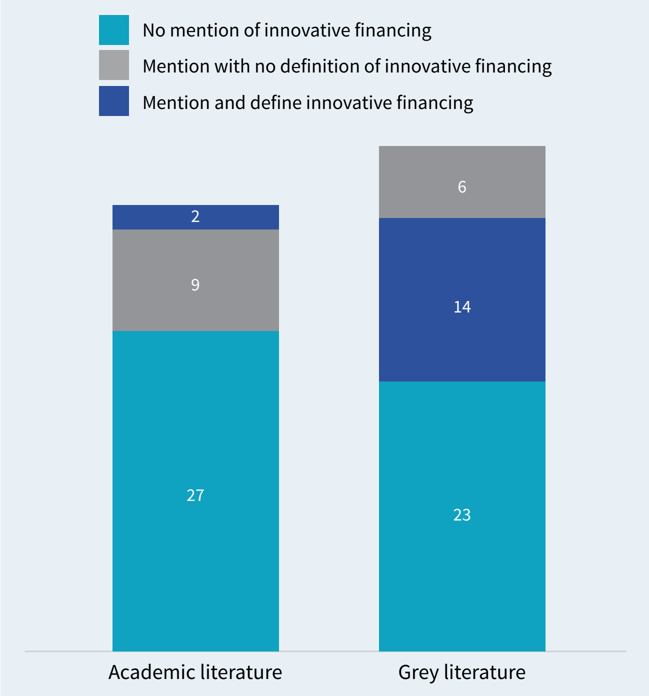

Figure 3: Mentions and definitions of innovative financing

Therefore, in spite of lacking shared definitions and the limited use of the innovative financing concept, what connects and unites the literature analysed is an overarching narrative on education funding – or a policy narrative. Within this narrative, the main policy problem is the lack of funds (often referred to as the funding gap), with a secondary need to bring about innovation. The policy solution is a unifying point; the solution connects most mechanisms and texts, despite the fact that they start from slightly different problems. Almost all argue that what education needs is more private actors, whether for their money, their innovation, their flexibility or even their alleged potential to promote social justice and redistributive matters. This articulates how innovative financing is a consequence of NPM.

However, there is a fundamental dispute over the reasons that cause insufficient funds for education. Innovative financing proponents, defendants and enthusiasts either do not mention this matter or they point to economic crisis. Contrastingly, critical authors argue that neoliberal austerity policies are at the core of the problem and criticise how very few texts in this emergent arena discuss the possibility of tax reforms and finding new ways of taxing international companies or the super wealthy (Balsera et al., 2018; Carnoy & Marachi, 2020; Cássio et al., 2018; Saltman, 2018). Thus, critical authors might agree on the policy problem posed but fundamentally disagree on the cost-sharing policy solution due to the underlying and structural reasons for the problem of underfunding.

In this regard, the conceptualisation of taxation as part of the solution for the underfinancing of education differs between those authors who promote market-based solutions and those who discuss tax justice. Although most innovative financing proponents recognise that governments need to mobilise national funding to increase investments in education, and some include taxation solutions for innovative financing, they do not discuss the underlying structural and political causes for the public underfinancing of education (International Commission on Financing Global Education Opportunity, 2016). The innovative financing mechanisms that tackle taxation may aim to create new levies or increase the share of education in national budgets within win-win solutions, with returns for the market and funding for development (Bellinger et al., 2016). Those authors and the solutions they present do not discuss the widespread tax evasion by global companies and tax paradises, the harmful tax benefits developing countries use to attract international business or the low taxation of the super wealthy in many developing countries. In contrast, the literature of tax justice not only discusses all of these elements, they are at its core (Tax Justice Network, 2011). The central concern of tax justice is tackling structural issues and political choices in public finances that systemically and continuously cause the underfinancing of social services (Archer, 2016; Balsera et al., 2018; Klees, 2020; Languille, 2016, 2019; Ron-Balsera, 2018), making this body of literature fairly separate from that of innovative financing.

1. See Table 1 for more information on mechanisms.

5

TYPES OF MECHANISMS IMPLEMENTED IN EDUCATION

Several mechanisms can materialise and ensure the implementation of innovation in financing education. Although other sectors implement several innovative financing mechanisms, and the education sector theoretically proposes some (Bellinger et al., 2016), the innovative financing for education literature only discusses some (Table 1).

There are two types: those aimed at financing post-secondary student education (ICLs and ISAs, 35%) and social or development impact bonds (SIBs/DIBs) (25%). The literature also discusses other mechanisms in a much smaller group of publications, including debt relief (debt swap or debt conversion, 8%), new funds and organisations (such as the International Finance Facility for Education [IFFed], 6%), bonds (4%) and some mentions of other mechanisms (6%). Finally, some publications discuss innovative financing in general and mention several mechanisms as examples (16%). Figure 4 illustrates this distribution, and table 1 describes each of these mechanisms.

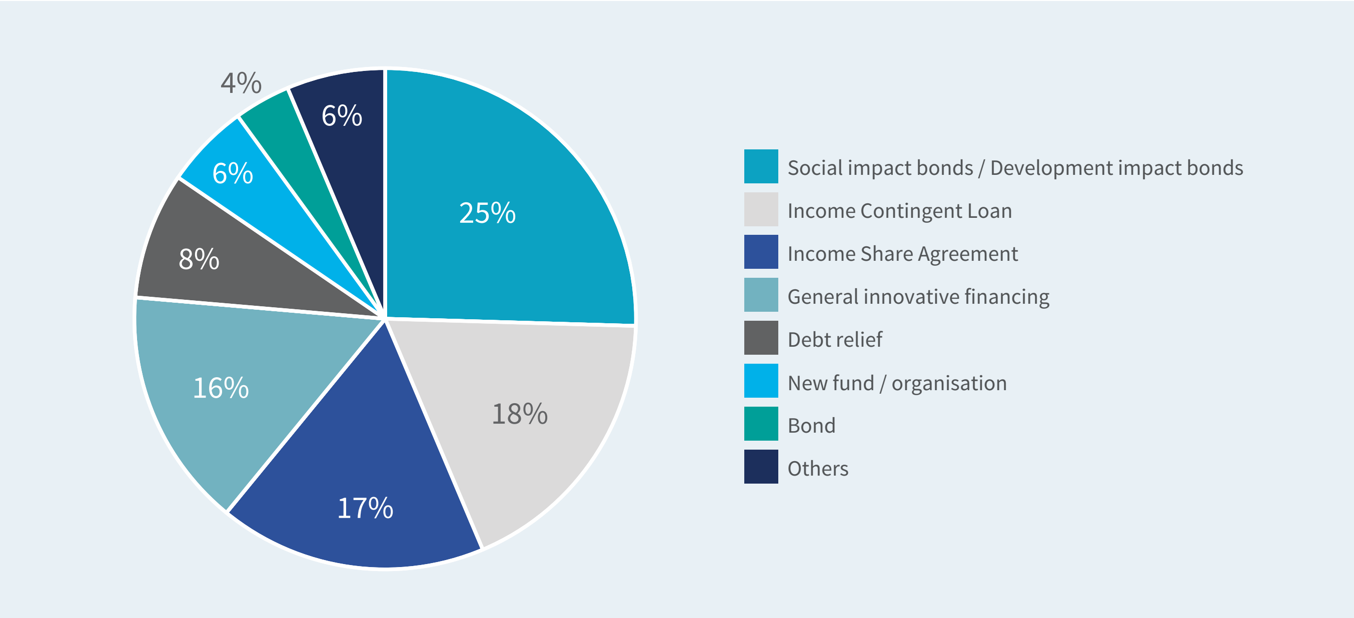

Figure 4: Innovative financing mechanisms discussed for education

In contrast to discussing innovative financing and ways to mobilise funding for education as a whole – the perspective adopted by development authors (Bellinger & Fletcher, 2014; Burnett, 2010; Innovative Finance Foundation, 2013) – each mechanism has its own history and community. For instance, the ICL, created in Australia, aims to fund the expansion of higher education by sharing the costs with the beneficiaries. Since its creation, a small but consistent group of authors has researched, discussed and advocated for it (Barr, 2014; Chapman, 2014; Chapman et al., 2014; Dearden et al., 2008; Higgins, 2019). Debt swaps, alternatively, have their origins in Latin America and the goal of reducing external debt and thus creating fiscal space to invest in education. A few authors discuss this process and associated experiences. A

Table 1. Description of innovative financing for education mechanisms

Type of mechanism	Description
Impact bonds: social impact bonds (SIBs) and development impact bonds (DIBs)	An impact bond is a results-based financing model in which one or more private investors provide working capital to a service provider to implement an intervention. The repayment of this investment is contingent on achieving previously agreed results. In a DIB, a donor agency or a foundation makes the repayments; in an SIB, the government is the outcome payer (although some combination of a government with a third party is also possible). Each impact bond has its contractual specificities in terms of incentives offered to implementers and investors and the means and roles in managing the project and assessing its outcomes.
Income-contingent loans (ICLs)	An ICL is a loan offered by the government, who then does the debt collection as a taxation after graduation. The charging ceases once the student has repaid the loan in full. The government is the investor and the government and the student share the risk.
Income-sharing agreements (ISAs)	In an ISA, a private investor pays for post-secondary tuition fees as an equity investment and receives a percentage of the student's future income for some period of time as a repayment for the investment. The private investor and the student share the risk.
Debt swap (variations: conversion development bond and debt for education)	In such transactions, a creditor forgives the debt of a borrowing country on the condition that the country invest an agreed amount of local currency, which has been freed up, in the development/education sector.
Debt buy-down	A third party buys down all, or a part of, the interest and/or the principal of a loan between a country and a lending institution, thereby releasing the borrowing country from all or some of its future repayment obligation. This generates fiscal room for manoeuvre, which the country can use to fund development/education.
New fund or organisation	In the context of innovative financing, the creation of new funds or organisations aims to raise the profile of a particular issue and to raise additional funds from various public and private sector stakeholders for development/education financing. While numerous formats are possible, they may also play the role of distributing grants, assisting in negotiations, developing innovative financing capacity and serving as a platform to connect different actors and sectors. Examples of such instruments are the GPE Multiplier Fund and the Education Outcomes Fund for Africa and the Middle East.
Education bond	A bond is an investment in a debt whereby the investor receives a fixed return on the principal and interest of the underlying security. Any future revenue streams can be the basis for securing future revenue streams. National governments can issue them as domestic bonds or multilateral financial institutions as thematic bonds.
Remittance	A remittance is a transfer of money from a migrant, often a foreign worker, to an individual in their home country. In the context of innovative financing, the government can amplify remittances for education (i.e., subsidies) or create donor incentives to expand the funds families have available for education. Alternatively, governments can introduce taxes on or fees for remittance transfers to generate revenues for public education.
Impact investment	Impact investment aims to generate specific beneficial social or environmental effects in addition to financial gains. It may take the form of numerous asset classes and may result in many specific outcomes. The point of impact investing is to use money and investment capital from private sources for positive social results.
Taxation	Governments can apply a tax to a specific industry sector or an economic activity, directing the revenue to provide additional funds for education.

last example concerns SIBs, the most recent mechanism, with their own specific history and community as well. Created in 2010 in the United Kingdom, amid austere policies, they are more focused on shifting practices to outcomes-based management and creating a new investment product for private actors.

As shown in Figure 5, these mechanisms do not receive equal attention in the grey and academic literature. Most of the grey publications discuss SIBs, new funds and organisations, and innovative financing in general. In contrast, the mechanisms most discussed in the academic literature are those for student financing (ICL and ISA). The explanation for this lies first in how governments and investors have fully implemented both mechanisms on a large scale, especially ICLs, which have become a policy that is gaining attention in the international arena, thus making them a more formal object of study. Second, traditional student loans have also received considerable attention from the academic community, so a community dedicated to the topic has been in place for some time. Finally, many ICL proponents have an academic background, thus fuelling its literature (Barr, 2014; Chapman, 1997, 2006; Chapman et al., 2014; Dearden, 2019; Dearden et al., 2008).

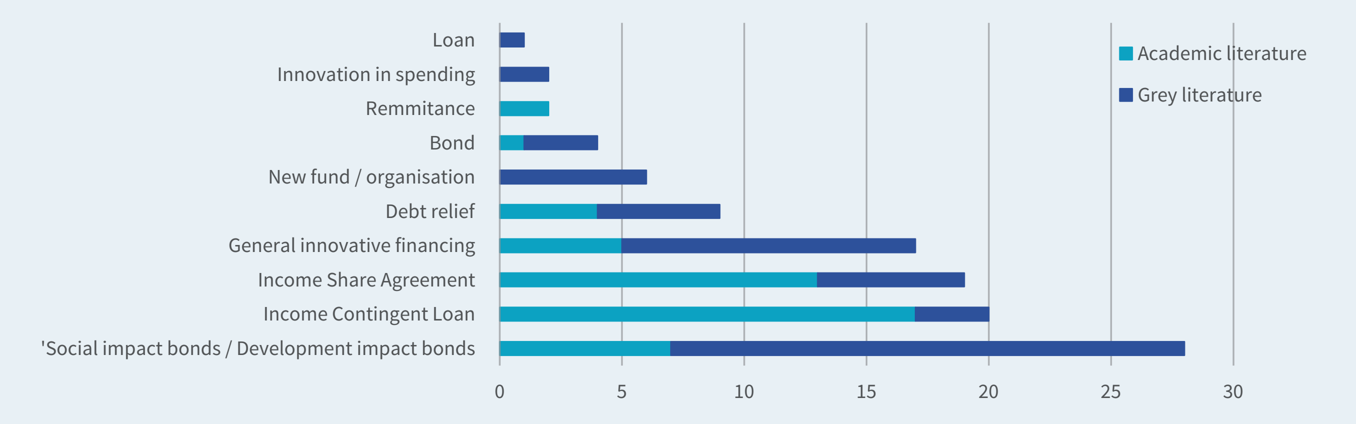

Figure 5: Mentions of innovative financing mechanism by type of literature

As shown in Figure 6, the discussion of these mechanisms has shifted over time. At the early stages of the innovative financing for education debate (before 2010), there was an emerging discussion about debt swaps and ICLs. Despite the innovations they presented, they concerned more traditional financing, in the form of international debt relief and student financing from the state. In 2010, publications that provided an overview of innovative financing possibilities in education started emerging, such as the report from the Writing Committee to the Task Force on Innovative Financing for Education (2010) as well as the first working paper from the Open Society's Education Support Program (Burnett & Bermingham, 2010). In 2014, the volume of publications began to grow. During this year, there was a drastic increase in publications on innovative financing for education covering many mechanisms, including an edited book on ICLs (Chapman, 2014), two working papers on innovative financing in general (Bellinger & Fletcher, 2014; Samoff & Irving, 2014), the first publication on ISAs (DeSorrento & Palacios, 2014) and the first publication on SIBs and education (Bloomgarden et al., 2014). From 2016, ISAs started to receive more attention than ICLs; in 2018, SIBs and DIBs were by far the most discussed mechanisms in the literature but began losing some attention in 2019. Overall, this might present a shift to mechanisms that promote the financialisation of education – in other words, a shift from debt relief and state-based financing (with debt swaps and ICLs) to opportunities for investment from for-profit private organisations or the financial market with ISAs, SIBs and DIBs.

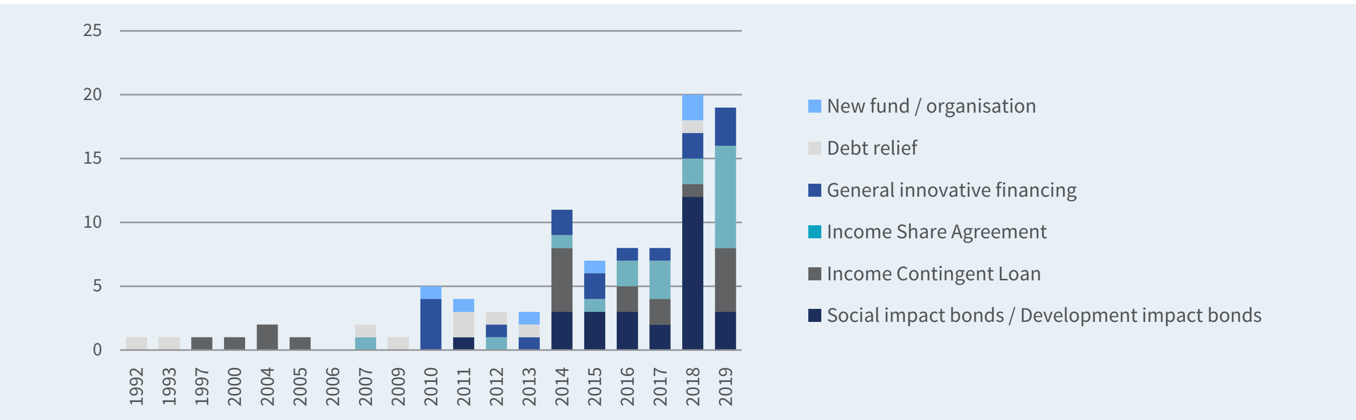

Figure 6: Type of innovative financing mechanism mentioned in the literature, by year

6

POTENTIAL BENEFITS OF INNOVATIVE FINANCING FOR EDUCATION

The potential benefits of innovative financing for education revolve around five types: a) providing additional revenue or making expenditure more efficient; b) reforming the state according to the practices of the private sector; c) changing education practices to focus on outcomes; d) promoting social justice; and e) promoting global development.

However, the first three benefits compose the core, summarised as increasing funding and efficiency by reforming the state and education according to market-based practices and values. The other two benefits are peripheral as the literature pays much less attention to reaching social justice or directly discussing global development.

Improving education financing: Increasing revenue and changing expenditure

The main benefit of innovative financing for education is its potential to address the underfinancing of education by tackling both revenue and expenditure. As explored previously, the central rationale for using innovative financing is closing the financing gap for the SDG 4 target. The authors argue that employing innovative financing for education can improve education financing with new revenue sources and finding new ways of spending that are more efficient and effective.

On the revenue side, the authors argue that innovative financing mechanisms can aim to raise new funds and attract new investors (Bellinger & Fletcher, 2014), "harness the power of markets to raise money" (Altman, 2010, p. 1), and increase transfers to developing countries (Cassimon et al., 2011). These new sources rely on attracting private money from non-profits (philanthropy), households (with new types of loans) or for-profit investors. On the expenditure side, innovative financing can bring about new ways to leverage funds and improve their effectiveness (Amogechukwu, 2017; Bellinger & Fletcher, 2014; Education Cannot Wait, 2018; Innovative Finance Foundation, 2013; Neyland, 2018) or be used to "save tax-payers money" (Leff & Hughes, 2016; Lewin, 2018; Machat, 2017). The former ensures that the funding invested in education produces the desired results, and the latter refers to bringing about alternative private sources in order to save governments money and then redirect it to other areas. Authors who propose leveraging household financing for post-secondary education to redirect government funds to primary education argue especially for this benefit.

In sum, "the value-add of innovative financing to development over the last decade has not necessarily been the invention of entirely new mechanisms and financial technicalities but rather the creative leverage of existing funding and revenue streams" (Innovative Finance Foundation, 2013, p. 8). The authors especially argue for this benefit in discussions of innovative financing in general (Altman, 2010; Amogechukwu, 2017; Bellinger & Fletcher, 2014; Burnett & Bermingham, 2010; Innovative Finance Foundation, 2013; Writing Committee to the Task Force on Innovative Financing for Education, 2010; Education Task Force, 2012; Samoff & Irving, 2014; Wattanga, 2014). Nonetheless, texts about mechanisms also promote this benefit, such as SIBs (Bloomgarden et al., 2014; Citibank, 2015; Gustafsson-Wright & Gardiner, 2016; Kim & Han, 2015; Mulgan et al., 2011; Neyland, 2018; UBS Optimus Foundation, 2018), debt swaps (Cassimon et al., 2011; Organización de Estados Iberoamericanos, 2007; Rodgers, 1993; UNESCO, 2011) and diaspora bonds (Ketkar & Ratha, 2011) and remittances (Ambler et al., 2015).

Reforming the state and changing education

In order to promote the benefits described above, the literature frames the reforming the state in the format of the private sector as a prerequisite and another benefit of innovative financing. This is, as described before, an expression of NPM, with the conviction that the private sector is better and that the state should operate like it. There is a belief that "bringing private sector mentality into the provision of services can lead to more efficient and effective delivery of social services" (Gustafsson-Wright & Gardiner, 2016, p. 10). To successfully promote this change, governments should engage private actors. This, however, depends on an underlying shift in the discourse on what can be turned into an investment product and an opportunity for profit, with the expectation that innovative financing can "enable social investors to use their money to achieve both a social impact and a financial return" (Gustafsson-Wright & Gardiner, 2016, p. 10).

Thus, innovative financing mechanisms are supposed to increase public-private collaboration, which can promote "market discipline" in education management. This effort depends heavily on focusing on measurable outcomes, which requires systemic and continuous data collection (Bellinger & Fletcher, 2014; Bloomgarden et al., 2014; Gustafsson-Wright & Gardiner, 2016; Lewin, 2018; Nairobi City County, 2014; Neyland, 2018). It foresees that the stronger participation of private actors will shift the risk to the private sector, which should encourage innovation (Bellinger et al., 2016; Steer & Smith, 2015; UBS Optimus Foundation, 2018; Wattanga, 2014).

The encouraged reform of the state is closely related to the aim of reforming education itself according to similar market ideas. Thus, a related benefit of innovative financing for education is promoting and encouraging changes in education practices. No agenda or policy proposals for education clearly articulate this. Instead, there is a general reform trajectory, one that revolves around ideas similar to those proposed for the state reform, promoting innovation and a focus on measurable outcomes by engaging private actors due to their disruptive or innovative nature and by shifting risk to them. Similarly, it is possible to employ market discipline to foster a focus on outcomes and promote accountability with the use of evaluation.

In general, the desired changes in education, which innovative financing can support, echo well-known policies implemented globally since the 1980s. Authors refer to it as the global education reform movement (GERM) (Sahlberg, 2011, 2016), the corporate reform (see for example, Apple, 2006; Ravitch, 2016; Saltman, 2012) or the global education industry (Verger et al., 2016), amongst other names. In general, this thinking traces back to the outcomes-based education that became popular in the 1980s and led to standardised policies in the 1990s, which have sway today. In sum, such policies and practices rest on the transfer of ideas from the corporate to the educational world, with the standardisation of education and test-based accountability (Sahlberg, 2011).

Although closely related, the mechanisms do not see the equal distribution of the benefits of improving education financing and reforming the state and education among them. Debt swaps, ICLs, bonds and remittances mainly focus on the first (improving finances – namely bringing in new money and improving the economy in general). In contrast, SIBs and DIBs are more focused on reforming the state and education with market practices through new incentives and management structures. As Neyland (2018) argues, SIBs present an opportunity to introduce competition, efficiency, efficacy, private sector thinking and investment to a range of different social problems. Engaging private actors, shifting the risk to them and focusing on outcomes by attaching the investment return to social results naturally promote innovation and accountability. The ISA is also more focused on reforming structures rather than bringing new funding. This mechanism can shift the risk to the private sector and provide better information for students and universities, according to a rational choice theory arguing that better information will lead to better services as the market is likely to respond to consumer behaviour.

Welfare and global development

As discussed above, the overall narrative and argued benefits of innovative financing for education focus on financing and the economic gains of finding new revenue sources or improving spending by concentrating on outcomes and using market incentives. This literature does not commonly use the language and terms of social justice and global development.

The third claimed benefit is grounded in welfare-based arguments, but this is a benefit that student financing mechanisms almost solely claim. Authors argue that ICLs and ISAs enable the expansion of higher education, which provides access to post-secondary education (Barr, 2014; Machat, 2017; Palacios, 2002; Zancolli, 2018). These mechanisms, especially ICLs, should support some income redistribution and make education more equitable by charging university graduates after concluding their studies (Crawford School of Public Policy & Chapman, 2016; García-Peñalosa & Wälde, 2000; Yun, 2014). However, most importantly, they claim these mechanisms provide welfare to the borrowers. As opposed to traditional student loans, which strain graduates with large debts to pay off after graduation, ICLs and ISAs provide consumption smoothing, or the maintenance of a certain living standard over a lifetime. As graduates earn more, they can pay more without harming their quality of life (Barr, 2014; García-Peñalosa & Wälde, 2000; Holliday & Gide, 2016; Johnstone, 2004; Jutras, 2017; Machat, 2017; Migali, 2012).

Finally, and surprisingly, authors rarely mention the arguments directly connected to promoting global development. There are few authors who argue that innovative financing promotes global development; those who do, mention building capacity the most often. However, in this case, building capacity means training local actors to collect the required data to manage innovative financing mechanisms; it thus acts as a benefit related to reforming the state. The authors claim that these mechanisms can create demand for governments and local actors to learn how to collect and analyse data for the monitoring of outcomes (Fundación del Viso, 2018; OECD, 2018; Results for Development Institute, 2011; UBS Optimus Foundation, 2018). Some authors argue that innovative financing for education could support the channelling of national funds to development, which they claim especially in relation to debt swaps (Bond, 2012; Cassimon et al., 2009; Ito et al., 2018). A rarely mentioned benefit concerns the raising of the profile of education on the global agenda and supporting fragile states (Burnett, 2010; Burnett & Bermingham, 2010).

7

LIMITATIONS AND CHALLENGES OF INNOVATIVE FINANCING FOR EDUCATION

The limitations and challenges of innovative financing for education include the following: a) lack of evidence of effectiveness, especially regarding additionality; b) implementation challenges; c) possible harm to the right to education and social justice; and d) global coordination challenges.

Similar to the benefits, the first three limitations compose the core of the challenges discussed. However, there is a considerable lack of analysis regarding the issues, risks and limitations of innovative financing for education. About 30% of the analysed texts do not mention any limitations at all.

Little evidence of effectiveness

Innovative financing for education efforts are themselves challenged with a general lack of evidence supporting their effectiveness. Most benefits that innovative financing is supposed to foster (discussed in the previous section) are theoretical, with little or no evidence for how these mechanisms work in practice. Problematically, there is a specific lack of empirical data on whether and how innovative financing brings additional funding. While several authors have discussed the issue that innovative financing may not bring additional funding to the development sector or to the education sector, currently there are no studies that empirically evaluate the issue.

Many mechanisms have high design, management, transaction and evaluation costs. Several authors have highlighted that the high transaction costs involved in innovative financing experiences can potentially reduce, or even eliminate, the additional funding innovative financing was supposed to enable (Ambler et al, 2015; Bloomgarden et al, 2014; Chattopadhyay, 2007; Global Campaign for Education, 2018; Gustafsson-Wright & Gardiner, 2016; IDinsight, 2018; Ito et al, 2018; Johnstone, 2004; Mulgan et al, 2011; OECD, 2018; Organización de Estados Iberoamericanos, 2007; Putcha et al., 2016; Tse & Warner, 2018; Yun, 2014). As these experiments require new regulations, new services, new consultants and so on, "government officials may need to devote significant resources to negotiating, documenting, and monitoring transactions" (Organización de Estados Iberoamericanos, 2007, p. 21). Similarly, high transaction costs are associated with the tailoring of agreements to each case and are therefore time-consuming (OECD, 2018; Organización de Estados Iberoamericanos, 2007). Their implementation involves costly and complex administration (Ito et al., 2018; Yun, 2014).
It is also possible that the risk of crowding out traditional funds diminishes the additionality of funds. In some cases, the directing of new funds to education via an innovative financing initiative reduces traditional funding. For example, while debt swaps can see the creation of some fiscal space (by reducing or abolishing a public debt), it might actually put additional pressure on public budgets from the agreed terms of the swap. Thus, governments might direct the debt amount to education, while they also reduce the previous budget for this area (Cassimon et al., 2009, 2011; Cassimon & Essers, 2011). Authors have discussed a similar dynamic for ICLs (Chapman & Dearden, 2017; Migali, 2012) and SIBs (Saltman, 2017, 2018).

Another possible dynamic that can reduce traditional financing in response to innovative financing for education initiatives is the transfer of public resources to private actors. Transferring part of the resources to private actors might undercut public budgets, meaning the services might eventually become more expensive than they would be if provided by governments themselves (Saltman, 2018; Carnoy & Marachi, 2020). This is the case with SIBs as they involve profit on top of the initial investment and the payment of several intermediaries and management supporters.

Finally, in spite of the desire to attract private actors to invest in education, investors might not be interested in doing so. Fundamentally, private investors will likely see this kind of endeavour as too risky, making it unlikely that for-profit organisations will invest in innovative financing for education. First, the lack of evidence for most innovative financing for education mechanisms augments the perception of risk (Sagorsky, 2010). Second, many countries do not have the required tools to gain confidence in the eyes of investors, such as mature markets and available data (Ketkar & Ratha, 2011). Finally, unlike grants, most innovative financing mechanisms do not provide control over investments, which might also push investors away (OECD, 2018). Thus, although the authors frame impact investing aimed at combining social and financial returns as part of the solution for the education funding gap, it is unlikely that the sector can raise a considerable amount of funds in this way.

Implementation difficulties

There is considerable tension between the conceptualisation of innovative financing and the local realities of implementation. The lack of appropriate and specific regulations for the new mechanisms is a fundamental limitation (Amogechukwu, 2017; Balsera et al., 2018; Fadel, 2017) as most of these innovative financing mechanisms imply new types of investment, repayment and financial transactions, new relationships between stakeholders, and new data and governance structures. Thus, a general lack of regulations or unclear laws often slow the implementation of innovative financing mechanisms (and makes it more expensive). Furthermore, some regulations can prevent some mechanisms altogether, rendering the initiatives illegal, such as contracting out services conditionally upon outcomes (Bloomgarden et al., 2014).

There are also capacity and infrastructure issues. In many countries, there is a lack of data and capacity to manage, evaluate and offer accountability, which can prevent mechanisms from operating as planned or push investors away from efforts (Education Cannot Wait, 2018; Ketkar & Ratha, 2011). Concerning SIBs, as they deeply depend on data to evaluate initiatives, the lack of data, local learning assessment systems and professionals used to working with these tools can undermine the entire effort (Bloomgarden et al., 2014). As for ICLs, their implementation depends on a mature system of income monitoring and taxation, which is not available in many developing countries (Crawford School of Public Policy & Chapman, 2016).

These implementation challenges are related to how the coordination of innovative financing efforts creates tensions between global and local spheres (a challenge with a minor presence in the literature). While innovative financing mechanisms tend to work with ideal scenarios, their implementation is complex and still requires global coordination (Burnett & Bermingham, 2010; UNESCO, 2011). Nonetheless, some projects might not align with local actors and might leave civil society and governments on the side lines, giving too much control to funders (Altman, 2010; Cassimon et al., 2011; Putcha et al., 2016; Sagorsky, 2010).

Undesired effects: Gaming, inequality and preventing systemic changes

A fundamental risk of innovative financing for education is that such mechanisms, instead of promoting equitable access to quality education, can harm social justice and the right to education. By drawing from market-based thinking, they can create perverse incentives, encourage gaming and a narrow focus on targets. Relatedly, they can exacerbate inequalities and further marginalise certain groups. Initiatives focused on measurable outcomes often choose to tackle easier problems with a secure positive effect and neglect the groups and locations that actually need the most investment but appear to be too risky (OECD, 2018). In turn, contradicting the desired effects, outcomes-based initiatives might lead to conservative approaches that can safely reach the agreed results but do not tackle the underlying issues. Still, innovative financing efforts often do not take ethics and equity implications into account in their design and implementation, such as how results-based financing can offer perverse incentives of purposefully excluding certain student groups either for measuring purposes or for reaching the agreed measures (Carnoy & Marachi, 2020; Cássio et al., 2018; Saltman, 2018).

Moreover, innovative financing tends to adopt a piecemeal approach. Education sector actors adopt innovative financing mechanisms to fund certain projects that tackle insular problems. The innovative financing endeavour might unintendedly prevent holistic solutions and wider debates on structural solutions for financing education, such as those concerning taxation. With a piecemeal approach in lieu of holistic solutions, these efforts could steer the attention away from the tax justice and taxation reforms (Archer, 2016; Balsera et al., 2018) needed for the national resource mobilisation required to close the funding gap in education.

8

TO CONCLUDE: WHAT WE KNOW ABOUT INNOVATIVE FINANCING FOR EDUCATION

The systematic literature review has shed light on emerging trends in innovative financing for education. The narrative connects the need for more funding for this sector to proposals for new ways of sharing costs and responsibilities between public and private actors. Innovative financing for education remains a fragmented concept and practice, with several mechanisms that have their own logic, history and internal contradictions as to the claimed benefits and reported challenges and issues.

Thus, in spite of the funding gap for education and the resulting need to discuss ways to innovate in terms of education funding, until now efforts have presented a fragile claim to a solution, with very little empirical data available on the existing experience.

The field of education does not widely use the concept of innovative financing, nor do authors or institutions in the field mobilise it. Despite the fact that few authors discuss innovative financing and ways to mobilise funding for education as a whole (Education Task Force, , 2012), each mechanism actually has its own history and community of experts and advocates. Thus, instead of constituting a field as such or a cohesive term, innovative financing actually acts as an umbrella concept in education.

The literature analysed brings together a fairly consistent narrative on education financing problems and solutions. Most authors argue that governments underfund education. The proposed solutions revolve around identifying new sources, engaging new actors, and sharing costs and risks with these new stakeholders. However, while many authors say that innovative financing for education is not about privatisation, the overall narrative does point to a form of privatisation. The innovative financing for education literature indicates, in general, the greater involvement of new private actors, with new relationships between the public and the private realms. This involves a reform of the state according to market practices, such as a focus on measurable outcomes and a combination of financial and social returns, offering the possibility of private actors profiting from underfunded social and educational initiatives. In addition to incentivising traditional forms of privatisation (via private service provision), the innovative financing for education endeavour also sheds light on the financialisation of education services and an "endogenous privatisation" (Ball & Youdell, 2008), or the adoption of private sector practices in public spheres.

This is where key criticisms lie and what characterises the diverging voices. Despite agreeing about the need for more funding and the need to find new ways to mobilise resources, the explanation for the lack of funds – and thus the argued solutions – differ. While innovative financing proponents and enthusiasts do not discuss the reasons for a lack of funds, critics argue this is a political choice in the context of neoliberal and austere policies. Regarding the solutions, innovative financing is concerned with new revenue sources and also improving expenditure practices. However, this is also a point of tension between innovative financing advocates and critics. Advocates adopt a managerial perspective of improving effectiveness and efficiency; critics stress topics related to social and fiscal justice.

In addition to the fact that the field lacks a definition or a veritable constitution, the analysis of the stated benefits, challenges and limitations of innovative financing for education has exposed some internal contradictions. Namely, there are three fundamental tensions that undermine the potential benefits claimed by innovative financing for education: the lack of empirical research, the large challenges of implementation and the risk it poses to education.

First and most importantly, there is a discrepancy in the improvement of financing, a pivotal aspect of innovative financing for education. On one hand, authors claim that innovative financing mechanisms can address the education funding gap. On the other, there is little or no evidence available that supports this. Innovative financing mechanisms are complex, costly and time-consuming to design and implement, and they can provoke a crowd-out of public investment. This can potentially result in little or no additional funding for education.

Second, the challenges of implementation aggravate the lack of evidence. International and national regulations make implementing innovative financing for education difficult – either due to the lack of required regulations or the presence of regulations that prevent the implementation of certain mechanisms. Political barriers and controversies can also delay or prevent the adoption of innovative financing for education initiatives. Finally, many low-income countries might lack data and management structures to implement innovative financing mechanisms and therefore might not even attract the necessary partners. Thus, innovative financing for education presents itself as a hard-to-implement solution that can result in no additional funding or could even further weaken the structures that are in place and replace them with feeble ones that rely on market preferences.

Third, there is a contradiction between the claim of promoting improvements and innovation in education and the risk of the harmful side effects of increasing inequality and damaging the right to education. As an aggravator, there is evidence that reforms focused on outcomes, which depend on large-scale assessments and high-stakes testing, tend to lead to curriculum narrowing, student selection in schools and the consequent exclusion of the most in need, and increases in inequality between and within schools (Au, 2007, 2009, 2016; Au & Ferrare, 2015; Darling-Hammond, 2007; Ravitch, 2016; Sahlberg, 2016; Saltman, 2012). The so-called "innovation" in education practices is questionable when educators have tried the advocated practices in education that have come from the market for about three decades without the desired and claimed benefits. Thus, there is tension between financial and social risks. While the financial risks might discourage private investors and proponents of innovative financing for education might look for ways to manage it, the education community bears the social risks. The possible social consequences, such as harming social justice and exacerbating social and education inequality, are serious risks that also require management and should be at the centre of the innovative financing debates in education.

The systematic literature review points to some gaps that further research should address. The research over the emerging experiences of innovative financing for education needs to empirically investigate the potential benefits that proponents of innovative financing for education envision. However, evaluations should not only monitor the education outcomes in a narrow way but also consider the broader social and financial dynamics and effects related to innovative financing for education – in other words, monitor the impact on equity and financial additionality leveraged by the innovative financing for education solution studied. This implies the inclusion of an ethical dimension in such studies and the debate on education financing. In spite of the many ethical tensions surrounding some innovative financing mechanisms, there is a lack of discussion of them. Authors do not recognise the ethical issues linked to and impact of testing mechanisms on students, of having control groups that are deprived of programmes, of prioritising evaluation over the dissemination of good practices (referred to as the spill-over effect, which should be contained), of involving for-profit investors in public affairs, and many others. Advocates of the proposed mechanisms sometimes brush off resistance as simply being ideological, whilst claiming that innovative financing is a technical (that is, non-ideological) matter. Studies that can tackle these tensions and evaluate both the financial and development (including ethical and equity) aspects will support the advancement of this field in a much-needed direction.

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