New funding flows

Innovative finance for education during and after COVID-19

JET EDUCATION SERVICES
THINK EDUCATION. THINK JET.

BERTHA CENTRE
UCT GRADUATE SCHOOL OF BUSINESS

IMPACT INVESTING
SOUTH AFRICA

Standard Bank
tutuwa
COMMUNITY FOUNDATION

Published by JET Education Services and the UCT GSB Bertha Institute for Social Innovation and Entrepreneurship, July 2020

JET Education Services
The Education Hub
6 Blackwood Avenue, Parktown, Johannesburg, 2193
+27 11 403 6401
info@jet.org.za www.jet.org.za
JET Education Services
@JETEDServices
@JETEDService

UCT GSB Bertha Centre for Social Innovation and Entrepreneurship
Graduate School of Business, University of Cape Town
8 Portswood Road, Green Point, Cape Town, 8005
+27 21 406 1524
berthacentre@gsb.uct.ac.za

Thematic lead: Susan De Witt

Co-lead: Tatenda Nyamuda

Peer reviewers: Louise Savell and Nathalie Vereen

Researchers: Umar Farouq; Melikhaya Makhence; Thato Babusi; Phouzet William Mehale; and Julia Oosthuizen.

CONTENTS

Acronyms and abbreviations	4
Foreword	5
Innovative finance for education during and after COVID-19	7
RECOMMENDATION 1: Address short-term health and safety funding requirements using a COVID-19 bond or loan structure	8
RECOMMENDATION 2: Create portfolio of social or education bonds to address long-term infrastructure and ICT requirements according to policy commitments	10
RECOMMENDATION 3: Centralise learning through broadcasting over the course of this full school year	12
RECOMMENDATION 4: Develop comprehensive financing solution for an ICT end-to-end solution where investment terms are conditional on learning outcomes	14
RECOMMENDATION 5: Use NGOs and SEs as incubators for the public sector system and not just as delivery partners	16
RECOMMENDATION 6: Capitalise on momentum in the market to build a Foundation Phase literacy and numeracy outcomes fund	18
RECOMMENDATION 7: Explore collaborative models to test and support alternative pathways to initial teacher education	20
RECOMMENDATION 8: Fund accelerated skills development programmes for first-time job market entrants using collaborative funding models	22
RECOMMENDATION 9: Establish an Innovative Finance Unit or partnerships in the market to institutionalise learnings and guide future developments	24
Appendix: Potential and actual local and international impact investors	26

ACRONYMS AND ABBREVIATIONS

AfDB	African Development Bank
ASISA	Association of Savings and Investment South Arica
BASA	Banking Association of South Africa
B-BBEE	broad-based black economic empowerment
BRICS	Brazil, Russia, India, China and South Africa
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa
DFI	development finance institution
DFID	Department for International Development (UK)
DHET	Department of Higher Education and Training
DSI	Department of Science and Innovation
ECD	early childhood development
EGRS	Early Grade Reading Study
ESG	environmental, social and governance
GPE	Global Partnership for Education
HEI	higher education institution
IADB	Inter-American Development Bank
ICMA	International Capital Markets Association
ICT	information and communications technology
IFFfE	International Finance Facility for Education
IISA	Impact Investing South Africa
IPASA	Independent Philanthropy Association of South Africa
ISASA	Independent Schools Association of Southern Africa
ISFAP	Ikusasa Student Financial Aid Programme
JSE	Johannesburg Stock Exchange
LMIC	low and middle income country
M&E	monitoring and evaluation
MDB	multilateral development bank
NASCEE	National Association for Social Change Entities
NECT	National Education Collaboration Trust
NGO	non-governmental organisation
NT	National Treasury
ODA	official development assistance
PPP	public–private partnership
PSET	post-secondary education and training
REIPP	Renewable Energy Independent Power Producers Programme
RESEP	Research on Socio-Economic Policy, University of Stellenbosch
SABC	South African Broadcasting Authority
SACE	South African Council for Educators
SDGs	Sustainable Development Goals
SEs	social enterprises
SETAs	sector education and training authorities
SMEs	small and medium sized enterprises
TIA	Technology Innovation Agency
TICZA	Teacher Internship Collaboration South Africa
TVET	technical and vocational education and training
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
UNISA	University of South Africa
WASH	water, sanitation and hygiene

FOREWORD

On 13 March 2020, during the early onset of the COVID-19 pandemic in South Africa, JET Education Services (JET) released the special *JET Bulletin*, Extending the capacity of governments and communities to save lives: The role of education systems in responding to COVID-19 and other threats. This was two weeks before lockdown measures in South Africa were to commence, and the education sector in South Africa was wholly unprepared for what lay ahead of it. Of course, South Africa was not unique in this precarious situation, with many countries across the world, including many first world countries, struggling to come to grips with the scale and potential impact of the crisis they were edging towards.

It was also at this moment, as we were contemplating the role JET could play during this unprecedented time, that the notion of a collaborative educational research response emerged in a rather spontaneous manner. The preliminary paper set the stage for JET to announce the start of the 'Researchers' Bootcamp', #OpenupYourThinking, on the eve of South Africa's lockdown on 26 March 2020. Initially planned to be conducted across six thematic areas, the bootcamp soon grew to eight, then 10 and later 12 themes, comprising over 120 volunteer researchers (mostly below the age of 35) recruited from across South Africa and, in some cases, South Africans based in China, Malaysia and other parts of the world. The volunteers were paired with senior established researchers, or theme leads, from key disciplines and were further supported by peer reviewers from local education departments, sector education and training authorities (SETAs) as well as a good number of international peer reviewers. With a strong activist leaning to the process, the key focus was on finding real-time solutions to the pressures being placed on education systems by COVID-19 using an evidence-based approach. This coordinated approach allowed for innovative, fit-for-purpose and agile research models and strategies to be formulated, while providing JET and other organisations with a platform to contribute real-time inputs towards other national education processes. The twin focus on agile research and the capacity building of the group of young researchers, besides keeping them meaningfully occupied during the lockdown period, soon evolved into substantive research being done across the 12 themes – in some cases extending well beyond the five-week period during which the bootcamp took place.

The problem in South Africa was that our education system – notably the early childhood development (ECD), schooling, and technical and vocational education and training (TVET) sectors (perhaps less so in the case of higher education) – was functioning far from optimally before the pandemic. And so not only were we caught on the backfoot to start with but, more concerningly, the dominoes were lined up for the deepening of fault lines of inequality, and not much could be done to mitigate this.

This is where this publication and the work that has led to its release come in. Susan de Witt, based at the UCT GSB Bertha Centre and co-leading the secretariat for Impact Investing South Africa led the research team for Theme 12, 'Innovative finance for education during and after COVID-19'. Tatenda Nyamuda supported the writing and Nathalie Vereen (JET Education Services) and Louise Saville (Social Finance UK) peer reviewed the paper. Their work culminated in this important contribution you are reading today.

The researchers' bootcamp methodology has been adopted by the Southern African Development Community (SADC), with collaboration from the UNESCO Regional Office in South Africa, Rhodes University and the Open Society Foundations. Take-up of the methodology has expanded further to the entire Commonwealth, with collaboration from the Commonwealth Secretariat; and soon, back in South Africa, it will form the basis of an inter-association collaboration focusing on monitoring and evaluation. This combination of a methodology that is demonstrably fit for purpose and key research outputs like this publication certainly provides hope for a sector under duress. The work of volunteers and activists, both young and established, and the thoughtful engagement of decision-makers in government and relevant development agencies bode well for an innovative future wherein the deepening of inequality is slowed down, and ultimately reversed.

We can 'build back better' during and after the COVID-19 pandemic, but let's do this in an evidence-based manner that relies on deep collaboration across government and the non-profit and private sectors. Susan de Witt and her fellow researchers have set an important benchmark for the rest of us to follow.

James Keevy
September 2020

INNOVATIVE FINANCE FOR EDUCATION DURING AND AFTER COVID-19

The funding needs in the education sector, both during and after the pandemic, far surpass the government's ability to pay for them. This is coupled with an already strained and inefficient system which has prioritised access over quality and equity for the last few decades. The fault lines are showing in the poor and unevenly distributed learning outcomes, even in comparison with less resourced countries.

There is a need to increase both the quantum of capital in the short term and the effectiveness of that spend in the long term.

Innovative finance is one of a growing set of tools and strategies that are being developed to harness private capital to address the United Nations (UN) Sustainable Development Goals (SDGs). Governments are supporting these private markets to grow as it is within their best interests to do so. These methods are mobilising additional resources from traditional and non-traditional sources, increasing the effectiveness, efficiency and equity of current funding, stimulating innovation in delivery, and maintaining the education policy profile during the health crisis.

Current critical needs in the basic education and post-secondary education and training (PSET) sub-sectors include enhanced health and safety; and centralised and distributed high- and/or low-tech at-home learning modalities. Longer-term needs during the recovery phase follow pre-COVID-19 priorities in terms of infrastructure and ICT as well as clear learning goals, such as improved literacy and numeracy, and improved teacher capacity.

The current funding flows of ±R350bn come predominantly from the public purse, although the 15% from official development assistance (ODA) is a reasonable amount. It far exceeds that from the donor community, which is made up of mainly corporate foundations who contributed ±R5bn in 2019. The global/local impact investment community has been slow to invest, with between 1–5% of SDG-aligned investment going into the sector.

This report makes the case for:

1. A coherent policy approach by establishing an Innovative Finance Unit;
2. Increasing investment in public schools through establishing a development bank, issuing education bonds and creating a comprehensive ICT funding strategy; and
3. Harnessing the skill and capacity of non-state actors by driving performance-based funding, accelerating growth of the impact investing market and forming high-value collaborations between the public and private sector.

In the next section, we outline a set of nine clear recommendations that can be explored further.

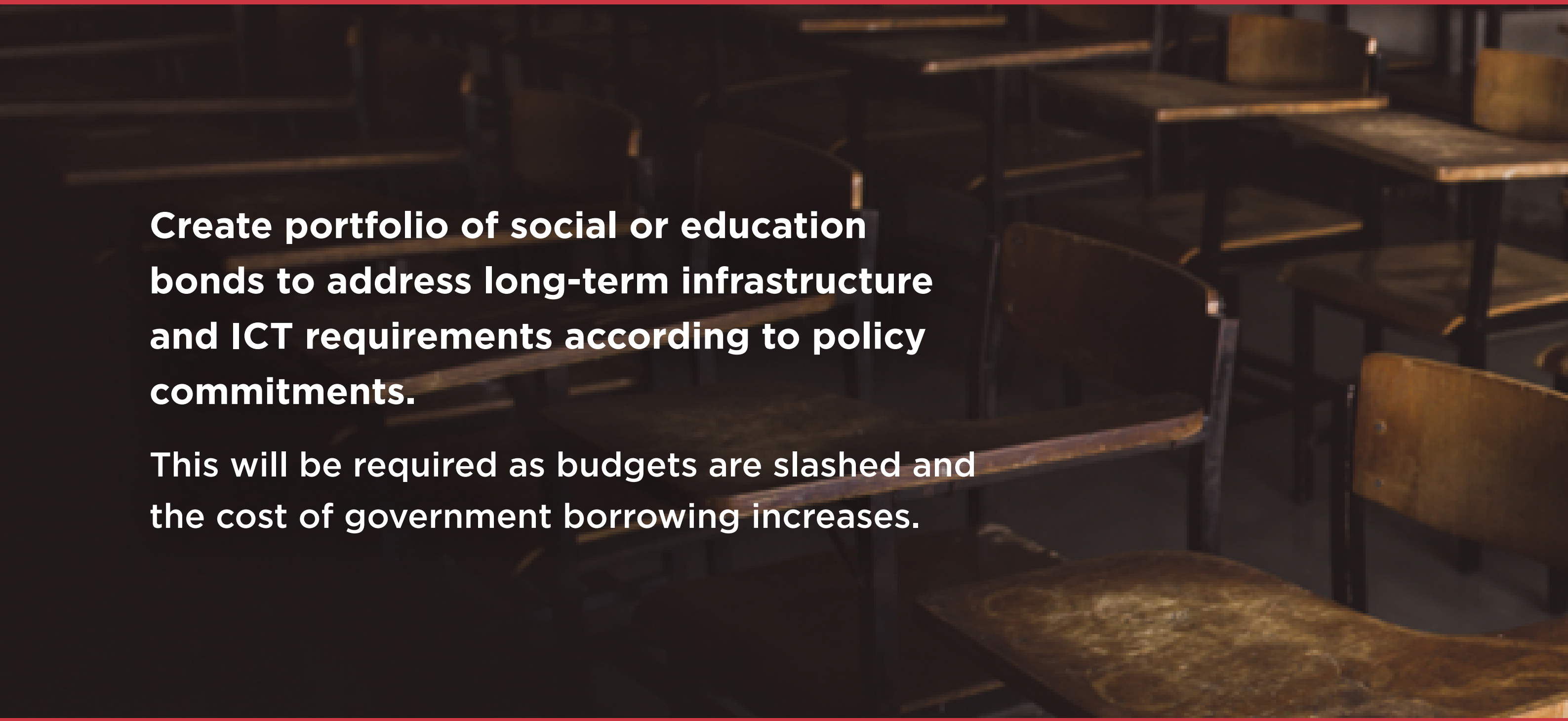
Address short-term health and safety funding requirements using a COVID-19 bond or loan structure.

This solution can be used if government requires bridging finance or short-term liquidity.

FUNDING NEED	• WASH facilities in >3 000 schools and repair of 1 000 vandalised schools (R5.6bn)
INNOVATIVE FINANCING SOLUTION	• Create blended structure, if necessary, which could include government or philanthropic guarantee. Debt investors need investment grade guarantees (BBB) not necessarily A to AAA (like the multilaterals used to give them). • Link coupon rate to ESG or impact metrics, which could include outputs or outcomes (including adequate quality facilities within a specific timeframe). Preference given for shared metrics.
PARTNERS	• Consider working with the Solidarity Fund, whose mandate sits in both the immediate health and food scarcity responses. • Departments of Health and Public Works.
INVESTORS	• Start bond portfolio with support of the DBSA. • Attract local institutional investment if scale required. • Consider applying for multilateral support, if possible, through AfDB, BRICS, etc.

RECOMMENDATION 1

IMPACT	• Adhere to known and accepted bond standards such as the ICMA. • Consider adhering to the draft UNDP Practice Assurance Standards for SDG bonds to familiarise with the framework in advance of certification. • Ensure transparent ESG/impact measurement and management.
POTENTIAL VOLUME OF ADDITIONAL FUNDING	• Transaction sizes should be greater than R50m and preferably closer to R200m to attract institutional investment or corporate and investment banking.
REPLICABILITY AND SCALABILITY	• Use as precursor for further social or education bonds.
COST-EFFECTIVENESS	• Regulator to consider fast-tracking bond issuance.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• Limited by procurement timelines. Procure through the Solidarity Fund, with arrangements to reimburse depending on the repayment structure.



Create portfolio of social or education bonds to address long-term infrastructure and ICT requirements according to policy commitments.

This will be required as budgets are slashed and the cost of government borrowing increases.

FUNDING NEED	• R700bn over 10 years (not all education related).
INNOVATIVE FINANCING SOLUTION	• Partnership with DFIs (e.g. the DBSA) to develop and expand portfolio (e.g. ASISA working with members and DFIs on student housing). • Issuance can be either sovereign, sub-sovereign or private. • Move from blended structure to vanilla structure. • Link coupon rate to social outputs and outcomes. • Green outcomes to form part of listing requirements to be able to tap into climate finance pools, particularly in Europe. • Diversification across portfolio of bonds acts as a de-risking mechanism.
PARTNERS	• Government: a long-term policy horizon is required to interest investors, similar to the REIPP, which attracted long-term investment in the local market. • The JSE has listing requirements for infrastructure projects – enlist support with taxonomy. • Build capability in the DBSA (or other development institute) to build project pipeline over the long term. • Consider the Guarantors/African Guarantee Fund if guarantees are necessary.

RECOMMENDATION 2

INVESTORS	• Concessionary capital from government, large international philanthropies or education multilaterals (such as potential new IFFfE]. • Local pension funds seeking ESG/impact opportunities – liquidity is one of the biggest drivers. • Consider applying for multilateral support if possible, through AfDB, BRICS, etc. • International investors seeking SDG investment grade in emerging markets.
IMPACT	• Track learning outcomes as they correlate with infrastructure upgrades to better understand the benefit. • Adhere to known and accepted bond standards such as the ICMA. • Consider adhering to the draft UNDP Practice Assurance Standards for SDG bonds to familiarise with the framework in advance of certification.
POTENTIAL VOLUME OF ADDITIONAL FUNDING	• Transaction sizes should be greater than R50m and preferably closer to R200m to attract institutional investment or corporate and investment banking.
REPLICABILITY AND SCALABILITY	• Aggressively pursue standardisation as the portfolio is built.
COST-EFFECTIVENESS	• Economies of scale.

Centralise learning through broadcasting over the course of this full school year.

This can be done through TV, radio and the distribution of printed materials for the purposes of supporting catch-up and in case of further lockdown. This solution can be funded through strategic local and international corporate partnerships.

FUNDING NEED	• The SABC is struggling financially so its ability to buy and create content is limited. Currently 5% of curriculum is available through these channels. The SABC partnered with DStv during 21-day lockdown but was only available to subscribers. There is a need to increase the amount of content, especially home language content.
INNOVATIVE FINANCING SOLUTION	• Partner with local and international corporates to acquire and create content, particularly with DStv (MultiChoice could potentially support as a gesture of goodwill after digital migration misunderstanding). • If the local private sector is not prepared to be supportive, then international broadcasters could be approached if content is in English. • Content to be screened on the SABC, not just on paid channels.
PARTNERS	• The SABC as a key partner – create multiple channels for different age groups (and teacher training) that can be accessed via live broadcast or digital streaming on demand. • Local corporates, particularly. • International broadcasters. • UNICEF/UNESCO/GPE are collating material for widespread distribution, which should be investigated for contextual relevance – likely to be funded by large philanthropic donor if accessed through those channels.

RECOMMENDATION 3

INVESTORS	• Part of Social Economic Development (B-BBEE).
IMPACT	• The impact of ongoing provision of material in this manner is not fully known. Track (through surveys or quasi-experimental studies) the effect of this material on learning outcomes.
REPLICABILITY AND SCALABILITY	• Once content has been procured or developed, it is available until it becomes obsolete and can be played multiple times over the course of a cycle.
COST-EFFECTIVENESS	• Cheaper alternative to online curriculum delivery, which is not available to 80% of South African households.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• Can be set up within one month (as has been demonstrated in other countries).

Develop comprehensive financing solution for an ICT end-to-end solution where investment terms are conditional on learning outcomes.

A phased approach is required based on capacity development at every level, and which enables strategic evaluation and course correction.

FUNDING NEED	• The DBE considers an ICT strategy to be one of the key content delivery options during the interrupted school year – expediting roll-out of tablets with learning and teaching support materials starting with poorest schools (multi-grade/rural, etc.), although the DBE does not consider a tablet to be a strategy. • The DHET has not announced similar plans, although more affluent universities have been supplying devices and data to students. • Provinces have not allocated additional funding for an ICT roll-out, but will expedite existing plans.
INNOVATIVE FINANCING SOLUTION	• The NECT identified critical success factors which can be woven into a comprehensive financing package. • Conditional funding is essential to ensure that learning outcomes remain central. This can range from performance bonuses, to results-based finance, to impact bonds. The key lesson from previous attempts at edtech roll-out is around the capacity to utilise devices. If this does not happen, then the device is expensive and useless. • Requires patient, flexible investment because of long time horizons. • Funded through a mix of education bonds (hardware), outcomes funds (teacher development) and discounts from the private sector for bandwidth for learners/students for the remainder of 2020 (as a gesture of goodwill after Competition Commission findings last year, in particular on Vodacom and MTN). • Challenge funds can be used to solve specific issues such as development and the implementation of standardised assessments.
PARTNERS	• Project Isizwe[1] – internet hotspots in low-income areas – creative ways of delivering lower-cost connectivity at scale using existing infrastructure. • Telecoms companies. • DFIs (the DBSA as part of education portfolio) as well as African (AfDB/BRICS) and multilateral (World Bank/potential IFFfE) partners.

1 https://projectisizwe.org/about-us

RECOMMENDATION 4

INVESTORS	• Investor types depend on which aspect of the campaign is being funded. • Low risk – asset-backed lending could attract DFIs/banks/ commercial investors. • Pilot programmes to test learner outcomes could be funded by more philanthropically minded or catalytic funders. • Teacher training could be built into capacity development and HEI programmes. • Data could be subsidised through the private sector.
IMPACT	• Key areas to address which could inform an incentive structure: (i) teacher professional development; (ii) content curation; (iii) bandwidth; (iv) security; and (v) integration.
REPLICABILITY AND SCALABILITY	• Each province/metro/town/city is different in terms of existing capacity, resources, language, etc., so lessons will need to be meticulously recorded. Not one size fits all.
COST-EFFECTIVENESS	• Cost-effectiveness depends predominantly on effectiveness. • Government should be able to negotiate for economies of scale. • Government should ensure that they are not tied into long-term contracts on the back of short-term loss leaders (especially with companies wanting to take advantage during crisis). • All procurement should be completely transparent, and the public given the opportunity to scrutinise decisions on devices, content and connectivity.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• Because procurement timelines are limited, work with provinces to support roll-out using conditional terms, and aggressively monitor outcomes.

Use NGOs and SEs as incubators for the public sector system and not just as delivery partners.

They bring flexibility, innovation and additional funding streams which can be harnessed to align with long-term public sector objectives. Support them in the short term by extending flexible funding terms and speeding up deployment. Support them in the long term through three-year, conditional and flexible contracting terms and by using policy levers to enhance non-traditional investment.

FUNDING NEED	• Short-term funding needs include cash/liquidity to pay salary and overhead expenses. • Long-term needs include sustained, adequate financing at affordable rates.
INNOVATIVE FINANCING SOLUTION	• Follow example of organisations like the Ford Foundation and IPASA to accelerate the administration of existing grants and create flexibility around activities/outputs for existing grantees. • Enable NGOs to pivot in order to address COVID-19-related community issues and provide additional funding if appropriate. • Support the scale and sustainability of promising NGOs. Usually these organisations survive from year-to-year but, if supported, can become much more useful to the eco-system. That support could include longer-term contracts which add risk and so make them conditional on results. Move funding between a cohort of NGOs depending on results, eventually weeding out those who are not delivering. • Provide additional core funding for M&E and management to enable organisations to run data-driven programmes. This funding can be raised from donors specifically for capacity development. • Support policies that enable private sector investors to finance NGOs with products such as retail charity bonds, social impact bonds, early-stage equity investment and wholesale funds. • This policy support could be in the form of providing concessionary capital to wholesale funds to support education verticals; supporting edtech models through the DSI/TIA, and student finance models such as ISFAP; and providing outcomes funding for performance-based instruments, etc.
PARTNERS	• NASCEE, TICZA: engage public–private collaborations to harness core capabilities of different stakeholders. Work closely with these representative bodies to identify areas where NGOs/SEs could drive innovation. • The DSI/TIA to create effective contextual edtech business models. • Market builders such as the IISA, National Business Initiative, ASISA, Asset Owners Forum, BASA, etc.

RECOMMENDATION 5

INVESTORS	• Attract non-traditional investors such as private equity/venture capital funds, banks, enterprise supplier development funds, DFIs to fund early and growth stage SEs. • Attract international investment funding, as edtech models especially have no borders.
IMPACT	• Collect standardised and bespoke output/outcome/impact data to be able to compare and contrast. • Leveraging additional capital will increase pool of capital available to reach more learning outcomes.
REPLICABILITY AND SCALABILITY	• Government can support market building in their capacity as: (i) facilitator (create innovative finance unit and create strategic goals associated with impact investment, which could include unlocking of dormant assets for SDG-aligned investment); (ii) market participant (as buyer of social outcomes or provider of concessionary capital); and (iii) regulator (by providing fiscal incentives or legal reform). • The private market can use these levers to create high-impact enterprises and sustainable NGOs to deliver alongside the public sector with respect to national development goals.
COST-EFFECTIVENESS	• Initial input which will leverage significant amounts from non-traditional funders and investors.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• There is incredible momentum in the market, especially off the back of the current crisis. The time to push this agenda is now.

Capitalise on momentum in the market to build a Foundation Phase literacy and numeracy outcomes fund.

An initial market scoping has ratified the use case for programmes, such as the EGRS, PSRIP and Funda Wande, that require capital to scale.

FUNDING NEED	• ±R1.3bn required on annual basis for the next 10 years to institutionalise, which is equivalent to 0.5% of the basic education budget. The system cannot currently absorb that funding, but that capacity can be built-up over a few years through close partnership with public and civil society sectors. The outcomes fund can provide one income stream (USD50m over four years which is ±R250m pa) to complement government spending.
INNOVATIVE FINANCING SOLUTION	• An outcomes fund is a funding mechanism that enables several outcomes-based contracts to be developed and supported in parallel, under a common framework. This speeds up the process and enables learning between multiple contracts. These tools are better suited to harnessing capacity of non-state providers to improve outcomes, rather than as structures to operate within the public sector. Nevertheless, they can be used to scale and institutionalise public sector-driven strategies in a number of ways.
PARTNERS	• Key development partners include the DBE, National Treasury and NECT. • Key civil society partners include teacher unions and NASCEE. • Key academic partners include JET Education Services, RESEP and the UCT GSB Bertha Centre. • The EOF, which has provided development funding for inception and a scoping report, are committed to providing additional technical support plus fundraising capacity. • The International Impact Bond Working Group – specifically with an ‘outcomes fund accelerator’ to provide technical support as well as a link to international donors and investors and large investment funds.

RECOMMENDATION 6

INVESTORS	• A full list of local and international donors and investors has been included in Table A. • Private and corporate donors can fund outcomes alongside the DBE/DSI. • Investors provide risk capital/bridging finance between implementation and results.
IMPACT	• Resolve literacy and numeracy binding constraint through large-scale multi-stakeholder initiative to address issues with full and accountable funding for a committed number of years at scale. • Align all resources on achieving this goal, which will have the most significant knock-on effect of any other.
REPLICABILITY AND SCALABILITY	• An outcomes fund can continue to attract international investment if it starts to show results. If institutional change is demonstrated, it could become the poster child for funders who can commit to long-term contributions. • Institutionalise contracting methodology if coaching support continues to be provided by NGOs, and move to a rate card to drive down price. • Alternatively, use the data-driven performance management methodology honed during the life of the outcomes fund to seed and grow best practice internally. • Timebound usage of outcome fund development can be considered for the resolution of other wicked problems.
COST-EFFECTIVENESS	• High transaction costs to set up, but economies of scale will be created through shared M&E, contracting and shared investor relationships.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• It will take a year to come to market, depending on senior political support.

Explore collaborative models to test and support alternative pathways to initial teacher education.

Use Teacher Internship Collaboration South Africa (TICZA) as an operational example on which to design future public-private collaborations which can be instigated and/or led by the DBE/DHET to address other key issues.

FUNDING NEED	• TICZA will commence in phases with the purpose of quantifying the impact and testing the economic viability of scaling an alternative path to distance learning for initial teacher education. Currently in Phase 1, which includes the formalisation of institutional partnerships, mapping of sectoral capacity, development of shared M&E framework and designing programmatic variations to test the most cost-effective model. Phase 2 will involve implementation and the piloting of variations.
INNOVATIVE FINANCING SOLUTION	• De-fragment the funder landscape and align against common outcome (similar to that which the NECT is doing, but focusing on a single issue with the support of highly engaged and knowledgeable donors). Much work has been done by each individual organisation and funder named here, but all have expressed interest in combining resources to see whether scale is achievable. • De-fragmentation accompanies high levels of accountability through use of shared M&E frameworks and mutual transparency/comparability. • Funding streams can be diversified when moving to scale. Diversified funding streams involve official support from Funza Lushaka, private investment through performance-based instruments and the use of SEs.
PARTNERS	• Distance learning universities or universities with expertise in initial teacher education models (UNISA/NWU/UJ) and the DHET as custodian of those institutions. • The DBE and public schooling system, through which this programme would scale. • Teacher unions and SACE (align with NASCEE/Bridge and internship NGOs (Global Teacher Institute/Save the Children/ISASA, etc.). • Private sector organisations who bring financial and investment expertise to investigate collaborative and blended funding model in order to sustain and scale if the economic case is made.

RECOMMENDATION 7

INVESTORS	• A list of education-focused investors has been outlined in Table A. There is current interest from the Zenex Tutuwa Community Trust, First Rand Foundation, Absa Foundation, Eyethu Community Trust and Maitri. • Capitalise on ODA appetite to support teacher training programmes.
IMPACT	• Teachers are the most critical component of a functioning school system. Currently 50% of student teachers come through distance learning universities, with an average throughput of 10 years. Internship has been underfunded by the DBE funding mechanisms (including Funza Lushaka) because of poor quality. • Internship support has proven to improve content knowledge and pedagogical capabilities along with improving retention and leadership capacity in the sector. If critical mass is achieved, it can have significant effect over a 10-year period. Aim to ensure 25% of students access internship opportunities.
REPLICABILITY AND SCALABILITY	• Suggesting an alternative route to education is a radical proposition even though it is happening already at small scale, supported through the Funza Lushaka bursary scheme (Save the Children, Global Teacher Initiative, ISASA). Internships through public schools have secondary effects on the functioning of the school (additional support) and the student teacher. The system becomes more integrated and aligned.
COST-EFFECTIVENESS	• Innovation-risk borne by private donors. Cost-effectiveness to be determined before institutionalising.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• COVID-19 permitting, implementation can happen from 2021. Initial commitments from donors for Phase 1 partially secured.

Fund accelerated skills development programmes for sectors with high absorption capacity for first-time job market entrants using collaborative funding models where risk is shared between the public and corporate sectors.

FUNDING NEED	• The concept of funding accelerated skills acquisition programmes for skilled and semi-skilled workers tested through the Bonds4Jobs provides a strong model on which to base further skills development programmes. With TVET expansion under consideration, this alternative should be front of mind.
INNOVATIVE FINANCING SOLUTION	• A combination of funding required from corporates, SETAs, government and investors. • Bonds4Jobs has been set up as a pay-for-performance model – the infrastructure has been set up to scale (in terms of intermediary platform, investment platform, M&E backend), although this may not be the only platform government wants to support. Neither does this exclude other funding models outside of performance-based funding. • However, the principles remain valid for other providers to enter the market – those principles include: accelerated learning techniques; sharing risk between the public and private sector; and building marketable skills and close corporate relationships.
PARTNERS	• TVET colleges which bring existing institutional knowledge and infrastructure to bear on scaling technical curriculums and learning programmes. • Government, especially the Office of the Presidency where youth unemployment is one of the major political drivers. • SETAs driven by sectoral priorities. • Companies as delivery partners, investors, outcome funders and employers. • Non-profits, such as Harambee, who bring innovation and rigour to programmatic delivery.

RECOMMENDATION 8

INVESTORS	• A long list of international and local investors in Table A1. • Yellowwoods more than tripled their raise in the second phase of Bonds4Jobs, indicating a high appetite in the market for this type of investment. • Concessional funders have demonstrated a willingness to shoulder initial risk – it can be assumed that they will do so again. • Capitalise on ODA appetite to support employability programmes.
IMPACT	• Considering current functioning of TVET colleges, this provides a cost-effective alternative that ultimately aims to include TVET colleges in a delivery model. With youth unemployment at an effective level of >40%, rapid effective skills development needs to be combined with economic growth to create both jobs and employable candidates in order to avoid social collapse.
REPLICABILITY AND SCALABILITY	• Institutionalise programmes though TVET colleges where costs have already been sunk and political appetite remains. • Ensure ongoing corporate partnerships to ensure relevance and absorption in the market.
COST-EFFECTIVENESS	• According to an expenditure review, a single TVET graduate currently costs the system ±R1m because of high dropout rates. The alternative model has produced employable graduates at less than 10% of that cost. The intent is to increase the number of colleges and students in the TVET system, but this should not be done without considering leaner, more effective models where graduates have a higher chance of gaining employment after completion.
SPEED AND TRANSACTION COST OF IMPLEMENTATION	• Build on existing platforms to speed process. • Take control of the scaling of these types of programmes by building a longer-term strategy around transference to TVET colleges.

Establish an Innovative Finance Unit or partnerships in the market to institutionalise learnings and guide future developments.

Build capacity in government to attract alternative and results-driven forms of funding.

FUNDING NEED	• Knowledge and market infrastructure to continue and expand on the work being undertaken in various pockets by private and public benefit organisations.
SOLUTION	• It could be situated in (i) government (e.g. the DBE/DHET/NT); (ii) an existing PPP (e.g. ISFAP/NECT); (iii) research organisations (e.g. the UCT GSB Bertha Centre/JET Education Services); or (iv) a network of affiliated organisations between whom work can be distributed or partnerships could develop. • Functions would include (i) providing a repository of information; (ii) research capabilities; (iii) central and provincial capacity-building; (iv) strategic multi-sectoral convenings; (v) incubation of high-quality ideas; and (vi) the evaluation of solicited and unsolicited private sector initiatives. • The hub would also serve as a knowledge hub, which would function to reduce transaction costs by making available template and exemplar contracts, data on market activity, peer learning groups, etc.

RECOMMENDATION 9

PARTNERS	• There would most likely be appetite in international donor funding circles to support this, considering the focus of market-based solutions in the strategy of all development agencies and DFIs.
SPEED AND COST OF IMPLEMENTATION	• Depending on the nature of the form, this could be established within a 3–12-month period and set up (i) as an informal coalition during the crisis to specifically address emergency funding gaps, or (ii) to be able to think through funding options on a long-term strategic basis. The former could provide a precursor to the latter.

APPENDIX: POTENTIAL AND ACTUAL LOCAL AND INTERNATIONAL IMPACT INVESTORS

Table A: Potential and actual local and international impact investors

Type	Potential investor	Likelihood of accepting below market rate financial return
Impact investor – finance first	Public Investment Corporation	None
	Ashburton Investments	Low
	FutureGrowth Asset Management	Low
	Yellowwoods Investments	Low
	Goodwill Investments	Low
	Mergence Investment Managers	Low
	UBS Optimus Foundation	Medium
	Carlyle	Low
	Metier	Low
	Hollard	Low
Impact investor – impact first	Old Mutual Schools Fund	Low
	Business Partners SME-Education Fund	Medium
	Injini Edtech Fund	Medium
	Momentum Student Accommodation Fund	Medium
	Nedbank Legacy Partners	High
	Innovation Edge	High
Development finance institution	African Development Bank	None
	World Bank	High
	International Development Corporation	Medium
	DBSA	Medium

Type	Potential investor	Likelihood of accepting below market rate financial return
International agencies	USAID	High
	UNICEF	High
	DFID	High
	SECO	High
Local foundations	FNB	High
	Zenex Foundation	High
	MTN Foundation	High
	Naspers	High
	Hollard	High
	Absa Foundation	High
	Old Mutual Foundation	High
	Sanlam	High
	Standard Bank Tutuwa Community Trust	High
	Kagiso Trust	High
International impact investors	LGT Venture Philanthropy	High
	The Rockefeller Foundation	High
	UBS Optimus Foundation	Medium
	Gates Foundation	Medium
	Pearson Affordable Learning Fund	Low
	Prodigy Finance	Low
	Education Outcomes Fund	High

JET EDUCATION SERVICES
THINK EDUCATION. THINK JET.

BERTHA CENTRE
UCT GRADUATE SCHOOL OF BUSINESS

IMPACT INVESTING
SOUTH AFRICA

Standard Bank
tutuwa
COMMUNITY FOUNDATION