International Finance Facility for Education: Proposed Participation by the Asian Development Bank

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### ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Meaning</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>COVID-19</td>
<td>coronavirus disease</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>FPF</td>
<td>financing partnership facility</td>
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<td>G20</td>
<td>Group of Twenty</td>
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<td>IFFEd</td>
<td>International Finance Facility for Education</td>
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<td>LMIC</td>
<td>lower middle-income country</td>
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<td>MDB</td>
<td>multilateral development bank</td>
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<td>SDCC</td>
<td>Sustainable Development and Climate Change Department</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>US</td>
<td>United States</td>
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### NOTE

In this report, “$” refers to United States dollars.
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<tr>
<th>Role</th>
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<tr>
<td><strong>Vice-President</strong></td>
<td>Woochong Um, Managing Director General and Officer-in-Charge, Office of the Vice-President for Knowledge Management and Sustainable Development</td>
</tr>
<tr>
<td><strong>Director General</strong></td>
<td>Bruno Carrasco, Sustainable Development and Climate Change Department (SDCC)</td>
</tr>
<tr>
<td><strong>Facility Manager</strong></td>
<td>Sungsup Ra, Chief Sector Officer, SDCC</td>
</tr>
<tr>
<td><strong>Team leaders</strong></td>
<td>Brajesh Panth, Chief, Education Sector Group, (SDSC-EDU), SDCC</td>
</tr>
<tr>
<td></td>
<td>Jacob Sorensen, Director, Partner Funds Division (SDPF), SDCC</td>
</tr>
<tr>
<td><strong>Team members</strong></td>
<td>Ananya Basu, Director, Operations Planning and Coordination Division, Strategy, Policy, and Partnerships Department; concurrently Director, Social Sectors and Public Sector Management Division, Pacific Department</td>
</tr>
<tr>
<td></td>
<td>Setijo Boentaran, Assistant Controller, Accounting Division, Controller’s Department (CTL)</td>
</tr>
<tr>
<td></td>
<td>Asif Cheema, Director, Urban and Social Sectors Division, East Asia Department</td>
</tr>
<tr>
<td></td>
<td>Dennis Eucogco, Principal Investment Specialist, Guarantees and Syndications Unit (OPSD-GSU), Private Sector Operations Department (PSOD)</td>
</tr>
<tr>
<td></td>
<td>Aziz Haydarov; Unit Head, Project Administration; Social Sector Division; Central and West Department</td>
</tr>
<tr>
<td></td>
<td>Olimpia Henriques Da Silva, Senior Treasury Specialist, Financial Policy and Planning Division, Treasury Department</td>
</tr>
<tr>
<td></td>
<td>Tobias Hoschka, Assistant Treasurer, Financial Policy and Planning Division, Treasury Department</td>
</tr>
<tr>
<td></td>
<td>Ayako Inagaki, Director, Human and Social Development Division, Southeast Asia Department</td>
</tr>
<tr>
<td></td>
<td>Shanti Jagannathan, Principal Education Specialist, SDSC-EDU, SDCC</td>
</tr>
<tr>
<td></td>
<td>Alexander Jett, Senior Investment Specialist, Guarantees and Syndications Unit, PSOD</td>
</tr>
<tr>
<td></td>
<td>Michael Kjellin, Director, Risk Policy and Architecture Division, Office of Risk Management (ORM)</td>
</tr>
<tr>
<td></td>
<td>David Le Brun, Senior Risk Management Specialist, Risk Policy and Architecture Division, ORM</td>
</tr>
<tr>
<td></td>
<td>Douglas A. Perkins, Assistant General Counsel, Office of the General Counsel (OGC)</td>
</tr>
<tr>
<td></td>
<td>Bart Raemaekers, Advisor, PSOD; and Head, OPD-GSU</td>
</tr>
<tr>
<td></td>
<td>Patricia Rhee, Principal Counsel, OGC</td>
</tr>
<tr>
<td></td>
<td>Trina Mari Samia, Associate Financing Partnerships Officer, SDPF, SDCC</td>
</tr>
<tr>
<td></td>
<td>Gi Soon Song, Director, Human and Social Development Division, South Asia Department</td>
</tr>
<tr>
<td></td>
<td>Won Mo Yang, Senior Financial Control Specialist, Loan and Treasury Accounting Section, CTL</td>
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In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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I. INTRODUCTION

1. Approval is requested for the participation of the Asian Development Bank (ADB) in the International Finance Facility for Education (IFFEd) global funding initiative and to establish the IFFEd Financing Partnership Facility (IFFEd FPF) and, in connection therewith, to:

(i) Establish a multi-donor grant trust fund (IFFEd Trust Fund) under the IFFEd FPF to accept grant contributions from IFFEd and other fund donors, which ADB will apply to finance grant components of projects, support technical assistance, and other activities that may be agreed upon between the fund donors and ADB;

(ii) Enter into a financing partnership with IFFEd under the IFFEd FPF, following which IFFEd will provide a guarantee to ADB covering payment defaults in respect of a synthetic portfolio of ADB sovereign loans and sovereign-guaranteed loans;

(iii) Establish other single- or multi-donor trust funds, framework arrangements, and other forms of financing partnerships (including grants, guarantees, and other similar arrangements) that support the objectives and scope of the IFFEd FPF as described in this paper; and

(iv) Accept and administer contributions by IFFEd and official bilateral, multilateral, and private sources to each trust fund and other financing partnership arrangement (including guarantees) established or entered into under the IFFEd FPF.

2. IFFEd has been established to catalyze additional financing for education projects in lower middle-income countries (LMICs). Recognizing the need for concessional finance in support of education, and the generally scarce lending capacity across multilateral development banks (MDBs), IFFEd is pioneering a catalytic and concessional financing model, whereby IFFEd will (i) mobilize guarantee and grant resources from its financing partners, (ii) enter into partnership arrangements with multiple MDBs as participants in the global funding initiative, and (iii) extend a combination of guarantee and grant support to participating MDBs to enable them to catalyze additional lending capacity to scale up and expand education operations.

II. BACKGROUND AND RATIONALE

3. Challenges faced by lower middle-income countries. LMICs face two related challenges: (i) more than 50% of students are not able to read simple text by age 10 despite attending school—the learning crisis; and (ii) graduates cannot find jobs while employers are unable to fill vacancies—the job–skills mismatch. LMICs are home to half of the world’s school-age children, two-thirds of the global out-of-school children, and three-fifths of the global youth without secondary skills. The coronavirus disease (COVID-19) pandemic exacerbated the preexisting learning crisis, leading to enormous learning and earning losses. Overall, global financing to education has stagnated, and the annual funding gap for education is projected to be about $10.5 billion annually up to 2030 in Asia and the Pacific. Without concerted efforts, this

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1 References to IFFEd in this paper are to the IFFEd global funding initiative (para. 6).
2 References to projects in this paper intends to include all financing modalities offered by ADB.
3 The IFFEd FPF requires Board approval because (i) it has an indicative funding target exceeding $200 million across all the financing platforms contemplated under the facility (para. 13), and (ii) presents a novel design and complexity (para. 18). See also para. 51 (i) (b) and (c) of ADB. Enhancing Operational Efficiency of the Asian Development Bank, 2015. Manila.
4 According to the World Bank classification of world economies based on gross national income per capita in current United States (US) dollars.
5 Source: School Closures and Regional Policies to Mitigate Learning Loss due to COVID-19: A Focus on the Asia-Pacific. UNESCO Asia and Pacific Regional Bureau for Education. UNESCO Institute for Statistics. 2021. Figure 27.p.44.
crisis will not only affect the learning outcomes of those who need support the most, but also the Sustainable Development Goals (SDGs). IFFEd is designed to support eligible LMICs to improve learning and skills development, with a focus on marginalized children, girls, and youth.

4. **IFFEd** offers a new and innovative instrument that seeks to protect and enhance investments in human capital, which are particularly needed in LMICs that lose access to concessional lending as their tax or other own source of revenues may be insufficient for education because of competing demands from other sectors. IFFEd-supported education projects will help LMICs prioritize investments in education and training alongside investments in infrastructure and economic development. Without such a targeted facility, LMICs may neglect investments in education and training that are critical to building knowledge-based economies.

5. **IFFEd** will provide a boost to investments in education, which witnessed unprecedented disruptions from COVID-19, vastly exacerbating earlier gaps in learning. It is estimated that learning poverty (measured by the proportion of 10-year-olds who are unable to read and understand simple text) increased from 57% in low- and middle-income countries before COVID-19 to 70% after the pandemic. The education sector needs growing investments to address learning recovery in the aftermath of COVID-19, and to equip students with the skills needed for future jobs markets. Developing human capital is critical for LMICs to advance knowledge-based economic development. The mega-trends of digital transformation, climate change, urbanization, and demographic transition are increasing demand for education to ensure technology adoption, increase labor productivity, and enable knowledge solutions to complex challenges faced by developing countries.

6. **Establishment of International Finance Facility for Education.** IFFEd was launched in September 2022 at the United Nations’ Transforming Education Summit as a new financing engine to support education and skills development investment in LMICs, which are home to 80% of the world’s children and youth. IFFEd was formally established as a Swiss charitable foundation in February 2023. It offers a combination of direct grants and guarantees to enable MDBs to generate concessional financing for education. IFFEd will initially focus on Asia and the Pacific, and Africa, in collaboration with ADB and the African Development Bank as pilot MDBs, with ADB being the first MDB to receive IFFEd support.

7. **Board of directors.** IFFEd has an interim board of directors, comprising three members, who will serve until the new board structure becomes operational (expected before the end of 2023). Thereafter, IFFEd’s board is expected to have about 12 members, comprising (i) up to six members from LMICs eligible to receive IFFEd grant funding, drawn from the regions supported by the participating MDBs; and (ii) up to six members from IFFEd financing partners. The IFFEd board reviews and endorses investment cases for education projects submitted by participating MDBs that will receive IFFEd grants.

8. IFFEd’s board will be supported by an administrative unit that will perform tasks in relation to the administration of IFFEd.

9. **Financing partners.** The indicative initial financing partners contributing to IFFEd are Sweden and the United Kingdom, with seed funding supporting the establishment of IFFEd from several philanthropic institutions. IFFEd seeks to extend the group of financing partners and aims for future replenishments. It expects that the eventual combined size of grant and guarantee commitments by financing partners to IFFEd may ultimately be $1.5 billion–$2.0 billion, with those resources made available to multiple MDBs.
10. **Trustee.** IFFEd may manage and administer, or engage a commercial trustee to manage and administer, IFFEd’s cash resources, received from IFFEd financing partners and MDBs.

11. **Alignment with Group of Twenty recommendations capital adequacy frameworks.** Under the leadership of the Indonesian Presidency, the Group of Twenty (G20) appointed an expert panel to assess the capital adequacy frameworks\(^6\) of MDBs and suggest ways to improve their approach. As part of its recommendations, the panel proposed that MDBs consider novel approaches to use financial resources and increase their risk-taking capacities through means such as risk transfers. Recommendation 3C of the report specifically mentions IFFEd in the context of guarantees by shareholders for sovereign loan portfolios.

### III. OBJECTIVES

12. The main objective of IFFEd is to support SDG 4—ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Within SDG 4, IFFEd aims to support the targets of improved education quality and learning, enhancing access to education and training for marginalized children, girls, and youth in LMICs. IFFEd financing will help redress shortfalls in learning and accelerate investments in human capital development. IFFEd is designed to mobilize, both directly and indirectly, funding required for education projects to MDBs’ developing member countries (DMCs) through its grant and guarantee facilities.

13. The IFFEd resources intended for ADB comprise (i) a target of $200 million in grants for concessional lending support, and (ii) a target of $500 million in direct guarantees. The grants and guarantees will flow through the proposed IFFEd FPF, and the target $500 million guarantee to ADB from IFFEd may catalyze up to $2 billion in new ADB loans for education. As such, IFFEd is expected to play an important role in helping ADB meet its ambition of reaching up to $1.5 billion in annual education financing; and raising the share of education lending in total ADB lending closer to 10%, following ADB’s corporate target for the sector. All projects supported by IFFEd will be subject to ADB policies and procedures and will be considered for approval by the ADB Board of Directors.

### IV. SCOPE

14. The IFFEd FPF is an umbrella operational arrangement to enhance the coordination and administrative efficiency of partnership activities. It will be a mechanism for facilitating and channeling grant resources for public sector education projects that meet the eligibility criteria set by IFFEd and support ADB’s vision and priorities for education, as well as any other activities that may be agreed between the fund donors and ADB. A concept overview of the IFFEd FPF is in the figure.

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15. The IFFEd FPF will accept contributions in the form of grants and guarantees. IFFEd and other fund donors (if any) will provide grants for education projects that meet the eligibility criteria set by IFFEd during an initial 5-year period.

16. **Guarantee mechanism.** IFFEd received preliminary AAA ratings in 2019 from Moody’s Investors Service and Standard and Poor’s, but formal assessments of its rating are required. IFFEd aims to offer an AAA-rated, irrevocable, unconditional, and legally binding guarantee to participating MDBs. The guarantee will have an 18-year maturity after a 5-year investment period for 23 years, close to the average term of ADB loans.

17. The targeted $500 million guarantee intended for ADB has the potential to catalyze a maximum of $2 billion in new education loans, thereby increasing the availability of funding for education in LMICs. The exact size of the catalytic effect depends on the credit rating agency assessment of IFFEd, which has not yet been completed.

18. IFFEd will agree to guarantee a synthetic portfolio of sovereign exposure, regardless of sector. The covered exposure is dynamic, so newly originated sovereign loans and sovereign-guaranteed loans, regardless of sector, will be part of the covered portfolio. IFFEd’s guarantee payment to ADB in respect of such loans and guarantees in nonaccrual status is also dynamic—
in the event of nonaccrual\textsuperscript{7} by a DMC that is part of the covered exposure, IFFEd will pay a share of the shortfall, which is equal to the aggregate principal loan amounts of the IFFEd-supported education projects (numerator) to the covered synthetic portfolio of sovereign exposure (denominator). This share varies over time by 0\%–1.4\%, depending on the evolution of the numerator and denominator.

19. Notwithstanding the guarantees to be provided by IFFEd’s guarantee mechanism,\textsuperscript{8} ADB will at all times remain the lender of record for all loans covered by the guarantee. The covered exposure will be synthetic, so it will not identify specific ADB loans. Upon a default on any loan or guarantee by any DMC, ADB could demand payment from IFFEd following a timeline to be agreed with IFFEd. ADB will continue to be the lender of record before and after any payment by IFFEd, and will apply its normal process in collecting due but unpaid amounts from the defaulting DMC. To the extent that ADB subsequently receives payments from the defaulting DMC, ADB intends to reflow such funds to IFFEd on a pro rata basis promptly after ADB receives such payments from the DMC, and IFFEd may, from time to time, reflow such funds to its financing partners.

20. **Grants.** IFFEd will provide grants for education projects that meet IFFEd’s eligibility criteria, calculated at a minimum of 10\% of the loan amount of the ADB non-concessional loan. The grant may be used to fund technical assistance, project design, capacity development, eligible goods, services, implementation of pilot activities, and other expenditures of education projects. Other donors to the IFFEd Trust Fund (if any) may provide grants for such IFFEd-supported eligible education projects either in lieu of, or in addition to, an IFFEd grant.

21. **Framework document.** The administration of IFFEd is governed by the framework document prepared by IFFEd to be adopted by its board. The framework document may be amended from time to time, reflecting revisions in IFFEd’s operations. The IFFEd board approves any significant changes or amendments with the agreement of MDBs, and the facility manager communicates the changes and amendments to the relevant ADB user departments. The framework document will direct the administration of IFFEd and cover topics such as IFFEd’s governance structure, eligibility criteria for education projects requesting IFFEd grants, the application process, and other matters relating to IFFEd’s implementation.

22. **Proposed International Finance Facility for Education trust fund.** The proposed IFFEd Trust Fund will be a multi-donor trust fund under the IFFEd FPF, with ADB acting as fund administrator. The IFFEd Trust Fund will receive grant funding from IFFEd and other fund donors (if any), which it will use to finance (i) grant components of education projects meeting IFFEd’s eligibility criteria; (ii) technical assistance; or (iii) any other activities that may be agreed between the fund donors and ADB, including but is not limited to costs related to the administration of the IFFEd Trust Fund.

23. **Other single- or multi-donor trust funds.** Other single- or multi-donor trust funds may be established under the IFFEd FPF if their mandate supports the objectives of IFFEd.

\textsuperscript{7} In relation to ADB sovereign loans and sovereign-guaranteed loans, non-accrual refers to a payment default that remains outstanding for 180 days. Payment defaults guaranteed under the IFFEd guarantee mechanism may include non-payment of all or a combination of principal and/or interest under such loans.

\textsuperscript{8} Such financing partners could include official bilateral and multilateral sources and other financing partners, including philanthropies, foundations, and other private sources. However, ADB will not accept contingent contributions to IFFEd’s guarantee mechanism from private sources, given the risk that private sources may not be able to maintain a suitable credit rating for the full 23-year guarantee term.
24. **Other ADB funds.** Stipulated contributions from any other ADB funds may be coursed through, or in parallel with, the IFFEd FPF to support the IFFEd objectives and scope. Any other ADB funds may become part of or be associated with the IFFEd umbrella if these funds support the IFFEd objectives and scope.

25. **Eligibility criteria.** IFFEd has established country eligibility criteria and programming expectations, which aim to improve the quality of education and learning in the targeted LMICs. The two country eligibility criteria are: (i) a country’s gross national income per capita does not exceed the upper limit determined by the International Bank for Reconstruction and Development for LMICs; and (ii) a country is eligible to receive non-concessional lending from any of the participating MDBs. Once a country is included on the list of potential beneficiary countries, it remains on the list during the relevant IFFEd replenishment period regardless of whether it continues to meet the income criteria.

26. For any LMIC on the list of potential beneficiary countries, its eligibility to access IFFEd grant financing is ascertained on the basis of the following indicative criteria: (i) the country has a credible strategic framing document, such as a national education plan, which demonstrates a commitment to SDG 4, especially learning, equity, and inclusion; (ii) the country is committed to improving educational opportunities for all students, including marginalized students, consistent with the principle of “leave no one behind;” (iii) the country is committed to increasing its domestic education budget, moving toward international standards; (iv) the country has the capacity to sustain additional participating MDB debt; and (v) the country is increasingly integrating results-based approaches into financing packages to achieve nationally owned targets (consistent with the Paris Declaration on Aid Effectiveness).

27. Projects supported by IFFEd grant financing are expected to demonstrate how they meet certain programming expectations, such as increased prioritization of education by the government; expanded educational opportunities for marginalized children, girls and youth; children living in poverty and children impacted by rural–urban disparities and/or disabilities; and improved education quality and learning. For ADB, IFFEd grant financing will enable the required technical support or capacity development to ensure that education operations are aligned with the needs of future economies and societies during transformational change.

28. **Eligible developing member countries.** Based on the indicative country eligibility criteria, the following 11 DMCs are currently eligible for IFFEd funding: Bangladesh, India, Indonesia, Mongolia, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, Timor-Leste, Uzbekistan, and Viet Nam. While Papua New Guinea and Timor-Leste have pipeline education projects, the other nine DMCs have ongoing as well as pipeline education projects.

29. **Types of projects.** While IFFEd-funded education projects may support programs at any level of the education system—early childhood development; primary, secondary, and tertiary level; and technical and vocational training and skills development—about 50% of the projects are expected to support school education to prioritize foundational learning. The share will vary by country and region, and both potential beneficiary countries and IFFEd financing partners will have diverse interests and priorities. IFFEd and the participating MDBs will remain open to adapting to evolving needs to deliver quality education and to expand equitable access to education and foster innovations in policy and practices in education. The semiannual pipeline reviews to be carried out by IFFEd and the participating MDBs will include information on the actual and projected distribution of IFFEd funding to education subsectors.

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9 Papua New Guinea and Timor-Leste are classified fragile and conflict-affected situations by ADB.
30. Assistance from the IFFEd FPF may be combined with other ADB resources and forms of bilateral and multilateral assistance, such as other dedicated funds, to provide the most effective support of IFFEd objectives. Assistance may be made available directly or indirectly to central and local governments, government agencies, the private sector, and other entities eligible to receive assistance from ADB. Resources from IFFEd will be used to finance eligible projects following applicable ADB guidelines and procedures. Activities to be supported by IFFEd will be identified, designed, processed, approved, and implemented following applicable ADB policies, procedures, and guidelines, including consulting services and procurement, social and environmental safeguards, financial management and reporting, and anticorruption and governance. Recipients of financing from IFFEd-supported projects must ensure that such financing will be used for its intended purpose on the same terms, conditions, and principles as set forth in this paper.

31. **Supported modalities.** To maximize impact, the IFFEd FPF may, in principle, support projects under all ADB financing modalities, including policy-based lending. IFFEd encourages the use of results-based lending approaches where appropriate, consistent with the Paris Declaration on Aid Effectiveness.

V. CONTRIBUTION AMOUNTS AND FUND TRANSFER ARRANGEMENTS

32. The IFFEd FPF will accept contributions in the form of grants (through the IFFEd Trust Fund or other single- or multi-donor trust funds established or positioned within the IFFEd FPF) and guarantees (either through the IFFEd guarantee mechanism). IFFEd will transfer the IFFEd grant contributions to ADB after ADB and the DMC sign the relevant loan and grant agreements, or in advance. ADB will hold and administer the contributions.

33. Contributions to the IFFEd Trust Fund will use a grant agreement and/or instruments of contribution and/or other agreements, whereby IFFEd and other fund donors (if any) will agree to deposit the grant funds into the IFFEd Trust Fund substantially following the terms set forth in this paper.

34. Contributions to the IFFEd Trust Fund will be made in a freely convertible currency. Contributions will be deposited into a United States (US) dollar account to be specified by ADB as appropriate. For contributions received in currencies other than US dollars, ADB will, on receipt of the funds, convert them to US dollars and transfer them to the account.

35. Contributions will be held, administered, and invested at the discretion of ADB following ADB’s policies and procedures. Pending disbursements, ADB may invest and reinvest contributions. Any income earned in respect of such investment and reinvestment, as well as interest accrued in respect of the account, will be credited to the relevant account and transferred to IFFEd, except related administration costs, which ADB will retain and use for the purposes of the IFFEd Trust Fund. Any losses from the investment portfolio will be charged to the account.

36. ADB will make disbursements from the account as necessary to meet the expenditures of projects and activities supported by the IFFEd Trust Fund. If other currencies are required for payment to meet eligible expenditures, ADB may purchase the required currencies with the available funds. Any fees and charges relating to such purchases will be paid out of the account.

37. With respect to funds provided by IFFEd or any other fund donors, ADB will exercise the same degree of care in the discharge of its functions as the fund administrator as it does with

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10 Administration costs include the cost of trust fund staff, the cost of external audits, and financing charges that may be incurred in connection with purchasing the required currencies and remitting funds.
respect to its administration of other external financing resources, and will have no further liability in respect of the contributions.

VI. ADMINISTRATIVE ARRANGEMENTS

38. **Governance structure.** The IFFEd FPF will be governed by a facility manager and a fund manager, with a guarantee committee.

39. **Facility manager.** On approval of this proposal, the chief sector officer, SDCC (or its equivalent from time to time) through the chief of the Education Sector Group, SDCC (or its equivalent from time to time) will act as the facility manager responsible for identifying the pipeline of education projects that could be eligible for IFFEd grant financing, review the applications, and submit them to IFFEd for support; prepare and submit the annual work program and annual report to IFFEd; and collect and collate the development and education impact reporting of the IFFEd-supported education projects. The facility manager may be supported by externally funded staff and consultants as appropriate.

40. **Fund manager.** The fund manager, which will manage the day-to-day operations of the IFFEd FPF, will be housed in the Partner Funds Division, SDCC (or its equivalent from time to time). The fund manager will perform tasks related to the administration of the IFFEd Trust Fund such as financial monitoring functions; the preparation, in coordination with relevant ADB operations departments and ADB’s Controller’s Department, and submission of financial reports as required under the agreements signed with IFFEd; arranging for external audit; monitoring and reporting of administration costs; closing activities of the IFFEd Trust Fund; work with the guarantee committee on guaranteed portfolio monitoring, including coordinating guarantee calls and possible refloows to IFFEd; and perform any other duties to ensure the functioning of the IFFEd FPF as required. The fund manager will have a central liaison and coordination function with IFFEd on fund administration matters. The fund manager will be staffed by qualified ADB staff, and may be supported by externally funded staff and consultants as appropriate.

41. **Guarantee committee.** The guarantee committee will be the focal for guaranteed portfolio monitoring, including the guarantee premium calculation; and provide advice on guarantee calls, and loan default matters. It will comprise qualified staff from ADB’s SDCC (or its equivalent from time to time), Controller’s Department, Office of the General Counsel, Treasury Department, relevant operational departments, and any other department.

42. **Applications.** The facility manager will engage with ADB’s operations departments to identify relevant education loans for IFFEd funding. The facility manager will, with the project officer, prepare the necessary application using the standard IFFEd template. The facility manager will review applications for compliance with IFFEd’s project selection criteria and alignment with its results framework, and submit applications to IFFEd for consideration.

43. **Reporting requirements.** The following provides the reports to be prepared and submitted by the facility manager and fund manager.

(i) The facility manager, in close collaboration with related operations departments, will prepare and submit to IFFEd
   (a) an annual work program of proposed projects and ADB programming, and an annual report covering progress on the implementation of IFFEd-supported projects and their performance against IFFEd’s results framework; and
(b) any other report that IFFEd may request related to IFFEd-supported education projects.

(ii) The fund manager, in consultation with relevant departments, will
(a) prepare and submit financial reports, as required in the agreements signed with IFFEd;
(b) submit annual financial statements\(^{11}\) for the IFFEd Trust Fund;
(c) coordinate the payment of guarantee premiums to IFFEd and the receipt of administrative cost reimbursements to ADB;
(d) coordinate external audits and submit audit reports to IFFEd; and
(e) coordinate guarantee calls and refinements, as relevant.

44. The facility manager will provide IFFEd with additional reports and information concerning the progress of projects and activities financed under the IFFEd FPF based on ADB’s regular reviews. The costs of reporting and additional costs related to the production of additional reports will be charged to the IFFEd Trust Fund. The contents of such additional reports and information will be agreed between IFFEd and the facility manager in advance.

45. IFFEd, in consultation with ADB, will provide templates for funding applications and to guide annual reporting on the portfolio of education projects supported by IFFEd grants. The contents of the annual work program and the annual report on the performance of the IFFEd Trust Fund will be provided according to the agreed template and in consultation with IFFEd.

46. ADB will maintain records and accounts for the IFFEd Trust Fund and other financed activities under IFFEd Trust Fund following its standard procedures to monitor the contributions made, the commitments to be financed out of the available funds, eligible activities, and administration costs. ADB will provide IFFEd with unaudited annual financial statements on these records and accounts.\(^{12}\)

47. In the case that ADB and IFFEd agree to an external audit of the IFFEd Trust Fund’s financial statements, ADB will arrange for such an external audit following ADB policies and procedures, with the audit fee to be paid from the IFFEd Trust Fund or paid with additional funds to be transferred to the account by IFFEd.

48. **Semiannual and annual consultation meetings.** IFFEd and ADB will jointly review at least semiannually the proposed pipeline of education projects to be supported by IFFEd and the portfolio of education projects that have received IFFEd grants—to assess progress for effective and efficient programming of IFFEd resources. IFFEd and ADB will meet at least annually after the establishment of the IFFEd FPF to review the progress, work program, and strategic directions of the IFFEd Trust Fund and related administrative matters.

49. **Implementation guidelines.** The administration of the IFFEd FPF is governed by its implementation guidelines, to be prepared by the facility manager and fund manager and agreed with IFFEd on or before the first fund allocation. The implementation guidelines will be amended from time to time to reflect revisions in the IFFEd FPF operations and lessons learned to enhance efficiency. IFFEd, the facility manager, and the fund manager jointly approve any change or amendment to the implementation guidelines; and the fund manager communicates the portfolio changes and amendments to all relevant ADB user departments. ADB, from time to time, may adopt additional rules for managing and administering the IFFEd FPF that are substantially based on the terms and conditions of this paper.

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\(^{11}\) ADB’s Controller’s Department prepares financial statements in its standard format.

\(^{12}\) IFFEd, in consultation with ADB, may opt not to have the financial statement audited.
50. **Visibility requirement.** The facility manager, supported by the fund manager, will create local awareness of the IFFEd Trust Fund and will communicate to DMC beneficiaries and wider audiences the IFFEd Trust Fund’s contributions and achievements through coordinated efforts with operations departments and resident missions. IFFEd does not have an explicit requirement regarding visibility, but has a strong interest in showcasing projects that respond to the need to increase the quality of learning and skills development that prioritizes marginalized children, girls, and youth. It will be strategically important for ADB to include such projects. In addition, ADB and IFFEd could organize joint field visits to showcase innovative, replicable, and scalable projects.

51. **Service fee, administration costs, and guarantee premium.** Since IFFEd will support ADB through a package of guarantees and/or grant support for new education projects that IFFEd determines from time to time meets eligibility criteria, and it is expected that ADB will only receive IFFEd grant funds or grants from other fund donors (if any) to administer after the relevant agreements have been signed with DMCs, ADB will not charge any service fees under the IFFEd FPF. Management’s waiver will be sought following the provisions of the 2009 Review of the Asian Development Bank’s Service Charges for the Administration of Grant Cofinancing from External Sources. ADB will recover any associated administrative costs from IFFEd. ADB expects to pay IFFEd a reasonable guarantee premium for the IFFEd guarantee support provided to ADB. ADB will not pass any guarantee premium or other costs on to DMCs.

52. **Closing date of International Finance Facility for Education Financing Partnership Facility.** After 3 years of the initial 5-year IFFEd operations, IFFEd is expected to decide whether to initiate the replenishment drive to continue and expand IFFEd operations with more MDBs or wind up existing IFFEd investments. The current expectation is to continue the operations, assuming high demand for IFFEd blended financing. Notwithstanding IFFEd’s decision, guarantees issued by IFFEd will remain effective until the completion of the stipulated 23-year term (para. 16) unless otherwise agreed, and the IFFEd FPF will continue coterminously.

**VII. RISK ASSESSMENT**

53. The key risks and mitigating measures are described in the table.

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<thead>
<tr>
<th>Risks</th>
<th>Mitigating Measures</th>
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<tbody>
<tr>
<td>The structure of the IFFEd guarantee, including the potential sharing of recoveries by ADB with IFFEd and financing partners to IFFEd, may risk diluting ADB’s preferred creditor status.</td>
<td>The IFFEd guarantee mechanism has been structured as a multilateral financing initiative for enhancing ADB’s ability to provide education finance, in line with recommendations made by the G20 Independent Review of the MDBs’ Capital Adequacy Frameworks (main text, para. 11). ADB consulted the secretariat of the Paris Club on the structure of a similar guarantee mechanism to that described in this paper, which has confirmed that the structure does not, in principle, pose any risk of dilution of ADB’s preferred creditor status.</td>
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14 Considering the overall value of the IFFEd support to ADB, including both guarantee and grants, which are provided as a package.
<table>
<thead>
<tr>
<th>Risks</th>
<th>Mitigating Measures</th>
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<tr>
<td>IFFEd’s guarantee is not fully recognized as a credit mitigant by rating agencies.</td>
<td>IFFEd is awaiting clearer commitments from its financing partners before they approach rating agencies for IFFEd’s rating. ADB will have a better view once IFFEd and the credit rating agencies conclude that IFFEd’s guarantee will enhance positively ADB’s capitalization. However, the risk is mitigated because the fee that ADB pays for the guarantee is directly proportional to the cumulative loan amount of education projects endorsed by IFFEd, and if ADB chooses not to bring forward any education projects, no fee will be incurred. Therefore, in the event of negative treatment from the credit rating agencies or lower-than-expected capital relief, ADB can revise its use of the IFFEd guarantee.</td>
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<td>Additional capital generated exceeds DMC demand and/or appetite to borrow for education projects</td>
<td>ADB will work closely and continuously with DMCs to carefully identify and craft actions that simultaneously meet education and development goals.</td>
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<tr>
<td>Delay in or limited amount of grant funds because of insufficient or delayed fund mobilization of IFFEd</td>
<td>ADB will monitor IFFEd’s grant mobilization effort to minimize this risk.</td>
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<td>Counterparty credit risk</td>
<td>IFFEd is currently an unrated entity. The counterparty credit risk refers to the risk that IFFEd will be unable to fulfill its obligation to provide payment to ADB when a borrower defaults. This risk is mitigated because one condition for effectiveness is that IFFEd receives a credit rating of AAA from Moody’s Investors Service and Standard and Poor’s. ADB will monitor IFFEd’s credit rating over time to allow a response to any potential downgrade.</td>
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<tr>
<td>Competing needs take priority over education agenda</td>
<td>After each investment period, ADB will reassess IFFEd’s viability, and ADB’s education portfolio and directions. Guarantees issued by IFFEd will remain effective until the completion of the stipulated 23-year term, unless otherwise agreed, and the IFFEd FPF will continue cotermously.</td>
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<tr>
<td>Potential operational risks associated with the IFFEd structure include entering into the agreement without sufficient clarity around the IFFEd governance or the associated administrative costs (including grants)</td>
<td>Before the first transaction, the project team will adequately mitigate the mentioned risks by receiving and assessing further information from IFFEd. In addition, relevant departments will review the upcoming IFFEd Implementation Manual to assure adequate and appropriate controls and risk mitigation measures. The facility manager and the fund manager will monitor and address the full initial list of operational risks identified by the project team and ADB’s Office of Risk Management.</td>
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ADB = Asian Development Bank, DMC = developing member country, FPF = financing partnership facility, G20 = Group of Twenty, IFFEd = International Finance Facility for Education, MDB = multilateral development bank.

VIII. RECOMMENDATION

54. The President recommends that the Board approve

(i) ADB’s participation in the International Finance Facility for Education global funding initiative and the establishment of the International Finance Facility for Education Financing Partnership Facility, in accordance with the provisions set forth in this paper;

(ii) the establishment of the International Finance Facility for Education Trust Fund, under the International Finance Facility for Education Financing Partnership Facility, in accordance with the provisions set forth in this paper;

(iii) the establishment of a trust fund, framework arrangement, and/or other form of financing partnership (including guarantees or risk participations) substantially in accordance with the terms and conditions set forth in this paper, in the event of any contribution to such trust fund, framework arrangement, or other financing partnership, under the International Finance Facility for Education Financing Partnership Facility, in accordance with the provisions set forth in this paper; and

(iv) the acceptance and administration by ADB of contributions to each trust fund and other financing partnership arrangement established or entered into under the International Finance Facility for Education Financing Partnership Facility in accordance with the provisions set forth in this paper.