A call for public financing: innovative finance is welcome, but not enough

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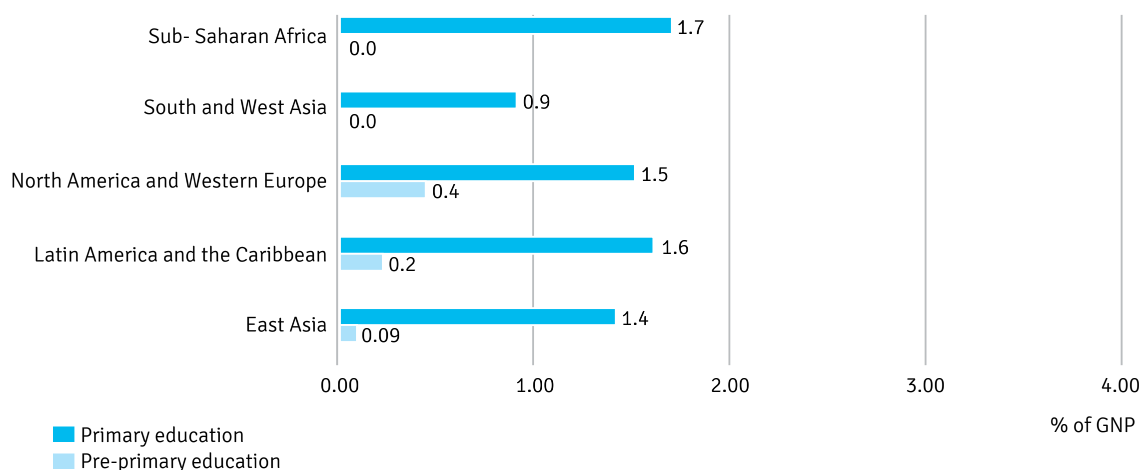
Early childhood development, especially for the poor and disadvantaged, should be financed from public revenues, as are basic and secondary education. This article outlines the evidence that early childhood is currently underfinanced, and argues that innovative financing mechanisms should be seen as a useful supplement – and a way to stimulate more conventional financing – rather than becoming the main financing mechanism.

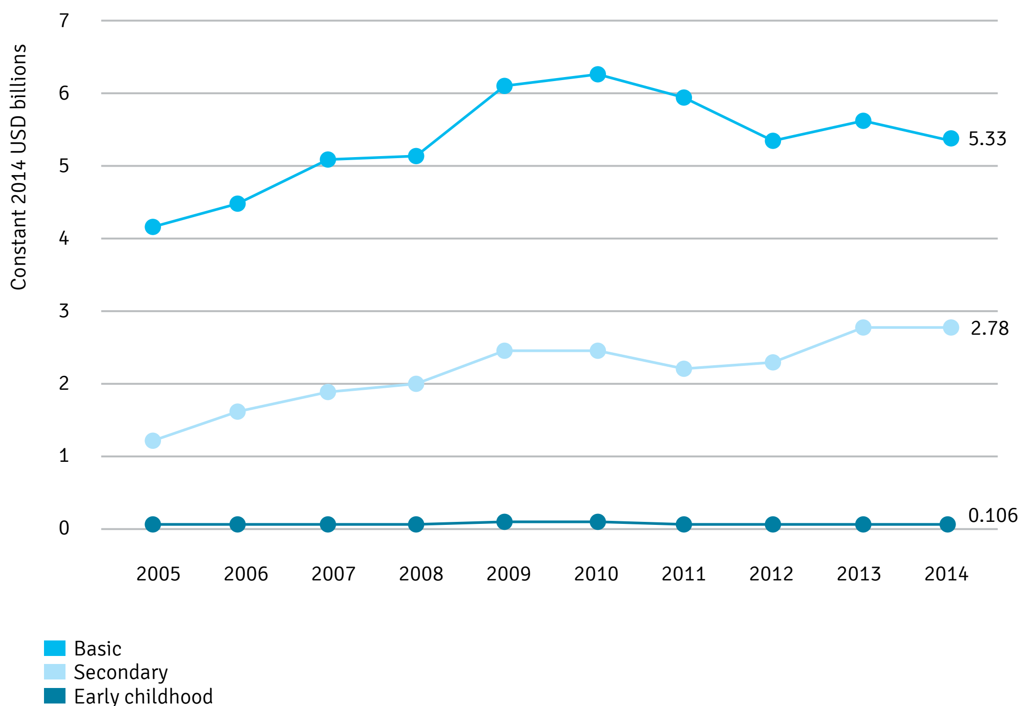
Financing for early childhood development (ECD) services has been inadequate to ensure access and quality for disadvantaged children who have the most to gain. Investments in pre-primary education in particular are startlingly low. In developing countries, on average, 0.07% of gross national product is spent on pre-primary education compared to 0.5% in developed countries (UNESCO, 2015a). However, across the board, countries, both developed and developing, spend markedly less on pre-primary education when compared to primary education, as demonstrated in Figure 1.

Figure 1 Public expenditure on pre-primary and primary education as a percentage of GNP by region, 2012



Source: UNESCO

Figure 2 Aid to education, gross disbursements



Source: OECD-DAC CRS database

Donor financing for pre-primary education (Figure 2) does not present a better picture; estimates suggest that investments in early childhood education account for only 2% of aid to basic education[1].

While the adoption of target 4.2 of the Strategic Development Goals (SGDs) indicates global priority for early childhood development, estimates suggest that spending on one year of high-quality pre-primary education alone must increase annually from USD 4.8 billion in 2012 to USD 31.2 billion annually on average between 2015 and 2030 to reach this target (UNESCO, 2015b).

With growing recognition of both the importance of early childhood development services and the insufficiency of existing financial support – from domestic resources, bilateral donor countries and multilateral development agencies – to achieve the SDGs, it is clear that new thinking is needed. There has consequently been increasing enthusiasm for use of a variety of innovative financing sources and mechanisms in early childhood.

This interest is welcome. However, it also carries risks – of diverting attention from the need for mainstream public financing and of relegating early childhood into a 'special financing' category.

1 Basic education includes early childhood education (based on OECD-DAC categorisation).

The limitations of innovative finance

Innovative finance can increase total volume through *innovative sources*, but can also improve the efficacy of those investments through the use of *innovative delivery mechanisms*.

- Innovative sources of finance can come in the form of new taxes with proceeds earmarked for early childhood programmes, corporate social responsibility, consumer donations, and impact investors. For example, in Colombia, a national payroll tax supports services run by the Colombian Family Welfare Institute (ICBF), which include health services, childcare, preschool education, and parent education. In the Philippines, a tax on gaming corporations supports National Child Development Centers (NCDCs) which provide integrated services for children from birth to 4 years old (Philippine Amusement and Gaming Corporation, online).
- Innovative delivery mechanisms – which include results-based aid, results-based financing, conditional cash transfers, and impact investing – can incentivise innovative thinking about how to increase the efficiency and effectiveness of early childhood services. For example, in South Africa, social impact bonds are being used to fund the testing of various models in the Western Cape Province; the provincial Departments of Social Development and Health have committed to paying for outcomes. Linking financing to outcomes can be especially appropriate for mixed public–private systems, as are typical in early childhood development. Another example comes from Peru, where a results-based financing approach has been used to support 'Cuna Más,' which provides childcare and home visiting services across the country (MIDIS, 2015).

'Innovative delivery mechanisms can incentivise innovative thinking about how to increase the efficiency and effectiveness of early childhood services.'

However, these innovations have their limitations. On pages 58–63 of this issue of *Early Childhood Matters*, Emily Gustafsson-Wright and Sophie Gardiner discuss the current state of knowledge on impact bonds: while still at a nascent stage of development, they may ultimately not prove suitable for financing nationwide programming, especially where they require low- and middle-income countries to implement new and often complex legal frameworks. Likewise, the use of payroll tax revenue in Colombia has been challenged by weaknesses in the country's overall tax collection system, while macroeconomic fluctuations have reduced the predictability of revenue (Vargas-Baron, 2006).

The more fundamental drawback of focusing too strongly on innovative financing is that it relegates ECD to a 'special category', and detracts attention from securing long-term, sustainable investments from governments. Ultimately, ECD should not solely be associated with innovative financing but should be able to benefit from those traditional sources of finance that support investments in older children and adults.

△ *Photo: Jim Holmes / Bernard van Leer Foundation*

A springboard to more mainstream financing

Innovative finance alone will not solve the problem of underinvestment. However, it may allow countries to jump-start investments and interest in early childhood services which can help secure long-term support from traditional sources of finance. For example, in the Philippines, there are hopes that the Early Childhood Care and Development Council – responsible for the NCDCs funded by the tax on gaming corporations – will secure financing from the central government once the current legislation on the gaming tax expires in 2018.

If countries want to ensure wide access, it is necessary to integrate ECD services into existing financing for other core education, health, nutrition, and protection services. For example, in the case of pre-primary education, funds must be allocated with the same priority and via mechanisms similar to those utilised for primary and secondary education. In Brazil, a unified fund, FUNDEB, supports financing of the entire basic education cycle, from crèches and preschools to secondary education. Through this fund, municipalities, who are responsible for crèches and preschools, pay into state-level funds which are then redistributed based on the number of enrolled students. In order to mitigate disparities in wealth, the federal government tops up the funds received by municipalities and states to guarantee that a certain minimum level of funding is available per child enrolled in crèches and preschools (Evans and Kosec, 2012).

'In addition to mainstreaming financing of ECD services, countries must innovate in how they support the most disadvantaged.'

In addition to mainstreaming financing of ECD services, countries must innovate in how they support the most disadvantaged. Through 'Chile Crece Contigo', an integrated system of social protection in Chile, a range of early childhood services is offered, which are differentiated based on family income. While certain services, such as education programmes on child stimulation and development, are offered universally through the internet and mass media, vulnerable children are given preferential access to the social protection system and are offered specific benefits such as home visits and poverty alleviation programmes (Berlinsky and Schady, 2015). Few countries do this well, but by targeting investments in vulnerable children, and making universally available certain early childhood services, Chile's system of social protection exemplifies the kind of innovation needed to reach the poorest.

As there is growing momentum towards meeting SDG target 4.2, we are at an exciting moment for ECD. In order to capitalise on this momentum, we need to ensure that financing for ECD is integrated into financing for core services, while leveraging innovative finance and putting in place measures which squarely focus on improving access and quality of services provided to disadvantaged children.

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