Global Conference on Contemporary Issues in Education, GLOBE-EDU 2014, 12-14 July 2014, Las Vegas, USA

Education Financing and Public-Private Partnership Development Assistance Model

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Abstract

This article argues for the greater use of “public-private partnerships” (PPP) and “social impact bonds” (SIBs) that innovatively incorporate both the private and public sector to fund a specified education project for social good. In a PPP-SIB structure, a “success metric” is agreed upon prior to issuance by all related parties. This PPP funding model differs from traditional education bond funding, whereby the government would be entirely responsible for repaying the issued bond’s principal and interest. In short, the use of SIBs and the PPP education-funding model to complement (but not replace) other sources of education financing could help resolve some of the budgetary capital constraints that currently exist, whereby such capital constraints tangibly hamper educational productivity and performance.

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Peer-review under responsibility of the Scientific Committee of GLOBE-EDU 2014.

Keywords: social impact bonds (SIBs); public-private partnerships (PPP); education financing; development assistance models

1. Introduction

As stated in the Millennium Development Goals (United Nations, n.d.), placed at number two, universal primary education is inarguably an important aspect of an individual. To some, it is a necessity that should be considered a basic human right. As education is stressed to have important value on a global scale, the realities of current education systems reveals the challenges and issues that keep those ideals distant for both developing and developed countries due to lack of education funding.

Global Monitoring Report reports that basic education is underfunded by 26 billion in U.S. dollars each year.

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(UNESCO, 2014). As one education funding solution (to complement, but not replace other education financing sources) to mobilize funding for the education sector, a new type of PPP-based funding initiative known as social impact bonds (SIBs) are discussed in the next section.

2. Traditional vs. social impact bonds (SIB)

Social impact bonds (SIBs) are what are known to be a subset of social finance using smart social capital to pursue societal benefits through the network of various education stakeholders (Kim & Kang, 2012). SIBs are used to inject private funds into public-sector programs, and private investors would bear risk for large-scale high-budget education projects (Kim & Kang, 2012). If successful, “social investors” are repaid with a greater return by the government, thus making the education funding transaction a “performance-based” education-funding project (Kim & Kang, 2012).

In such performance-based education-funding project, measurement and returns are based on “success” metrics predetermined in a contract binding agreement during the initial stages before the implementation of the chosen education project (Kim & Kang, 2012).

The use of SIBs have been used in reducing homelessness, recidivism and building infrastructure in Europe and the U.S., but the use of SIB can extend to other social benefits and causes, in this case, on issues facing funding shortages within the education sector.

The SIB model can be further divided into a number of components as seen in Figure 1 below.

![Fig.1. Brinkerhoff-style Partnership Model: Mutuality through Shared Incentives (Kim & Kang, 2012).](image)

Just like the traditional model, investors are required but are identified as “social impact investors,” those who invest for economic as well as social good. These social impact investors may be, but are not limited to, philanthropists, philanthropic organizations, pension funds, mutual funds, high, net-worth individuals, insurance companies and financial institution end investors (Kim & Kang, 2012).

Another component would require what is known as an “intermediary,” the hub that connects all the stakeholders involved (Kim & Kang, 2012). This role is usually played by private or public sector financial institutions that would issue structured bonds to investors from contract with the government in order to hire service providers, NGO’s or state, in carrying out the given social service (Novak, 2013; Kim & Kang, 2012; McKinsey, 2012; Jobst, 2007). Also included in the SIB model are “advisors” who evaluate, provide guidance and advise the setting and implementation of performance criteria, the “success metrics,” between the service provider and investor (Kim & Kang, 2012).

Alongside the advisors would be the “evaluator,” whose role would be to conclude whether or not the objectives
have been met based on the “success” metric (Kim & Kang, 2012). If the project were deemed a “success” based on the predetermined contractual agreement, the social impact investors would be paid principal along with interest by the government (thus, the term “pay for success” bonds). If the objectives were not met, the social impact investors would bear the loss, not the government.

3. Importance of private-public partnerships (PPPs)

Education is a crucial component to the development of an individual and greater society, which leads to the potential to create a large positive impact. For this reason, the authors emphasize a PPP-SIB model, as figure 2 below visualizes, whereby mutuality and cooperation is a crucial element to current and future progress towards improvement in society through education financing.

![Figure 2. Brinkerhoff Model: Mutuality Model (Kim & Kang, 2012)](image)

The suggested PPP-SIB education-funding framework would allow the government to save costs and have the safety net of the private sector. The incentive and performance based PPP-SIB allows for social impact investors to harvest a return both in monetary and social value, while NGOs and other service providers gain efficiency and capacity to deliver their purpose towards constituents who are then able to enhance the direct effects of the given educational project. The PPP-SIB model is evidence-based and enhances transparency since an external evaluator would be used, whereby the community would reap benefits for a growing opportunity to have and gain quality education.

4. Examples in the case of UK, United States and South Korea

4.1. The case of UK

The first global SIB project was implemented by the UK in the fall of 2010 into a program that aimed to reduce recidivism in a Peterborough Prison (Social Finance, 2013). According to Social Finance, experienced social organizations supported 3,000 short-term prisoners in a span of a six-year period beginning from inside the prison and after release. The individuals were helped in transitioning back into society (Social Finance, 2013). The agreement was a return for investors through a share from the government savings if the program reduced re-offending by 7.5% or more. With reductions of re-offending beyond 7.5%, investors would receive an increasing return of up to 13% in correlation to the achieved success of social outcome (Social Finance, 2013).
The results demonstrated a 6% decrease in the frequency of reconviction for 100 Peterboro ugh prisoners from the
time frame of 2008-2010 to 2010-2012 (Social Finance, 2013). The overall decline was calculated to be 23%, which
exemplifies a successful use of SIB (Social Finance, 2013).

4.2. The case of U.S.

In the U.S., the first use of social impact bond was implemented in 2012 where Goldman Sachs Bank invested in
a 9.6 million U.S. dollars project providing therapeutic services to 16 to 18 year olds incarcerated on Riker Island
Prison (Olson et al., 2013). With the collaboration of the New York City Department of Correction, Bloomberg
Philanthropies, and social services such as Osborne Association and MDRC, the structure of SIB was able to take
effect in hopes to reduce recidivism. The loans would be repaid based on cost saving efforts (Olson et al., 2013). If
recidivism fell by 10%, Goldman Sachs could earn as much as 2.6 million US dollars in premium, whereas if the
target rate were not met, Goldman Sachs would lose up to 2.4 million U.S. dollars (Olson et al., 2013). Hence, greed
is converted to social good under the proposed SIB-PPP financing structure.

4.3. The case of South Korea

In the case of South Korea, there are a number of SIB models in it’s beginning stages and are currently in the
works. Though not completely SIB based, a suicide prevention program carried out in 25 districts of Seoul to reach
the elderly people 65 years or older have begun in areas where suicide risks were thought to be high (Park, 2013).

5. Conclusion

New innovative methods such as the PPP-SIB structure proposed in this paper--focusing on partnership and
collaboration between the private and public sector on a performance based approach--represents a viable
framework as a development model in increasing quality education while reducing the education finance gap. By
applying such innovative education funding frameworks domestically and internationally, much-needed scarce
capital can be provided to more education projects for the betterment of the education system, individual students,
and related stakeholders worldwide.

Acknowledgements

This article was made possible by a grant from the BK foundation.

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