REPLENISHMENT CAMPAIGN

For Decision

1. PURPOSE

The purpose of this paper is to seek a decision from the Board of Directors on a number of elements of the Global Partnership for Education replenishment (2015-2018). It should be read in conjunction with the report of the Financial Advisory Committee ("FAC") (BOD/2013/11 DOC 06), the report of the Governance Working Group (BOD/2013/11 DOC 03), the paper on a comprehensive Data Strategy (BOD/2013/11 DOC 07) and the paper on a strategy for civil society engagement (BOD/2013/11 DOC 05). All the papers are interrelated and provide a comprehensive narrative of fundamental improvements to the way the Global Partnership will work.

2. RECOMMENDED DECISION

The Secretariat requests that the Board of Directors approves the following decision:

BOD/2013/11-XX — <u>Replenishment:</u> The Board of Directors:

a. agrees to a four-year replenishment period from January 2015 to December 2018;

b. agrees to an overall target for funding of education in GPE countries of US$ xx[1] billion from 2015-2018;

c. agrees to a funding target of US$ xx billion[2] for the GPE Fund for the replenishment period;

d. agrees in principle to the development of an Innovation Center as set out in Annex 3 of the Replenishment Campaign (BOD/2013/11 DOC 04) and requests

[1] This figure will be included after discussion at the Addis Ababa meeting of the Board of Directors in November 2013.
[2] Same as above.

the Secretariat to present a full proposal to the Board of Directors by no later than 31 March 2014;

e. notes the background paper on debt buy-down mechanisms to leverage additional financing for basic education as set out in Annex 4 of the Replenishment Campaign (BOD/2013/11/DOC 04) and requests the Secretariat to present a more detailed proposal to the Board of Directors by no later than its next face-to-face meeting in 2014 and also to explore more fully a pilot program with a partner with prior experience and demonstrated interest in the issue;

f. agrees in principle to a humanitarian "revolving fund" within the GPE Fund of US$ 50 million and requests the Secretariat to present a full proposal to the Board of Directors by no later than 31 March 2014;

g. agrees to the surge capacity required in the Secretariat for the replenishment campaign from January to June 2014; and

h. notes that the Secretariat will prepare a Private Sector Engagement Strategy early in 2014.

3. EXECUTIVE SUMMARY

3.1 There is a current funding crisis in education with a worrying decline in donor and multilateral financing for the sector and signs that even impressive domestic financing increases may be about to reverse for primary education. Given the impact of decreasing commitment to education, this replenishment campaign is being undertaken within a very difficult environment and the Board of Directors should take these challenges seriously given the importance of this effort.

3.2 The Global Partnership currently has a very strong policy platform under the GPE Strategic Pan and there is no proposal to modify this for the replenishment. Accordingly, the core replenishment theme will be around **improving the way the partnership works**, in terms of more (and better used) financing, improvements to governance at both the country and global levels and also a wholesale campaign for better data in the sector.

3.3 The Secretariat is proposing a four-year replenishment period, and will discuss specific targets with the Board of Directors at its meeting in Addis Ababa in November 2013. The Secretariat proposes a humanitarian revolving fund window within the replenishment.

3.4 The Secretariat is proposing the establishment of an "Innovation Center" in order to address more systematically the need for greater innovation within the partnership, improved scale up and sustainability of effective interventions and also a more fit-for-purpose approach to engaging the private sector, private foundations and philanthropy. Furthermore, further consideration is proposed for the idea of debt buy-down arrangements under the new replenishment. The Secretariat will be developing a private sector engagement strategy in the near future.

4. BACKGROUND

4.1 At its face-to-face meeting in Brussels in May 2013, the following decision was made:

> ***BOD/2013/05-03 — <u>Resource Mobilization and Replenishment</u>:*** *The Board of Directors:*
>
> *a. endorses the broad strategy and timeline for a replenishment campaign outlined in BOD/2013/05 DOC 04, including convening a pledging conference in or about June 2014; and*
>
> *b. calls upon all Board members and other partners to provide political leadership and strongly support the replenishment campaign.*

4.2 A central tenet of the strategy endorsed by the Board of Directors was that the replenishment campaign not only seek financing for the GPE Fund but also a broader increase in funding from developing country partners, donor bilateral assistance, multilateral assistance and contributions from other external financing sources.

4.3 **<u>Progress:</u>** Commissioner for Development Andris Piebalgs formally announced, in New York in September 2013, that the European Union would be hosting the second GPE Replenishment Pledging Conference in Brussels in June 2014. This is an important and generous offer from the Commissioner and the Secretariat will be working hard to support the Commission and its staff over the coming months. While an exact date has yet to be fixed, it is most likely to be early in the week of 23rd June and be followed immediately afterwards by the Board of Directors meeting. A suitable venue has been found and a competitive tender will shortly be issued by the Secretariat to four recommended event organizers.

4.4 **<u>Partnership Results Meeting:</u>** The first major event in the replenishment campaign, following the securing of the European Commission as host, is the Partnership Results Meeting to be held in Addis Ababa on 17 November 2013. Partners

have access to a number of key documents for this meeting, most importantly the Secretariat's Results for Learning Report 2013, the Secretariat's recent Portfolio Review (BOD/2013/11 DOC 06) and also a specially prepared document for the meeting, The Added Value of the Global Partnership for Education.

4.5 **Current trends in donor financing for education:** The context for replenishment is extremely worrying. While both ODA disbursements and commitments fell in 2011, quite alarmingly the share going to education dropped more rapidly than total aid, with commitments declining to only 7.8% of aid funding in 2011, the lowest it has been in 7 years.[3] Disbursements to education peaked at US$ 14.4 billion in 2009-2010 and then decreased by 6.3% in 2011.[4] Fifteen DAC countries reduced their aid to education between 2010 and 2011. The decline in commitments in the same period is far worse (15%), signaling the potential for far greater decreases in disbursements in the coming years.[5] Global aid to basic education decreased from US$ 6.2 billion in 2010 to US$ 5.8 billion in 2011 and only US$ 1.9 billion was spent in low income countries,[6] this reduction is not simply a factor of overall aid reductions, but a number of significant donors are de-prioritizing basic education.[7]

4.6 **Current trends in domestic financing for education:** Public expenditure on education in 33 developing country partners ("DCPs") has grown steadily from 3.9% of GDP in 2000 to 4.8% in 2011. On average, domestic financing in GPE DCPs increased 10.1% after countries joined the partnership. While domestic financing for education has grown, the rate of growth has slowed somewhat since 2008, a worrying trend. Also, the proportion of education budgets going to basic education is also falling.[8]

4.7 **Current trends in multilateral financing for education:** In spite of a 78% increase in multilateral funding for education from 2002-2011, their share of basic education within total education has declined from 62% to 51% over the same period.[9]

[3] Global Partnership for Education (2013). 2013 Results for Learning Report. GPE: Washington, DC.
[4] Global Partnership for Education (2013). 2013 Results for Learning Report. GPE: Washington, DC. These figures include 20% of general budget support financing.
[5] Global Partnership for Education (2013). 2013 Results for Learning Report. GPE: Washington, DC. These figures include 20% of general budget support financing.
[6] Education for All Global Monitoring Report (June 2013). Schooling for millions of children jeopardized by reductions in aid. UNESCO, Paris.
[7] Global Campaign for Education (2013). Education Aid Watch. 2013 GCE: Johannesburg.
[8] Global Partnership for Education (2013). 2013 Results for Learning Report. GPE: Washington, DC.
[9] Rose, P. and L. Steer (2013). Financing for Global Education: Opportunities for Multilateral Action. Centre for Universal Education at Brookings: Washington, DC.

Given the increased role of GPE as a funder of basic education over the past decade, the shift among other multilaterals is significantly greater.

4.8 **Current situation of the first GPE Replenishment:** Annex 1 includes a summary of progress under the replenishment period 2011-2014. With the notable exception of the UK, the low level of contributions from G7 countries remains the biggest constraint to major progress in significantly increasing donor contributions to the GPE Fund. It is very difficult to attract non-traditional donors with such a low proportion of overall funding coming from the USA, Canada, Japan, Germany, France and Italy. Clearly, a very strong argument needs to be made on the value-added of contributing to the GPE Fund compared with additional funding of bilateral programs.

4.9 **Overall funding environment**: All of the data points to a very difficult environment for the second GPE replenishment. While demand for funding is increasing and partner governments are showing commendable increased commitments to funding their education sectors, the donor situation is at crisis levels. While some progress may be made with innovative financing approaches, this will always remain a small portion of the whole picture and partners should have realistic expectations of what may be possible in this regard.

5. REPLENISHMENT THEME AND POLICY FRAMEWORK

5.1 The first GPE replenishment had a policy platform of support to girls' education, fragile states and early learning. Since then, the GPE Board of Directors approved the GPE Strategic Plan (July 2012) and Implementation Plan for the GPE Strategic Plan (May 2013). The Strategic Plan provides a very strong policy platform, with core long term goals of access, equity, learning and building government systems. It also builds on the previous replenishment priorities of girls' education, fragile states and early learning by adding a focus on financing and teacher effectiveness, therefore there is no advantage to adding new policy themes for the upcoming replenishment campaign.

The Global Partnership will continue to advocate for progress in the areas identified in the existing policy platform. The outward-facing material for replenishment will include the importance of education and its contribution to development outcomes, the value-added of the Global Partnership and the change and results that further funding will bring.

5.2 Evidence from the Secretariat's Results for Learning Report 2013, the Portfolio Review and also from the recommendations of the October 2013 meeting of the Financial Advisory Committee all points to **a fundamental need for improvements to the way the Global Partnership works in order to effect system improvements at the country level that result in more children receiving a better quality education**. This will be the theme of the upcoming replenishment. Specifically, there will be three core areas of focus:

i) **More funding, better spent**. A revision of the GPE funding model, including funding eligibility, allocation and structure, in order to mobilize additional resources, and respond to country contexts and incentivize system strengthening. Section 6 of this paper includes more details on revisions to fund structures and innovative financing. The other aspects of this theme are mostly covered in the report of the FAC (BOD/2013/11 DOC 06).

ii) **Better governance**. Improve the GPE country level processes to ensure strong country ownership, better governance and clear accountabilities. At the same time, improve global GPE governance structures to align with core GPE functions. The components of this theme are covered in the report of the Governance Working Group (BOD/2013/11 DOC 03) the paper on Civil Society Engagement (BOD/2013/11 DOC 05) and the paper on a comprehensive Data Strategy (BOD/2013/11 DOC 07).

iii) **Evidence for better policy making**. Revolutionize the collection and use of data in the education sector to improve sector policy and planning, build local monitoring capacity and improve the quality of data. The components of this theme are contained in the paper on a comprehensive Data Strategy (BOD/2013/11 DOC 07).

6. CORE REPLENISHMENT COMPONENTS

6.1 **Timeframe for the replenishment:** The first GPE replenishment was for a period essentially of three years (2012-2014), though many donors included contributions from the second half of 2011. Annex 1 includes a reconciliation of the funding under the first GPE replenishment. It is proposed that the next replenishment period be for four years, from 2015-2018, for three primary reasons:

i) The normal funding cycle under the GPE Fund is closer to four rather than three years, since many countries seek an extension of their program implementation

grants and most grants do not start until some months after approval. Aligning the replenishment cycle with the actual rhythm of the grant cycle makes more sense.

ii) A four-year replenishment cycle allows for more fundraising activity within the replenishment period, whereas a three-year cycle makes it easier for donors to postpone decisions of possible increases in funding.

iii) A four-year replenishment cycle is cheaper in terms of Secretariat budget and less disruptive of Secretariat functions. A replenishment campaign is very demanding of Secretariat time and resources.

6.2 **Scale of unmet funding needs**: Annex 2 provides a detailed methodological note for the calculation of funding needs in GPE developing country partner countries (and eligible countries) for **primary education**. The unmet funding needs to achieve universal primary completion amount to US$ 9.349 billion. It has not been possible to produce a summary of unmet funding needs for secondary of pre-primary education as yet, primarily due to very poor data. An estimate will be available by the time of the November 2013 face-to-face meeting of the Board. It is proposed that the overall funding target for unmet needs be discussed during the Addis Ababa meeting of the Board of Directors.

Annex 2 assumes that domestic financing will continue to rise in GPE countries based on the current average rate of increase, which will need to be very carefully monitored. It also assumes that to sufficiently tackle the severe shortages of quality secondary and pre-primary learning opportunities additional funds above US$ 9.3 billion will be required. It is worth noting that in spite of the original international commitment at the founding of GPE (EFA FTI) that no country would be left behind if it were committed to sound sector planning and increased domestic resources, the size of the unmet funding needs is alarming. Should the Board of Directors agree to an overall funding target, a publication will be prepared that presents, in an accessible manner, the thrust of Annex 2 plus calculations on pre-primary and secondary education.

6.3 **Target for GPE Fund**: A target for the replenishment of the GPE Fund for the period 2015-2018 needs to be determined by the Board of Directors at its meeting in Addis Ababa. Any target needs to be a stretch and also needs to reflect the significant demand for increased financing by developing country partners.

6.4 **Innovation**: Annex 3 contains a proposal for an Innovation Center. This is in response to the decision of the Board of Directors at its face-to-face meeting in Brussels in May 2013 as follows:

> ***BOD/2013/05-15 — Global and Regional Activities**: The Board of Directors requests the Secretariat to:*
>
> *b. prepare options for dealing with innovation, knowledge gaps, regional issues and similar matters, for consideration by the Board of Directors at its next face-to-face meeting in November 2013.*

Since May 2013, the Secretariat determined that the most urgent aspect of the Board decision was a focus on innovation. Clearly an engagement strategy for the private sector is overdue, though this requires the new Senior Private Sector Specialist to join the Secretariat staff (in the latter stages of recruitment). It is expected that the engagement strategy will be developed, with significant input and thinking from the private sector and private foundations, early in 2014. Consideration of regional issues will occur also in 2014 with options put to the Board of Directors for its first face-to-face meeting in 2014.

The innovation agenda should not be viewed as being a private sector strategy: it is for the whole partnership. The Secretariat has surveyed the "Innovation Fund" landscape to learn about existing models and approaches to nurturing and financing innovation, particularly among partners in development and education. There are numerous entities in the private foundation space and within public agencies whose purpose is to test and support innovative projects and concepts. The majority of these finance fairly small-scale pilot projects, including in global basic education. None appear to specifically finance significant scaling-up of pilots that demonstrate success at a community or local level. Therefore, this represents a gap in education innovation program financing.

Given this research, the Secretariat proposes a dual-function Center that will identify promising education pilot projects that can be formulated for significant scale-up and then promoted for financing among public and private donors. These scaled-up projects will be monitored and evaluated and the lessons learned from these scale-up efforts will be shared with GPE partners, particularly developing country partners. Essentially, it is proposed that as a part of the replenishment process, GPE also solicits seed funding for the establishment of the Innovation Center (though not for a separate "fund" since funding of activities would only be solicited once they had been identified). Subject to the

Board of Directors' agreement in principle, a more detailed proposal will be submitted for consideration in early 2014.

6.5 **Debt buy-down**: At the end of 2012, the Secretariat was approached by one multilateral development bank to see whether there would be interest in debt buy-down financing whereby GPE would buy down non-concessional loan funds (not currently available to the education sector) to convert them into highly concessional lending. Following brief conversations with other development banks and some bilateral donors, which indicated some interest in further exploring the concept, the Secretariat issued a contract to Results for Development Institute ("R4D") to undertake a review of the feasibility of such an approach. The report prepared by R4D is attached as Annex 4 and one of the Directors of R4D will address the Board of Directors directly on the results of their study at the face-to-face meeting in Addis Ababa.

6.6 In summary, R4D believes that debt buy-downs, in certain circumstances, offer a possible way to increase the external financing available to the education sector and R4D proposes the next step to be proceeding with a pilot program. Some significant policy questions require further attention (e.g. whether separate funding arrangements should be established, whether specific criteria be established to determine eligibility/suitability) and the Secretariat will need to devote some time to addressing these. Working through the feasibility of a pilot activity will be very helpful in fleshing out some of the issues and the Secretariat recommends that specific discussions proceed quickly with one of the development bank partners for such a pilot. The Secretariat welcomes discussion and guidance on this during the Addis Ababa meetings.

6.7 **Champions**: A critical element of a successful replenishment campaign is ensuring strong support from credible champions. We have made good progress in already securing the support of some DCP heads of state and ministers, donor ministers, emerging donors and some "persons of influence". A full update on champions will be presented to the Board at its face-to-face meeting in Addis Ababa in November. Members of the Board of Directors are encouraged to let the Secretariat know if heads of State, agencies, or other high profile partners would be interested in supporting the replenishment campaign as a champion spokesperson.

6.8 **Humanitarian emergencies**. Increasingly, GPE is being asked to take on a greater role in emergency situations, while at the same time donor funding for education

in emergencies is at record low levels. It is proposed that an earmarked "revolving fund" of US$ 50 million be established within the GPE Fund for financial allocations in times of humanitarian emergencies. This sum would be allocated upon approval of the Board of Directors and the Secretariat would seek donor contributions to top-up the fund whenever it was deployed. Full details of this proposal would be submitted to the Board of Directors by no later than 31 March 2014.

7. IMPLICATIONS FOR SECRETARIAT RESOURCES

Annex 5 sets out the required surge capacity for the replenishment campaign for the period January to June 2014. This is based on experience from the 2011 replenishment where the total cost was in excess of US$ 550,000 over a three-month period. This campaign is longer and more ambitious and we expect a larger participation at the pledging conference itself, with the associated higher costs. The government of Germany has already generously committed Euro 100,000 to the replenishment campaign. The Secretariat Budget (BOD/2013/11 DOC 11) requests approval of US$ 723,859 for the additional costs associated with the replenishment campaign. However, it is hoped that other donors and partners will come forward with specific financial contributions to defray these costs to reduce the draw-down on the GPE Fund.

8. NEXT STEPS

Should the Board of Directors support the decisions contained in this paper the following steps will be taken:

- Filling of the temporary surge capacity positions in the Secretariat;
- Issuance of a tender for an event organizer for the Brussels pledging conference;
- Further work on the "Innovation Center" and debt buy-downs with a view to forwarding more detailed proposals to the Board of Directors early in 2014;
- Development of a private sector engagement strategy; and
- The replenishment campaign will enter into full operation.

ANNEX 1: SUMMARY OF PROGRESS UNDER THE FIRST GPE REPLENISHMENT 2011-2014 (all amounts expressed in USD)

Country	Total Pledged (USD Equivalent per Copenhagen Pledge Report)	Contributions to Date	Balance on Signed Contribution Agreement	Pledge Not in Signed Contribution Agreement	Revised Pledge Amount (Current USD Equiv)
Australia	278,000,000	102,084,000	163,600,000	0	265,684,000
Belgium	8,100,000	31,659,100	24,700,000	0	56,359,100
Canada	57,000,000	57,803,176	0	0	57,803,176
Denmark	201,400,000	157,455,075	0	46,500,000	203,955,075
European Commission	50,800,000	20,414,010	30,100,000	0	50,514,010
France	65,500,000	63,145,833	3,435,000	0	66,580,833
Finland				12,300,000	12,300,000
Germany	22,000,000	19,461,925	4,810,000	0	24,271,925
Ireland	19,100,000	10,297,750	0	8,610,000	18,907,750
Italy	0	0	2,060,000	0	2,060,000
Japan	5,400,000	10,470,000	0	0	10,470,000
Netherlands	165,100,000	78,804,000	82,460,000	0	161,264,000
Norway	98,000,000	107,091,744	16,890,000	0	123,981,744
Romania	100,000	130,650	0	0	130,650
Russia	2,000,000	2,000,000	0	0	2,000,000
Spain	26,200,000	26,826,000	0	0	26,826,000
Sweden	100,700,000	85,172,485	31,310,000	0	116,482,485
Switzerland	5,400,000	12,462,004	14510000	0	26,972,004
United Kingdom	402,600,000	316,316,116	161,300,000	0	477,616,116
United States	22,000,000	21,520,000	480,000	0	22,000,000
Total[10][11][12]	**1,529,400,000**	**1,123,113,868**	**535,655,000**	**67,410,000**	**1,726,178,868**

[10] Individual Donor amounts may be affected by foreign exchange differences as well as increases to their pledged amount as many donors pledge in their domestic currency. In all cases where there is a reduction in the value of the current pledge versus the initial pledge amount included in the report made following the Copenhagen Replenishment conference, the reduction in value is totally attributable to foreign exchange.

[11] The original report on pledges included prior commitments made to GPE including contributions to the Catalytic Funds. For comparison purposes, the contributions received and outstanding amounts include pledges for all Funds, including Catalytic Funds.

[12] Certain donors pledges made in Copenhagen did not cover the full period of the replenishment, however they have since extended the period of the pledge. Other donors have also extended the period of their pledge into 2015. Italy and Finland did not pledge in Copenhagen but have recently pledged for 2013.

ANNEX 2- ESTIMATES AND PROJECTIONS OF FINANCIAL NEEDS IN GPE DEVELOPING COUNTRY PARTNERS AND ELIGIBLE COUNTRIES

Methodological Note

A. Introduction and Objectives

1. ***Introduction***. The Global Partnership for Education (the "Global Partnership" or "GPE") supports the development, implementation, and monitoring of national education policies. On the supply side, donor partners contribute funding channeled both through the GPE Fund as well as through bilateral channels. On the demand side, developing country partners apply for funds based on indicative allocations generated from the Needs and Performance Framework.[13] In this context, a key question concerns the size and structure of the financial needs for education in general, and for primary and basic education, in particular.

2. ***Objective***. In order to determine the response to the question about the size and structure of the financial needs for the education sector, GPE Secretariat has computed an estimate of these financial needs. This note explains the methodological approach and outlines the key assumptions made. The objective is to estimate and project the financial needs for low income countries eligible for a Program Implementation Grant, regardless of their current membership status vis-à-vis the GPE.

B. Financial Needs

3. ***Coverage and assumption***. Funding from the Global Partnership covers basic education, from early childhood to lower secondary; including literary and technical and vocational education. However, this exercise focuses exclusively on the "***unfinished agenda***" for completing quality primary education in all low-income countries. Starting from the Primary Completion Rate ("PCR") in the base year 2011. In terms of progress and targets, fragile and conflict affected states are treated

[13] Read more about the GPE Needs and Performance Framework at: http://www.globalpartnership.org/media/Final%20NPF%20Note%20January%202012.pdf

differently due to diminishing marginal rates of returns.[14] The methodology and assumptions made regarding key contributing factors are explained below.

4. ***Student Flows***. In order to allow for country specificities in the simulation, the projections are made separately for each country[15] on the basis of a simple simulation model per country between 2011 (or closest year) and 2020. The annual student flows are derived for each eligible country from the school age population,[16] the assumption on the evolution of access (in first grade), the average repetition rate and the completion rate. The proportion of students enrolled in private schools is taken into account to calculate the number of students in public schools. Below is the assumption for each parameter:

   - ***Gross intake rate***: Countries with a Gross Intake Rate below 100% in 2011 will increase their intake rate progressively to reach universal access at least by 2015.
   - ***Primary completion rate***: Analyses show that countries gain on average 3 percentage points (2.1 for fragile states and 3.4 for non-fragile states) per year on the PCR after joining the Global Partnership for Education.[17] In this exercise, we assume that non-fragile states cannot do better; while in the fragile and conflict-affected states there is room for progress. Consequently, the fragile and conflict-affected states are assumed to gain annually 2.5 percentage points on their PCR, while the other countries gain annually 3.5 percentage points.
   - ***Repetition rate***: The gradual increase of the completion rate goes with improvement of the system's internal efficiency; i.e. a reduction in repetition rate for countries with high value in 2011: i) for countries with a proportion of repeaters lower than 10%, the value remained unchanged; ii) for countries with a proportion of repeaters between 10% and 20%, the value will decrease progressively to reach 10% in 2020; and iii) for countries where the value is higher than 20%, it will be divided by 2 in 2020.

[14] The 2013 Results for Learning Report shows that fragile and conflicted affected states do not make progress at the same pace as other GPE countries.
[15] Among the 68 eligible countries, 15 were not taken into account in the simulation. 10 (Grenada, Kiribati, Maldives, Myanmar, Sao Tome, Tajikistan, Tonga, Tuvalu, Vietnam and Zambia) have a PCR higher or equal to 100% in 2011 or closest year and 5 (Haiti, Kosovo, Micronesia Fed states of, Solomon Island and Somalia) do not have enough data for the simulation.
[16] GPE compilation on the basis of the number of children by age groups as computed by the United Nation Division of Population, 2012 revision.
[17] See chapter on education results in GPE developing partner countries in the 2014 Results for Learning Report.

5. ***Unit costs***. Often, the fixed unit cost estimated/observed for each country is used for projections. In doing so, in countries with low unit costs due to a high level of parent contributions, there is an underestimation of the real unit cost, and as a result, these countries are penalized. Conversely, in countries with high unit costs due to system inefficiencies, there is an overestimation of the unit costs and therefore of the financial needs. To correct that, the basic idea is to introduce adjustment/normative factors that promote cost-effectiveness or the concept of "***Value for Money***." In addition, recurrent costs that are incurred annually are treated separately from capital investments that are depleted over many years.

5.1 ***Recurrent Unit Cost***. For recurrent costs, the largest determinant is the teachers' salaries and benefits; and the second component is the non-teacher salary that pays for administrative costs, learning materials and other quality improvement supplies. We use an approach developed in a working paper aiming to revise the Needs and Performance Framework (Mingat, 2013).[18] The recurrent unit cost for country X is defined by the following formula:

RUC = [(TS / CS) / (1-PA)] + CNSI

TS: Teacher Salary, CS: Class Size, PA: percentage of teacher salary cost for administrative and support staff, CNSI: amount for consumables and non-salary items

To conduct the normative analysis, the value for CNSI is fixed at US$ 20 per student and PA at 15 percent of teacher salary. At country level, TS depends on the level of economic development. Empirical analysis helped determine the relation between teachers' salary and the level of economic development by country using per capita GDP and average teacher salary data for 55 low and middle income countries. This relation is as follows:

TS (as unit of PcGDP) = **28.622 * exp (-0.312 * ln (PcGDP)**

[18] A. Mingat (2013). Technical perspectives towards revision of the GPE country allocation pattern. Working Paper, GPE Secretariat.

The Recurrent Unit Cost for a country X

RUC = [(28.622 * exp (-0.312 * ln (PcGDP))*PcGDP) / 40] / (1 - 0.15) + 20

5.2 ***Capital Unit Cost***. For capital investment, the computation is more complex. These occur on a non-predictable fashion depending upon the status and quality of the physical infrastructures and events/actions that took place the previous years. For this exercise, the option chosen is to use an average cost for an equipped classroom per country. The assumption used is US$ 15,000 for an equipped classroom to accommodate 40 students.

6. ***Gross Financial Needs***. Once both the student flows and the unit costs are computed per country, aggregated needs are easily derived by multiplying the two components. These aggregates are termed "***Gross Financial Needs***" because they do not take into account three adjusting factors: (i) domestic funding; (ii) external aid ("ODA"); and (iii) countries' implementation capacity or absorptive capacity. For many low-income countries, experience shows that capacity constraints are often impediments for accelerated progress towards universal primary completion.

C. Availabilities of Resources

7. *Methodology and Assumptions*

7.1. ***Domestic Resources***. The starting point is the percentage share of its national income (as measured by the gross domestic product or GDP) that each country allocates to education. The second parameter is the expenditure in primary education as a share of total education expenditure.

- ***Education expenditures as share of GDP:*** The average value for GPE country partners is 4.8. For countries below the average: (i) a growth rate of 1.5% per annum is used for fragile states; and (ii) a growth rate of 2% is applied to other non-fragile states below the average. The value remains unchanged for the country above the average throughout the projections.

- ***Expenditure in primary education as share of total education expenditure:*** (i) Countries with a PCR lower than 85% and a share of primary expenditure lower than 50%: the expenditure ratio is gradually increased to reach 50%; otherwise it is maintained; and (ii) countries with a PCR higher than 85% and the expenditure share higher than 50%: the value is gradually decreased to reach 50%; otherwise it is maintained at the current level.

7.2. ***External Resources (ODA) for primary education***. ODA for primary education is calculated as the total of three types of spending: i) sector allocable to primary education; ii) 25 percent of sector allocable aid to education with level unspecified; and iii) 5 percent of budget general support.[19] The 2011 value is used as reference for the entire period of the projection.

D. Financing Gaps

8. ***Estimated Absorption Capacity ("EAC")***. For the 46 developing country partners with previous GPE grants, past performance was used to calculate net financial flows that can be absorbed effectively. Obviously, these calculations are sensitive to grant modalities being used and to the fact that the capacity built during the implementation of past grants cannot be really factored in. Thus, there are clear limitations to the exercise. However, the different estimations made did not allow for the conclusion that there would be a substantial absorption capacity issue for the countries considered. This issue does appear for a few countries, but does not affect a global estimate as the one considered here.

9. ***Net Financing Gaps***. These are easily derived by subtracting domestic financing and external financing from the gross financing needs estimated for each eligible country earlier. Finally, the aggregated gross and net financial needs over the projection periods are derived for all countries analyzed.

[19] This calculation derives from the calculation which is usually made for basic education. The ODA for basic education is usually calculated as the total of three types of spending: i) sector allocable aid to basic education; ii) 50 percent of sector allocable to education with level unspecified; and iii) 10 percent of general budget support. In the calculation of ODA, basic education is defined as covering early childhood education, primary education and basic life skills for youth and adults. We assume that, half of the two other types of spending added to basic education go to primary education.

Gross Financial Needs and Net Financing Gaps
Estimates and Projections (In millions of USD dollars)

US$						
	2015	**2016**	**2017**	**2018**	**Annual average**	**Total**
Gross Financing Needs (A)	20,056	21,054	22,082	23,315	21,627	86,507
Domestic Financing (B)	15,216	17,052	18,467	20,050	17,697	70,785
External Financing (ODA) (C)	1,905	1,683	1,468	1,317	1,593	6,373
Net Financing Gaps **D=A-(B+C)**	**2,935**	**2,319**	**2,147**	**1,948**	**2,337**	**9,349**

Sources: GPE Secretariat's estimates and projections.

ANNEX 3- INNOVATION CENTER

1. EXECUTIVE SUMMARY

1.1 The Secretariat was asked by the Board of Directors in May 2013 to consider how best to facilitate and support innovation among the programs financed by GPE and to return to the Board in November 2013 with a proposal. In addition to promoting innovation, the Secretariat seeks to facilitate engagement by GPE and its partner countries with a broad range of non-governmental donors (including the business community, private foundations, non-profit organizations and philanthropists) by establishing an administratively nimble and flexible "Innovation Center" (please note that this is a working title) that could have charitable legal status in the US, UK and other key settings.

1.2 Since May 2013, the Secretariat has surveyed the "Innovation Fund" landscape to learn about existing models and approaches to nurturing and financing innovation, particularly among partners in development and education. There are numerous entities in the private foundation space and within public agencies whose purpose is to test and support innovative projects and concepts. The majority of these finance fairly small-scale pilot projects, including in global basic education. None appear to specifically finance significant scaling-up of pilots that demonstrate success at a community or local level. Therefore, this represents a gap in education innovation program financing. Given this research, the Secretariat proposes a dual-function Center that will identify promising education pilot projects that can be formulated for significant scale-up and then promoted for financing among public and private donors. These scaled-up projects will be monitored and evaluated and the lessons learned from these scale-up efforts will be shared with GPE partners, particularly developing country partners. In addition to financing scale-up, the Innovation Center can also support other project development.

2. BACKGROUND

2.1 In its Strategic Plan for 2012-2015, the Global Partnership for Education ("GPE") made a commitment to "seek out, nurture, evaluate and support scaling-up of innovations." This commitment was drawn, in part, from the perception that GPE support and operations were not yet sufficiently conducive to producing and promoting innovations within the education sector.

2.2 Much of the commentary on the need for GPE to better harness the potential of innovation arises traditionally from the private and philanthropic sectors. However, bilateral donor and developing country partners also have increasingly urged the Secretariat to address the need for systemic change in education through innovation. For the philanthropic, non-profit and private sectors the desire to engage with GPE on this change agenda can be challenging. While bilateral and multilateral donors may note the innovation issue, they also have other ways of engaging with the GPE (and specifically the GPE Fund) and its country processes. They have very natural pathways for engagement. But the philanthropic, non-profit and private sectors, eager as they are to help with the global education agenda, find it harder to engage with country-level processes and the GPE Fund than the traditional bilateral and multilateral donors.

2.3 The Secretariat's review of the landscape indicates that much of the collaboration between the private sector, including foundations and non-profits, and the development community has been focused on the initiation of fairly small-scale pilot programs. However, there appears to be little collaboration designed to assess the potential impact at national system level of scaled-up successful pilot programs. We believe that a focus on the scaling-up challenge and avoidance of further proliferation of pilot projects that can increase the burden on countries, is in keeping with GPE's strategic objectives and appropriate from an aid effectiveness point of view. An additional element to consider with regard to a scaling-up approach is that we can help donors that have funded such pilots "redeem" and generate further value out of their investments in pilot programs over the years.

2.4 Since 2011, the Secretariat has increased its dialogue with non-governmental organizations, including businesses interested in supporting education in developing countries, private investment funds, non-profit organizations, civil society and foundations. During this period, a number of education related business coalitions, and public-private donor networks have been established to facilitate dialogue with the global education community, including GPE. These networks are staffed, well organized and reflect a real commitment by an increasingly broad community to support global education. A number of business representatives have expressed interest in working cooperatively with GPE, particularly in furtherance of innovation in the sector. However, while GPE has the technical staff necessary to co-develop joint work with non-governmental organizations, it needs to consider whether its current structure and

processes provide the flexibility and speed needed for GPE to engage transactionally with such partners. The Secretariat recommends that we explore options in this regard, including setting up an internal office specifically designed and staffed to collaborate with the new partners on the innovation agenda, working through an external consultant, and establishing a GPE-related non-profit entity, such as a 501 c 3 charity.

2.5 All of GPE's partners can, and no doubt will, contribute to innovation, including non-governmental organization partners and developing country partners. GPE's success in working with such a wide range of partners, the business and foundation community in particular will depend on its ability to work administratively nimbly and flexibly. However, it is important to note that GPE's hosting relationship with the World Bank and its partnership with UN agencies such as UNICEF and UNESCO, civil society and governments provide GPE critical credibility that will work alongside this flexibility.

2.6 In terms of its innovation agenda, the Secretariat proposes that the Innovation Center focus contributing to achievement of a limited number of GPE's strategic objectives.

2.7 GPE's Chief Technical Officer will oversee the operations of the Center and manage the relationships with a wide range of partners.

2.8 The Innovation Center will be guided by a special technical advisory group, representative of the range found within the partnership, which will identify pilot projects for potential scaling-up which it will recommend to the Secretariat leadership and will be considered ultimately by the GPE Board. A small, core staff is envisioned which can be financed in whole or in part by private contributions. GPE's Chief Technical Officer and Director for Special Projects will reach out to GPE's current corporate and foundation contacts to explore "seed" support related to the design and the start-up operations of the Center.

2.9 In addition to its technical capacity, the Center will require public-private partnership building and public affairs expertise for the project promotion and resource mobilization needed to secure project financing. The majority of resources needed will be for financing of the scaling-up projects.

2.10 Monitoring and Evaluation: The projects financed for scale-up by the Center will be monitored and independently evaluated. An evaluation framework will be developed

in consultation with the GPE's own evaluation team. The results from successfully scaled-up projects will be shared with GPE partners and developing countries and is expected to influence the use of education funds at national level, GPE's own country education plan financing and support for the implementation of plans.

3. IMPLICATIONS FOR SECRETARIAT RESOURCES

Additional finance totaling US$ 2-2.5 million annually will be needed for its small staff of 3-4 people, office space and basic operating expenses. Support for this will be sought from public and private donors.

4. NEXT STEPS

Among initial preliminary steps are: development of the Center's Statement of Purpose and brochure; development and approval of corporate alliance guidelines; identifying potential members of the technical advisory group, and further analysis, including costs, of the organizational and structural options for the Center, including an internal model, external consultant model and a new charitable GPE entity organized to receive charitable contributions, possibly in several countries.

ANNEX 4- REPORT FROM RESULTS FOR DEVELOPMENT INSTITUTE

See Attached: DOC 04_ Annex 4

ANNEX 5- IMPLICATIONS FOR SECRETARIAT RESOURCES

Staffing

The following staff needs have been identified for the replenishment campaign, all working for six months from January to June 2014. There are 9 Short-Term Consultants ("STCs"), mostly junior and one Short-Term Temporary ("STT").

The change to our thinking in May 2013 is the addition of two extra advocacy positions (to provide significantly more support to CSO campaigns), one extra position on the private sector side covering innovative financing and one position supporting the replenishment Champions.

We do not expect all of these positions to be based in Washington, though most will be.

Donor Relations: 2 x analysts/writers, one for BRICS and emerging donors and one for traditional donors. Will support all follow-up requirements from meetings/communication with donors: both at STC 1 level

Private Sector: 1 x senior professional to assist with the private sector/foundations work: STC 3

1 x professional to assist the Director for Special Projects and the Private Sector team on innovative financing and also to prepare the overall pledge framework: STC 1/2

Champions: 1 x coordinator of the replenishment Champions: STC 1/2

Advocacy: 1 x senior advocacy specialist with particular focus on post-2015 and high level advocacy work: STC 3

1 x support person for CSOs in donor countries: STC 1

1 x analyst working with the Partnerships and External Relations Team and Country Support Team on domestic financing: STC 1

Communications: 1 x earned media professional: STC 2

Logistics: 1 x STT to provide extra support to the Operations team

Budget

The following budget has been prepared for the expected additional costs of the replenishment campaign and pledging conference over and above the core Secretariat budget for 2014.

The current estimate is higher than the estimate provided in the May 2013 budget document (US$ 516,000) due to: i) the additional staffing needs outlined above; ii) a special provision of US$ 102,587 for expenses associated with travel for developing country Champions; iii) an allocation for a workshop for core southern NGO coalitions, in early 2014, to help them prepare to lobby for the replenishment; and iv) higher provision for materials and translations.

The estimated replenishment budget reflects only the incremental costs of the replenishment conference. The costs of the June 2014 Board meeting, which will follow immediately after, are included in the core Secretariat budget. Further, there are a number of items included in the budget that may be financed by partners or donors as the planning process unfolds, hence the final budget request may be decreased accordingly. Finally, the budget shown below does not include estimated costs of participation of developing country partner ministers from non-Board member countries at the pledging conference itself in Brussels. In 2011, the level of attendance from developing country partner ministers was significant (over 20 countries) and their costs were ultimately paid for by the Secretariat. We expect a request for greater attendance this time and request guidance from the Board of Directors whether such costs should be entertained. Were this provision to be included, the additional cost would be approximately US$ 150,000.

Expected budget requirement for Replenishment (Jan-June 2014)

Expenditure Type	USD
Short Term Consultants	318,840
Additional Secretariat Travel	30,000
Travel for Champions	102,587
CSO Workshop (Southern Coalition)	77,627
Materials/Documentation	30,000
Translations	50,000
Venue and Event Management	250,000
Subtotal	**859,054**
-Less contribution of Germany (EUR 100,000 equiv.)	(135,195)
Total	**723,859**