GLOBAL PARTNERSHIP for EDUCATION

STRATEGIC FINANCING

For Decision

1. PURPOSE

1.1 The purpose of this paper is to respond to the Board's request at its meetings in May and October 2015 to examine the strategic financing issues faced by the Global Partnership for Education (GPE) through a preliminary strategic financing paper for its December 2015 meeting.

1.2 A more in-depth examination of these issues could then take place to support the Board's decision making in 2016 that takes into account the initial deliberations of the Board at its December 2015 meeting, and the ongoing work of the International Commission on Financing Global Education, and the Taskforce on Education in Emergencies and Protracted Crises.

1.3 The Secretariat consulted with the GERF on the development of this paper, and the valuable feedback has influenced the content of this document.

2. RECOMMENDED DECISION

2.1 The Board of Directors is requested to consider the proposed decision language:

BOD/2015/12-XX—Strategic Financing: The Board of Directors mandates a working group to be composed of members from the Strategy and Policy Committee (SPC), and the Governance, Ethics, Risk, and Finance Committee (GERF), along with members from interested Board Constituencies to deliver a paper(s) to both the SPC and GERF in time for these Committees to make recommendations to the Board for its next meeting in June 2016 on:

i. Whether GPE's eligibility criteria and methodology for allocating resources is optimal for meeting the objectives of the Strategic Plan 2016-2020, and if not, the options and implications of changes to this approach in future funding cycles.

ii. In considering potential changes to the eligibility and basis for allocation, an examination of potential alternative and innovative funding mechanisms that could be adopted to improve prospects to promote additionality, co-financing, and leveraging in order to support the achievement of the goals and objectives of the Strategic Plan,

iii. A preliminary examination of the resources that would be required to support the options for potential changes to eligibility/allocation, and funding mechanisms arising from the work on i and ii above, and the work of the SPC on GPE role as a funder of Knowledge and Good Practice exchange (BOD/2015/10-04)

iv. Development of a Targeted Financial Contributions Policy with appropriate principles and safeguards that would outline the circumstances in which targeted contributions would be acceptable in support of existing and potentially new GPE funding mechanisms.

3. BACKGROUND

3.1 GPE has endorsed the new level of ambition of the Sustainable Development Goals and recognizes that its work must align to it. However, the current availability of GPE Funding is insufficient to meet demand from member countries, while eligibility criteria and the basis of allocation of GPE resources adopted in 2014 may need to be re-examined to ensure it is fully aligned with the Strategic Plan (2016-2020) in future funding cycles.

3.2 In a resource constrained environment, it is essential that GPE seeks to maximize opportunities for raising additional resources for education not only through the GPE Fund but also through focusing on leveraging increased domestic and external resources.

3.3 The issue of strategic financing is not just about how to increase available resources, it is also linked to the funding mechanisms used to deploy those resources to support countries to develop and implement robust education sector plans. In this regard, the work on strategic financing must also tackle key issues on GPE scope and scale.

3.4 The funding mechanisms and requirements around additionality, co-financing, and leveraging, and the ability to utilize innovative financing mechanisms in support of GPE

strategic goals and objectives may differ depending on the countries that are eligible for GPE funding, the purpose for which the resources are allocated, and the level of resources available for each country.

3.5 The ongoing work of the International Commission on Financing Global Education and the Taskforce on Education in Emergencies and Protracted Crises (EiEPC) may be very relevant in this context. The EiEPC work may require serious consideration in the short term of targeted thematic funding for an EiEPC platform. The work of the International Financing Commission is looking at far broader issues. The ability of GPE to positively influence the work of the Financing Commission by being pro-active on these issues may be preferable than waiting and attempting to react to the findings of the Commission.

3.6 At its meetings in May and October 2015, the Board of Directors adopted the following decisions:

> ***(BOD/2015/5-13 extract**) recognizing the differentiated needs of Developing Country Partners and the need for other strategic investments, including in knowledge exchange, data and capacity development, the Board requests the Secretariat to prepare an issues paper outlining for discussion at the December 8-10, 2015 Board meeting the strategic finance issues facing the Global Partnership followed by implications, risks and opportunities associated with the introduction of different approaches to accepting financing for these strategic priorities;*
>
> ***(BOD/2015/10-06 extract)** The Global Partnership recognizes that it needs to explore the potential to diversify its sources of finance to address GPE Priorities. It will consider at its December 8-10, 2015 Board meeting a preliminary paper on strategic financing. This paper will outline safeguards and principles around restricted financial contributions, early analysis of comparator organizations and issues such as additionality, leveraging, co-financing and innovative financing. The paper will also consider financing of knowledge and good prac tice exchange.*

3.7 This paper seeks to respond to these related Board requests and is structured as follows:

> Section 4: Lessons Learned from Current Financing Approach
>
> Section 5: Principles and Safeguards for Targeted Financial Contributions

Section 6: Preliminary Comparator Analysis

Section 7: Risks and Resource Considerations

Section 8: Next Steps

Annex 1: Potential Financial Mechanisms

4. LESSONS LEARNED FROM CURRENT FINANCING APPROACH

4.1 GPE current approach to financing is heavily reliant on a relatively small group of traditional ODA donors. Diversifying the funding base by attracting additional funds from private sector/foundations, and from emerging donors has been a significant challenge based on a lack of flexibility in the current approach. In addition, the ability to access funds from existing donors from different budget lines dedicated for specific initiatives has been limited.

4.2 The eligibility criteria under the current funding cycle prioritizes low income countries and the lower half of lower middle income countries with a primary completion rate of less than 85%. The criteria does not take into account quality issues, or completion rates in lower secondary.

4.3 The basis of allocation of GPE resources to eligible countries has not adequately addressed the issue of what constitutes the minimum amount required to have a positive leveraging effect on the development and subsequent implementation of a robust education sector plan. Many countries have received extremely small allocations which the Independent Evaluation raises issues of how effective this is, and also raises the challenge of how to attribute outcomes to this support. At the same time, other countries have received very significant allocations but may face challenges in trying to absorb these funds.

4.4 As funding has not reached the necessary levels required to finance all of GPE priorities at minimal levels, the Board has been forced to adopt painful prioritization measures to ensure sound financial management of GPE resources. This has resulted in reductions for many of the eligible lower middle income countries, or the necessity to postpone the announcements of future allocations due to a projected lack of available resources. Going forward GPE will need to explore the issue of how to achieve the right balance between trying to support a large number of partner countries while not spreading resources so thin that they fail to deliver their intended outcome.

4.5 The Independent Evaluation also raises concerns around displacement of other external sources of funding, and therefore serious consideration will need to be given to introducing financial mechanisms that promote additionality, co-financing, and leveraging of domestic and external resources.

4.6 The challenge of mobilizing more external resources for basic education in the least developed countries has never been greater. The donor landscape has changed immeasurably and the traditional approach of multi-year replenishments of a single pooled fund may no longer be fit for purpose. More flexibility is required. Moreover, going forward, the GPE Secretariat recognizes the need for a more pro-active approach to improving donor contributions to the GPE Fund and the partnership more broadly. This is particularly the case given the significant pressures on European donor aid budgets caused by the massive refugee influx this year, and which show no prospect of slowing. There will be significant challenges for some European donors to meet their pledges.

5. PRINCIPLES AND SAFEGUARDS FOR TARGETED FINANCIAL CONTRIBUTIONS

5.1 In the interests of equity and to simplify planning and resource management, the preferred form of funding to GPE should always be unrestricted financial contributions into the GPE Fund. However, there may be opportunities to increase available resources to fund GPE priorities if targeted funding was permitted. In order to mitigate the potential negative consequences of accepting such contributions, clear principles and safeguards would have to be in place.

5.2 A key consideration raised by the GERF when discussing this issue is whether accommodating targeted funding will generate significant resources or not. The Secretariat's view is that depending on the extent to which targeted funding is allowed, there may be significant resources available. The Secretariat noted that based on previous discussions with Qatar, if targeted funding was available to finance GPE grants in North Africa and the Middle-East, then up to US$200 million potentially could have been raised.

5.3 When discussing the issue of Targeted funding, it is important to recognize that there has been an increased trend towards targeted (or 'restricted') donor financing in recent years, driven in particular by new and emerging donors worldwide.

5.4 There are two main types of targeted/restricted funding such donors use in disbursing their aid: Geographic and Thematic.

Geographic Targeting

5.5 Geographic restrictions on where their aid can be spent are routinely placed on donor pledges made by new and emerging bilateral and multilateral donors worldwide. Whilst in certain cases Philanthropic Foundations may also geographically limit their expenditure, this is less common.

5.6 South-South cooperation (SSC) totalled USD 19 billion in 2011, with over 75% of this going to low-income countries or LDCs. The share of SSC as a % of total development assistance has increased from 6.7 per cent in 2006 to 10 per cent in 2011 and one-third of SSC is directed towards social sector spending, including education1. The volume of development financing, including grant financing, provided as South-South cooperation is expected to grow further in support of the Sustainable Development Goals. And whilst SSC has historically been delivered primarily through bilateral channels, the United Nations (UN) reports an increasing move towards funding through multilateral institutions, including the World Bank and the UN.

5.7 Whether provided directly as bilateral aid, or through multilateral institutions, the vast majority of new and emerging donors (both bilateral and multilateral themselves) focus exclusively on development cooperation in their own region, where they play anchor roles driving development in neighboring countries. This underlying difference of approach between GPE's current single pooled global fund, and such donors' need for geographic targeting has been reiterated during Secretariat discussions with a number of potential donors on joining the Partnership.

5.8 A 2014 UN report of the UN Secretary General on 'Trends and Progress in International Development Cooperation'2, reported on the limited global reach of South-South cooperation, including donor support provided by bilateral and multilateral donors

[1] http://www.un.org/en/ecosoc/docs/adv2014/2014_dcf_sg_report_adv.pdf

[2] http://www.un.org/en/ecosoc/docs/adv2014/2014_dcf_sg_report_adv.pdf

from the Middle East and Asia regions. Research by the Secretariat on individual donors supplements this view:

Between 2009-2013, Saudi Arabia disbursed 86.6% of its ODA to the Middle East/North Africa region
Between 2010-2013, Korea disbursed 66.0% of its ODA in Asia (South/Central Asia and Far East Asia combined)
Between 2010-2013, Turkey disbursed 46.7% of its ODA in the Middle East/North Africa region, and a further 27.12% in South/Central Asia.
In 2013, Qatar disbursed approximately 93% of its ODA in the Middle East/North Africa region

5.9 Whilst their requirements for geographic restrictions on where their money is spent mean they are hesitant to pledge to pooled global mechanisms3, there is considerable alignment between GPE mission and new and emerging donors' priorities in disbursing their own donor funds. Parallels to this approach can be drawn with the European Commission (EC)'s support to GPE, which whilst fully aligned with the overall principles of the Partnership, is partially limited to supporting Africa, Caribbean, and Pacific (ACP) countries.

Thematic Targeting

5.10 Whilst traditional, new and emerging bilateral and multilateral donors have some sub-sectoral restrictions on where their money can be spent, in most cases this is limited to support for different levels of education, notably:

- ✓ Early Childhood Education/ Early Childhood Development
- ✓ Basic Education
- ✓ Upper Secondary/TVET
- ✓ Tertiary

[3] There are a limited number of exceptions to this. For example; Saudi Arabia pledged US$25mn to the Global Fund to Fight Aids, TB and Malaria for their 2014-2016 Fourth Replenishment Period.

5.11 There is also strong interest from a number of traditional and emerging donors in supporting education in emergencies and protracted crises. One potential donor – who is not currently a member of the Partnership – has already signalled their interest in providing funding to GPE solely for this purpose.

5.12 The approach taken by the Philanthropic sector is somewhat different, although Early Childhood Development remains a key priority for their funds. The International Education Funders Group (IEFG) has 89 member Foundations, all supporting education. Its membership includes CIFF and Dubai Cares, the two Philanthropic Foundations which made inaugural pledges to GPE at the June 2014 Replenishment Conference, along with a number of other large and small Foundations worldwide.

5.13 The 2015 IEFG survey of their membership4 reported that although the direct provision of educational services remained of key interest for most IEFG members, when it comes to disbursing their funds of approximatly US $640million per year for education, many IEFG Foundations focus on improving education quality and equity from outside of the direct provision of schooling. This includes through policy advocacy, by supporting community accountability mechanisms like budget-tracking, and through capacity-building programs for community-based organizations. These mirror the areas of interest expressed by Foundation members of GPE's own Private Sector and Private Foundation Constituency in a 2011 consultancy mapping of the constituency, which found that learning and supporting community-based organizations were of particular interest.

5.14 Where the delivery of educational services were supported, this is predominantly through the direct delivery of education and training by the Foundations themselves (78.79% of IEFG members surveyed), rather than through contributing to the overall financing of education (36.36% of IEFG members surveyed).

5.15 Beyond their own direct provision of Education Services, there is considerable Foundation support for financing specific technical intervention. The top two areas in 2015 for IEFG members were:

Monitoring and Evaluation – 78.79% of members surveyed

[4] IEFG Financial Contribution Survey 2015 – Summary Report

Research and innovation – 69.7% of members surveyed

Knowledge and Good Practice Exchange

5.16 At its meeting in October 2015, the Board passed the following decision and requested the SPC to develop a proposal to the Board for its June 2016 meeting:

(BOD/2015/10-04) *endorses the Global Partnership's global and cross-national role as convener, advocate, broker and* ***funder of knowledge and best practice*** *in areas critical to the achievement of the Global Partnership's Strategic Goals;*

5.17 If the Board were to consider accepting targeted funding, then this area would likely be a good match for thematic targeting due to the likelihood of securing funding from the Private Sector/Foundations, the current lack of resources for such initiatives from the GPE Fund, and considering that the perceived risks associated with targeted funding by traditional ODA donors of core country level grants would not apply in this case.

5.18 Any targeted funding for this or indeed any other initiative would have to respect key principles and there would need to be appropriate safeguards. These might be as follows:

Principles

GPE encourages all donors to provide unrestricted financial contributions through the GPE Fund and expects that the majority of funds available to GPE will be unrestricted. However GPE recognizes that to increase opportunities to generate resources and to facilitate financial contributions from partners that may have restrictions on the use of their resources particularly those from the Private Sector, targeted funding is acceptable subject to the following principles and safeguards

All targeted funding must:

- Align with the Strategic Plan and the GPE Charter
- Be delivered in such a way that it does not unduly increase transaction costs or allow the contributor exert undue influence on the Secretariat, Trustee, Grant Agents, and Implementers.
- Not be in place of unrestricted financial contributions to the GPE Fund.

Safeguards:

The GPE Board will allow targeted funding only for the following:

1. Activities and Strategic Initiatives that the Board **pre-designates** as eligible for targeted funding.
2. Activities or funding requests that may emanate from a GPE partner that are i) assessed by the GPE Secretariat as meeting the GPE Targeted Funding Principles; ii) considered by the GERF in formal meeting; and iii) subsequently approved by the GPE Board.
3. Any targeted funding that requires the opening of a separate Trust Fund from the GPE Fund will be subject to prior approval by the GERF in consultation with the Trustee.
4. The GERF will review on an annual basis the level of targeted funding and the source of targeted funding and advise the Board on whether any restrictions or modifications to GPE's principles, safeguards, policies, and procedures are required.

Illustrative Example – Targeted Funding of Knowledge and Good Practice Exchange (Thematic Targeting)

The Board approves an initiative to gather data on equity through household surveys in a number of GPE partner countries. The total cost is estimated to be US$10 million and the work will be undertaken by two existing GPE Grant Agents. The GPE Board designates this an eligible activity for targeted funding.

The GPE Secretariat approaches a number of Private Foundations and one of them agrees to finance this initiative.

An initial contribution of US$5 million is channelled through the GPE Fund and a report on the work is shared with the Board and the contributor through the normal GPE reporting processes. The total spent by the Grant Agents is US$9.8 million funded from the GPE Fund. A balancing contribution of US$4.8 million is then made at the end of the program by the donor to bring the total contribution to US$9.8 million.

In the event that the donor required the funds segregated from the GPE Fund, then they would be responsible for paying any costs related to the administration of a separate Trust Fund and the GERF would need to be informed and approve after consultation with the Trustee on the acceptability of this proposal. In this case, all the funds (US$10 million + Fees) would be

required in advance of payment to the Grant Agents, and the donor would be refunded any unspent funds (US$0.2 million) when the Trust Fund closed.

The principles and safeguards would be fully met in this case

Illustrative Example: Targeted Funding of Education Sector Program Implementation Grants (Geographic Targeting)

A new donor to GPE indicates their willingness to provide a US$100 million contribution on the condition that the funds are segregated from the GPE Fund in a separate trust fund and can only be used to finance GPE grants approved by the Board in a single region. The Donor indicates that due to their internal restrictions they cannot contribute through a pooled fund such as the GPE Fund but they will pay the fees for a single donor trust fund and they do not require any separate reporting from what GPE normally provides.

The Secretariat informs the GERF that the funding principles are met as the funding is for an eligible GPE activity under the strategic plan and charter, no undue influence or unreasonable costs are imposed as the grants are approved through normal processes, reporting is standard, and the donor will pay the fees of the Trust Fund. In addition, as the donor is new to GPE and has restrictions on their ability to make an unrestricted financial contribution to the GPE Fund, there is no question of the payment replacing a contribution through the GPE Fund.

The Trustee informs the Secretariat and GERF of its willingness to establish a separate Trust Fund to facilitate the contributions and the GERF approves this, and recommends the Board accept the contribution, which the Board subsequently agrees.

The donor signs a contribution agreement and makes payments based on an agreed schedule. The Board approves grants from the eligible region through the normal approval process, the payments are made from the segregated fund and therefore funds are freed up in the GPE Fund and made available for other purposes.

Illustrative Example: Targeted Funding is Not Accepted

An existing donor to the GPE Fund indicates that US$50 million of its US$200 million pledge which has not yet been paid should be targeted to Country X. Country X has already received a grant in the current replenishment period and is not scheduled for an additional payment. The Donor indicates that it wants the Grant Agent to include three specific indicators in the Results Framework for a new grant to Country X and receive reports every quarter on results.

In this case, the Secretariat informs the donor that the targeting is not acceptable as it does not comply with the principles that the contribution should not be in place of unrestricted financial contributions through the GPE Fund, and as it exerts undue influence and increases transaction costs on the Grant Agent and Implementers through the requirements to include specific indicators in the Results Framework and provide additional customized reporting. In addition, an additional grant for Country X would not be an eligible activity as the country has already received a grant and is not scheduled for an additional payment.

6. PRELIMINARY COMPARATOR ANALYSIS

6.1 The information in this section is designed to provide basic information on the use of alternative, or innovative financing mechanisms, including information on targeted financial contributions by other relevant organizations. The suitability of any of these mechanisms or approaches for GPE purposes would require further analysis, however it is clear that other organizations are either exploring more innovative approaches to financing and/or becoming more flexible with respect to targeted funding.

The Global Fund to Fight AIDs, Tuberculosis, and Malaria

Unfunded Quality Demand - The Register of Unfunded Quality Demand is a new mechanism created by the Global Fund to provide an inventory of quality demand submitted to the Global Fund. The demand listed on the register has been assessed by the Technical Review Panel (TRP) as strategically focused and technically sound, and is in need of funding. The register function as a living index of funding needs for the three diseases. Quality demand will be added as concept notes are processed by the Global Fund or removed as items on the register secure funding.

Items on the Register of Unfunded Quality Demand can be financed either through the Global Fund as additional resources become available, or as direct co-investments. Private donors (e.g. corporations, foundations and individual private donors) and authorized public mechanisms (i.e. UNITAID and Debt2Health) may make contributions through the Global

Fund. Such contributions may, if desired, be earmarked to support unfunded quality demand at the country- or disease component-level

GAVI Alliance

The International Finance Facility for Immunisation (IFFIm) uses long-term pledges from donor governments to sell 'vaccine bonds' in the capital markets, making large volumes of funds immediately available for Gavi programs. IFFIm benefits from US$ 6.5 billion in donor contributions over 23 years from the governments of the United Kingdom, France, Italy, Norway, Australia, Spain, The Netherlands, Sweden and South Africa. These long-term pledges support the issuance of vaccine bonds, which have been issued in various markets. With the World Bank as its treasury manager, IFFIm has raised more than US$ 5 billion to date - three times the donor funds received into the IFFIm account over the same period.

Matching Fund - Contributions to GAVI from companies, foundations, their customers, employees and business partners can be matched through the GAVI Matching Fund. The GAVI Matching Fund is supported by the British Government through its Department for International Development (DFID) and by the Bill & Melinda Gates Foundation. GAVI's goal is to raise US$ 260 million for immunization through the GAVI Matching Fund by the end of 2015. The private sector partner makes a financial pledge to GAVI. GAVI works with the partner to find ways to engage its customers, employees, business partners and others to contribute through the GAVI Matching Fund. To the end of 2015, every donation to GAVI through the Matching Fund by the private sector partner, its customers, employees and business partners is matched either by the British Government (in the case of UK companies), or by the Bill & Melinda Gates Foundation. 100% of funds go to GAVI for immunization programs in developing countries.

CGIAR Fund

The CGIAR Fund is a multi-donor trust fund that finances CGIAR research guided by the Strategy and Results Framework.

The CGIAR Fund is administered by the World Bank, as Trustee, and governed by the Fund Council, a representative body of Fund donors and other stakeholders. The Fund Council is the decision-making body of the CGIAR Fund. It also appoints the Independent Science and Partnership Council, a panel of leading scientific experts who provide independent advice and expertise to all Fund donors. This advice is used by the Council to approve CGIAR Research

Programs and allocate resources to them. Before receiving funding, CGIAR Research Programs set out their expected achievements and provide verifiable targets against which progress can be measured and monitored. By linking funding to results, the Fund gives donors better value for money and ensures that research translates into tangible benefits for the poor.

To maximize coordination and harmonization of funding, donors to CGIAR are strongly encouraged to channel their resources through the CGIAR Fund. Donors to the Fund may designate their contributions to one or more of three funding "windows":

- Contributions to Window 1 are the least restricted, leaving to the Fund Council how these funds are allocated to CGIAR Research Programs, used to pay system costs or otherwise applied to achieving the CGIAR mission.
- Contributions to Window 2 are designated by Fund donors to specific CGIAR Research Programs.
- Contributions to Window 3 are allocated by Fund donors to specific CGIAR Centers

Global Financing Facility in Support of Every Woman Every Child (GFF)[5]

By blending domestic and international, public and private resources, aligned behind country-led plans, the GFF represents a very different way to grow development finance. The GFF acts as a pathfinder in a new era of financing for development by pioneering a model that shifts away from a focus solely on official development assistance to an approach that combines domestic financing, external support, and innovative sources for resource mobilization and delivery (including the private sector) in a synergistic way.

To complement the broader Facility, the GFF Trust Fund has been established and has received pledges of US$800 million from the governments of Norway and Canada. Under the previous trust fund, the grant resources from bilateral contributors were combined with IDA financing in an average ratio of 1:4, which the GFF anticipates matching.

One way the GFF aims to bring in new private sector capital is through a partnership with International Bank for Reconstruction and Development (IBRD) to raise funds from capital markets that can be used, for example, to strengthen frontline health systems and scaling-up of community health workers, and another that focuses on the control of malaria to reduce

[5] http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/7/598311437686176148/1515268-GFF-Business-Plan.pdf

child mortality. They are exploring leveraging the World Bank's AAA credit rating to issue a bond that would attract private investors that could provide the capital that a government is seeking to finance a large-scale investment related to RMNCAH.

7. RISK AND RESOURCE CONSIDERATIONS

7.1 While targeted funding and some of the mechanisms outlined in this paper may create opportunities to increase the financial resources available to support GPE Strategic objectives, they can also create risks to the partnership model if not properly managed.

7.2 A move to facilitate more targeted contributions will create additional complexity and costs in terms of the operations of the Trustee and Secretariat, particularly in fundraising, country support, financial planning, management and reporting. The extent of this will depend on how far GPE is willing to go in terms of flexibility to open up different mechanisms to leverage additional resources.

7.3 Further opening the door to allow targeted contributions may also place a strain on the partnership principles and the operations of the GPE Fund as donors may seek to reduce or limit core contributions to allow them focus more on their own strategic priorities through targeted financial support.

7.4 While these represent risks that are not insignificant, they also must be weighed against the risk of not seriously considering these options in light of GPE's current funding situation and GPE's desire to play a key role in leveraging additional financing for education to support the achievement of the goals and objectives of the Strategic Plan (2016-2020).

7.5 The cost of work to further explore any of these initiatives in the first half of 2016 will be covered from within the existing budget of the Secretariat. However actual development and implementation costs of any new initiatives eventually agreed will require additional resources, the extent cannot be determined at this stage.

8. NEXT STEPS

8.1 There are a number of related issues that need to be examined in further detail. These include potential changes to the eligibility criteria and the basis of allocation of GPE resources for future funding cycles in order to align with the new strategic plan. In addition, further examination is required on the suitability of some of the financial mechanisms outlined in this paper, the resources required to finance these mechanisms, and the development of a targeted

financial contributions policy that would clarify the parameters in which GPE could accept such funding if the Board agreed on the need to move in that direction.

8.2 The issues outlined in this paper are complex and interlinked. The work overlaps that of the SPC and the GERF and therefore a joint working group comprised of representatives from both committees and interested members from Board constituencies is recommended to take forward the work in 2016.

8.3 The deliberations of the Board on these topics at its December 2015 meeting and the finalization of the Strategic Plan will be critical in shaping the work ahead in 2016.

ANNEX 1 - POTENTIAL FINANCIAL MECHANISMS

1. In considering the most suitable mechanisms for delivery of GPE funding, it is important to understand what GPE is trying to achieve with its funds. In some countries, GPE funding forms an extremely small percentage of the overall funding for basic education available in-country and therefore the funds must have a catalytic effect. In other countries, GPE funding may form a much larger percentage and may be one of the most important sources of external financing in that country. In these cases, not only is a catalytic role important, but the actual choice of activities and how successful they are implemented is critical.

2. While eligibility criteria and the basis for allocation of funding might change for a future funding cycle, the likelihood is that GPE's funding model introduced in 2014 would continue. The need however to address additionality, leveraging, co-financing and innovative financing as ways to increase resources for education and help to align GPE's support to address the SDGs may mean adjustments to the requirements and incentives of the funding model, or indeed the creation of additional funding opportunities to promote Knowledge and Good Practice Exchange, or other strategic initiatives that the Board may determine are critical to achievement of the goals and objectives of the Strategic Plan (2016-2020).

3. There are a wide number of different and innovative mechanisms that can be considered to promote additionality, co-financing, and leveraging but it is important that key questions of eligibility for funding, the basis of allocation, and whether targeted financing is acceptable or not also be answered before the Board decides if it really wants to pursue these mechanisms as the mechanisms may not be suitable to all country contexts.

4. The information below outlines a number of mechanisms and approaches that could be explored further to assess their potential usefulness to achieving GPE's goals and objectives under the Strategic Plan.

Debt Buy Downs – GPE resources could be used to increase the amount of funds available for education by allowing a country to borrow non-concessional loans at concessional rates or concessional loans at an even further discounted rate or even converting it to a grant. GPE could insist that the program the loan was financing followed the GPE funding model requirements. GPE would be able to leverage significantly more financing for education than through a stand-alone GPE grant, and in the case of a lender such as IDA/IBRD, there would be an incentive to work with the Government on programs

that supported GPE priority areas and therefore this could help to avoid concerns around GPE substitution.

Debt Swap – Debt swaps could be another viable mechanism to leverage additional financing where there was an interested debtor and creditor country. The creditor country agrees to cancel debt to the debtor country. In return the debtor country makes the repayment to the GPE Fund. It is recorded as a donor contribution from the creditor. GPE then ensures that it provides an allocation of equivalent size or higher to the debtor country through a normal Program Implementation Grant. The creditor country has therefore made a contribution to GPE and has the comfort of knowing that the debt it cancelled will be used to finance implementation of a GPE grant in the debtor country. From the debtor's perspective, instead of making repayments to a creditor, they can now use these funds for implementation of their sector plan through the GPE grant.

Introduce Incentives for Co-Financing - GPE could introduce an external co-financing requirement for its grants. Criteria would have to be determined as to the level of co-financing for different categories of countries, but a basic approach would be to offer an incentive of US$1 of GPE funds for every US$3-4 provided by the co-financer on the condition that the entire program is developed and implemented in accordance with GPE's funding model. In this way co-financing, additionality, and leveraging are promoted.

Introduce Top Ups to Grant Allocations – In addition to the requirements to access the Program Implementation Grant of GPE, consideration could be given to providing a top up to the standard grant allocation for countries that were addressing additional GPE strategic initiatives. For example –If the Board determined that addressing the needs of Refugees based in GPE eligible countries would be a strategic priority, it might provide top ups from a dedicated provision (the provision might be funded from targeted donor contributions) to countries that demonstrated a credible approach to support this group through the Education Sector Plan.

Cash on Delivery – This is the simplest form of results based aid and involves GPE payments to governments once certain non-financial metrics are achieved – on a piecemeal basis (i.e. per teacher trained) and/or threshold basis (once 50 teachers have been trained). This might be a useful approach to adopt where grant allocations are extremely small (i.e Small Islands) and should be targeted on one or two specific activities (e.g. teacher training). To avoid the concerns that the Government might not have the

funds to pay for the activity up front, a hybrid approach could be taken where some funds are paid up front by GPE, and the balance paid to the Government after independent verification of the results.

Challenge Based Grants – If funds for a specific strategic initiative (perhaps knowledge and Good Practice Exchange) were limited, the Board could consider a challenge based approach where only the best proposals are funded. An independent technical review panel could be established to examine the applications and recommend them for approval to the Board.

Unfunded Quality Demand – When applying for GPE grant funding, countries could develop applications for amounts above the country allocation. The activities that would be unfunded if endorsed by the Board would be added to a registry and a period of validity set for them. At the time of each financial forecast, if additional resources were available, they could be used to cover the unfunded portion of the approved grant, or alternatively, these activities could be eligible for targeted funding from other donors or High Net Worth Individuals.

5. The mechanisms outlined above are all relatively simple to develop and implement provided sufficient time and effort was available. The ones outlined below would require specialist support within the Secretariat and would need to be further examined in conjunction with the Trustee.

Guarantees - In a guarantee structure, GPE would pledge to honor payments to an investor on behalf of the Government. Guarantees reduce investors' exposure to risk of non- or late payment of returns with two results:

1) Guarantees can make investments financially viable *for investors* by reducing risk and thereby increasing the potential sources of investment.

2) Guarantees reduce the cost of capital, improving *the investee's* case for implementing a program, increasing the amount of capital that an investee can raise, and/or creating savings that can be applied elsewhere.

Development Impact Bonds – Impact bonds are a results-based funding mechanism that catalyses private investment in a particular sector by providing financial payments (from public money) to investors on the condition that certain non-financial outcomes are achieved. For example – If a program was designed to improve learning outcomes in a

country by X percent, funding for the program could be raised through the issuance of a development impact bond. The rates of return demanded might be low or negligible if funded on a philanthropic basis by a Private Foundation or High Net Worth Individual. If the program was successful, then funds would be repaid to the investor by a combination of the Government and GPE depending on the structure and amount of the arrangements.

Parametric Insurance – This type of insurance allows a country to receive a pre-determined payment upon the occurrence of a triggering event. As actual loss does not need to be assessed, both the cost of premiums and the time to receive payment can be significantly reduced. In GPE's context, funding could be provided to help cover the cost of premiums for countries that might be prone to natural disasters that could devastate their education infrastructure. For example – If the premium for an earthquake in country X was $1 million then if such an event occurred, the Ministry of Education could receive US$30-US$40 million within a matter of days to support relief efforts in the sector. This might be particularly suitable to Small Islands in the Caribbean and Pacific where GPE funding is relatively low but they are prone to natural disasters.