MAY 25, 26 AND 28, 2021

MEETING OF THE BOARD OF THE DIRECTORS

VIA VIDEOCONFERENCE | BOD/2021/05 DOC 09 | FOR DECISION

PRIORITIZATION OF GPE 2021-2025 FUNDING

Please note: Documents are deliberative in nature and, in accordance with the GPE Transparency Policy, are considered public documents only after their appraisal by the relevant governance instance. It is understood that members will circulate documents among their constituency members prior to consideration for consultation purposes, with the exception of documents that are confidential.

Key issues for considerations:

- Recommendation of the process to allocate new funding following the conclusion of the Global Education Summit: Financing GPE2021-2025.
- Approach to prioritize funding in the event of a shortfall.
- The Finance and Risk Committee (FRC) requested the Secretariat consult with Developing Country Partners and Grant Agents on aspects of the proposal, notably the proposal to group countries and stagger the rollout of the operating model prior to endorsing the recommendation. This consultation is expected to be completed before the Board convenes and the findings will be shared with the FRC and Board. As such, the recommended decision language is from the Secretariat at this stage.
- FRC suggestions to have a meeting of the committee (rather than a non-objection process) as soon as possible following the financing conference have been factored into the proposed process, as has the suggestion to inform all eligible countries of their indicative allocations at that time, while further information on the rationale for the staggered approach to roll-out has been included in the paper.

Objective

1. The purpose of this paper is to approve the process by which funding allocations for the GPE2021-2025 period will be made available following conclusion of the financing conference, and as requested by the Board, how they will be prioritized in the event that available resources for System Transformation Grants are less than US$2 billion.

Recommended Decision

BOD/2021/05/-XX—Prioritization of GPE Funds: The Board of Directors:

1. Refers to its decisions BOD/2020/11/12-04 and BOD/2020/11/12-05 on eligibility and allocation for GPE funding mechanisms, and its request to the Secretariat to develop prioritization criteria, along with BOD/2020/09-02 to approve up to 20% of grant funds for the Multiplier.
2. Approves the process to indicatively allocate grant resources for the 2021-2025 financing period as set out in BOD/2021/05/DOC 09 Annex A.

Background

2. In December 2020, the Board approved a series of decisions relating to eligibility and allocation for the 2021-2025 period, building on previous decisions from September 2020 to expand the Multiplier to up to 20% of overall grant allocations. As in previous financing periods, the projected availabilty of resources can only be assessed once the vast majority of donors have made pledges for the period ahead. The majority of these pledges will be made at the Global Education Summit: Financing GPE2021-2025 on July 28-29, 2021.
3. Once a forecast of available resources is made, the next step is to decide on allocation levels, and inform eligible countries of the amounts available and how to access them. Given the Board's previous decisions on eligibilty and allocation, and the proposals set out in this paper on prioritization, this will essentially be a mechanical exercise and should facilitate the desire to move as quickly as possible from the announcement of donor pledges at the Summit to the announcement of potential allocations to partner countries.
4. The process builds on the experience from the 2018-2020 period, where the FRC convened the day after the replenishment conference in Dakar to review the replenishment outcome and announce indicative allocations based on pre-agreed eligibility and allocation decisions and prioritization criteria.
5. The fundamental difference proposed by the Secretariat from 2018-2020 include recommendations designed to facilitate a rapid roll-out of the operating model while ensuring strong support to each country through the process and include:

   (i) **Remove the guidance that countries must have committed at least 75% of an existing ESPIG before applying for a new grant –** This will provide greater flexibility to countries on the timing of an application, provide faster financing for system transformation which is even more critical in light of

the impact of COVID, and ensure donor contributions are converted to disbursements faster with greater prospects for demonstrating results by the end of the current strategic plan.

(ii) **include a narrower window for which countries should complete the application process –** In order to facilitate the flexibility to apply earlier, to better manage workloads, provide strong support, and to ensure donor contributions are converted to disbursements in a timely manner - it will be important to ensure that the move from indicative allocation to grant application is performed in a reasonable timeframe. While a country should be able to submit its application within 12 months of the start of the process to apply, all countries will have a minimum of 18 months to apply and this may be extended for a further 6 months to 24 months by the CEO.

(III) **Cluster countries in a number of cohorts** – In order to be able to provide strong support for each country within the timeframe, and ensure the workload for the Secretariat and Board in supporting and reviewing the various stages of the operating model is relatively predictable and manageable, countries will be grouped into cohorts. The start of the 18 month application period will therefore be staggered based on where countries are with implementation of an existing ESPIG and their willingness/readiness to engage in Compact discussions. This approach will also mitigate the risk of a repeat of 2018-2020 where applications were low in 2018 and 2019 and then spiked significantly at the end of the period in 2020.

6. The Secretariat proposes that the approach proposed in Annex A including prioritization criteria in the event of a far lower than anticipated replenishment outcome be adopted, and that the Finance and Risk Committee be delegated authority to approve the recommended indicative allocations for the System Transformation Grants, and confirmation of the funding envelopes for the Multiplier and Girls Education Accelerator based on a forecast of available assets prepared by the Secretariat.

7. GPE's financial position will fluctuate over the 2021-2025 period based on the timing and value of donor contributions, the impact of exchange rates, and the extent to which countries access their maximum allocations and utilize such resources. Therefore, the Secretariat will continue to prepare semi-annual financial forecasts to the FRC which will include information on the extent of actual and projected funding to Low Income Countries as requested by the

Board, and where necessary will propose adjustments to the allocation of resources which the FRC may recommend for Board approval.

Annex A - Process and Methodology to Indicatively Allocate GPE2021-2025 Grants

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1. **Step 1:** The Secretariat will review the impact on eligibility and allocation for GPE System Capacity Grants, System Transformation Grants, and the Multiplier based on the updated World Bank economic classifications to be published after July 1 2021 and latest data available per the allocation formula approved by the Board per BOD/2020/11/12-04. As agreed by the Board, there may be additions to the list of eligible countries but no existing country will be removed.

2. **Step 2:** The Secretariat will prepare a financial forecast within a week of the Global Education Summit: Financing GPE2021-2025 which will estimate available funds for allocation based on the following methodology:

    - (A) **Resources Available** - Cash on hand, balance on donor contribution agreements, donor pledges valued at actual FX rates to the US Dollar, projections of additional donor contributions[1], investment returns, and reflows from closing grants.
    - (B) **Less Funding to be set aside** - Disbursements to be made on existing approved grants, disbursements to be made on existing indicative allocations that have not yet been converted to approved grants, a provision for Agency Fees[2], Operating Expenses, Trustee Fees, and World Bank Indirect Cost Recovery Charges.
    - (A-B = C) **Funding Available for New Allocations -** To be increased by 20% to account for carryover into 2026-2030 period and to be provisionally allocated as follows:
        - *Girls Education Accelerator* - based on value of targeted pledges up to US$250 million. In the event that pledges are higher, the Secretariat will propose options for FRC consideration to the Board. In the event of a lower amount, then subsequent targeted pledges will be automatically used to increase the allocation up to the levels established by the Board of US$250 million.
        - *Program Development Grants* - approx. US$20 million

[1] The Board in December 2017 approved the methodology to value pledges that are subject to uncertainty and to projected donor contributions as set out in BOD/2017/12/DOC 04 - Annex 5. This approach will continue to be applied

[2] Agency fees typically contribute to the indirect costs of the Grant Agent and are additional to the grant allocation. Agency fees range from 0% to a maximum of 7% depending on the Grant Agent.

- *System Capacity Grants* - per the eligibility criteria and allocation formula approved by the Board - approx. US$250 million
- *Strategic Capabilities* - provision of up to US$200 million for KIX, EOL, and other Capabilities. Actual allocations will be determined at a later date.[3]
- *Multiplier - 20% of Funding Available for New Allocations less existing Multiplier MCAs above the initial US$250 million 2018-2020 allocation ceiling.*
- *System Transformation Grants -* Remaining funding plus 10% to account for countries that may not apply for an allocation, or may not avail and/or utilize the maximum funding available. The allocation formula will then be applied to this amount to produce indicative allocations for each eligible country.

- Prioritization Criteria - In the unlikely event of funding available for System Transformation Grants (including Pilot Country allocations) being less than US$2 billion[4] the following adjustments shall be made in sequence until such point as the US$2 billion level is reached:
  I. The financial carryover shall be increased from 20% to 25%
  II. The allocation levels for the Multiplier and Strategic Capabilities will be reduced in a pro-rata manner (e.g. if US$600 million represented 20% of grant allocations for the Multiplier and US$200 million was a provision for Strategic Capabilities, the proportion is 75% - 25%. Therefore, if there was a need to find US$100 million to be redeployed for System Transformation Grants, then 75% of this amount would come from the Multiplier reducing it by US$75 million to US$525 million, and the provision for Strategic Capabilities would be reduced by US$25 million to US$175 million)

3. **Step 3:** The Secretariat will submit the financial forecast to the FRC confirming that the above methodology has been correctly applied, including whether prioritzation was necessary or not. The forecast will include the recommended indicative allocations for the System Transformation Grants (See criteria for announcing System Transformation Grant Indicative Allocations below). The FRC

[3] The Board has made US$2m available for Strategic Capabilities with any additional funds subject to future Board approval. The decisions on future allocations to KIX and EOL will be made at a later point and therefore this amount is merely a provision that can be further adjusted by the Board

[4] Likely to occur only if resources raised for 2021-2025 financing period were below $3.5 billion

will then meet as quickly as possible to review the forecast and take a decision. In the event the FRC cannot make a decision, the matter will be escalated to the Board.

4. **Step 4**: Once a decision is made, all eligible countries will be notified of their indicative allocations for a System Transformation Grant, and/or their eligibility to apply for other GPE grants and the relevant ceilings. Countries to be included in each Cohort and the validity of the indicative allocation will be confirmed and communicated prior to the comencement of work for each Cohort.

Criteria and Process for Announcing System Transformation Grants

5. To ensure timely access to GPE funding, account for fluctuations in GPE's financial position, and to ensure a steady and predictable level of work for the Secretariat and Board to allow for quality support and decision making with respect to grant related decisions, it will be important for countries to the extent practicable to work through the process of applying for the System Transformation Grant within an agreed timeframe. The proposed approach to grouping countries into cohorts is set out below and will coincide with the financial forecast to allow for any adjustments to be made based on changes in GPE's financial position.
6. Countries will be selected based on their confirmed availability to engage in compact conversations and expected ESPIG closing dates. **The confirmation of a countries willingness to be included in a Cohort will ensure the time available does not commence for countries that are not ready to engage.**

- **First Cohort** - Pilot Countries - Indicative allocations for Pilot Countries already announced - applications shall be submitted by 30 June 2022.
- **Second Cohort -** Countries with ESPIGs expected to expire on or before 31 December 2023 – Work to commence as soon as possible following financing conference (estimated at August/September 2021) - applications to be submitted within 18 months of announcement
- **Third Cohort -** Countries with ESPIGs expected to expire on or before 31 December 2024 – Work to commence in January 2022 - applications to be submitted by 30 June 2023
- **Fourth Cohort -** Countries with ESPIGs expected to expire on or before 30 June 2025 – Work to commence in July 2022 - applications to be submitted by 31 December 2023

- **Final Cohort –** Countries with ESPIGs expected to expire after 30 June 2025 – Work to commence in January 2023 - applications to be submitted by 30 June 2024

7. The CEO shall have discretion to extend the validity of an indicative application for up to 6 months subject to assessment that sufficient progress has been made on the process to develop an application or there are compelling circumstances for a delay.
8. In the event a System Transformation Grant eligible country intends to access at least 50% of the value of its Multiplier maximum allocation through an expression of interest, it may also submit to access its System Transformation Grant allocation earlier than the dates set out above provided it intends to develop a Compact that will subsequently inform both the Multiplier and System Transformation Grant application. A request for an earlier indicative allocation shall be done through the Multiplier Expression of Interest process, and may be done whether the intention is for the Multiplier Grant Agent and System Transformation Grant Agent to be the same or different.
9. Indicative allocations that expire will result in funding being made available for re-allocation through the semi-annual financial forecasting process, unless otherwise determined by the Board.