JUNE 13, 14 AND 16, 2022

MEETING OF THE BOARD OF DIRECTORS

VIA VIDEOCONFERENCE | BOD/2022/06 DOC 04 | FOR DECISION

FINANCIAL FORECAST

Please note: In accordance with the GPE Transparency Policy, documents are public only after their appraisal by the relevant governance instance. Governance officials may circulate documents to their constituency for consultation purposes, except for documents of a confidential nature.

Key issues for consideration:

- At its April 28-29, 2022 meeting, the Finance and Risk Committee (FRC) considered the Financial Forecast and recommends a set of alleviating actions for Board approval.
- The FRC expressed concerns over the increased risks to GPE's financial position associated with the current global situation, and in particular its impact on the donor landscape and unfavorable currency rate movements which have resulted in a significant reduction in projected availability of funds.
- The FRC supported the recommended increase in the carryover, noting the Secretariat's assessment that expected cash flow through the end of 2025 should be sufficient to make planned payments during this period. Members noted the Secretariat's concerns that any significant further deterioration in GPE's financial position would likely result in the need to reduce planned allocations, and the importance of continuing resource mobilization efforts.

Objective

1. The Board is requested to review the Financial Forecast and consider, due to the change in GPE's financial position, the proposal to increase the carryover into the next financing period and not to further expand eligibility for GPE funding.

Recommended Decision

BOD/2022/06-XX—Financial Allocations: The Board of Directors:

1. Notes the significant change in GPE's overall financial position arising from adjustments to donor pledges and general strengthening of the US dollar since the Global Education Summit;
2. Recalling decision BOD/2021/05-05, authorizes an increase in the amount of unfinanced obligations that may be carried forward into the next financing period not to exceed US$1.2 billion, and on the understanding that allocations may need

to be prioritized should projected cash levels through end 2025 fall significantly below nine months of expected disbursement needs;

3. Determines not to further expand eligibility for GPE funding beyond those indicative allocations listed in Annex C.

Background

2. After the conclusion of the Global Education Summit, GPE moved quickly to announce indicative allocations in accordance with the decisions previously agreed by the Board regarding eligibility and allocation (BOD/2020/11/12-04), and prioritization of resources (BOD/2021/05-05).

3. The third cohort of System Transformation Grant countries was launched in January 2022 with the fourth to be launched in July 2022.

4. As noted during the last financial forecast (BOD/2021/12_DOC_03_Rev.1), GPE's financial position since the Global Education Summit has been negatively impacted by the announcement from one donor that it was reducing its pledge by 50%, and by appreciation of the US dollar. The Secretariat flagged that should the situation further deteriorate, the Board would need to make a decision whether to increase the level of unfinanced grant obligations it would carry into the next financing period (2026 onwards) or reduce planned allocations. Unfortunately, the financial position has further deteriorated, as explained in Annex A.

5. In spite of the deterioration in finances, the Secretariat recommends not to reduce planned allocations, considering liquidity levels in the GPE Fund through 2025 should be sufficient to meet payments falling due in this period. As a result, more of the resources that would be pledged from 2026 onwards would be used to pay for grant allocations approved under GPE2025 and this would reduce future funding for new grant allocations in the 2026-2030 period. Further information on the state of GPE's finances, and the rationale for the recommendation and implications is further elaborated in Annex A.

6. The risks to GPE finances can be reduced through increased efforts on resource mobilization, and reducing the currency exchange exposure through:
    a. Timely conversion of donor pledges into contributions,
    b. Consideration of a currency hedging solution,
    c. Encouraging donors to sign contribution agreements and contribute in US dollars where feasible, and
    d. Increased use of Euro grant allocations.

Annex A – Overview of GPE's financial position
Annex B – Financial tables
Annex C - Donor contributions and grant outflows

Annex A – Overview of GPE's Financial Position

1. Demand for GPE funding remains high with close to US$800 million approved in 2021 and US$700 million disbursed. Approvals in 2022 are expected to be lower than this, but will rise quickly as most of the countries in Cohort 2 are expected to finalize applications in early 2023 rather than late 2022, with Cohort 3 countries and potentially some Cohort 4 countries also likely to be approved in 2023. Disbursements on the existing grant portfolio remain solid with more than US$160 million disbursed so far in 2022 although the ongoing impact of COVID-19 combined with conflict, and political instability means the numbers are not as high as they could be.
2. Since the last forecast, there have been some positive developments such as Denmark pledging 1,050 million DKK (US$155 million), a first time pledge from Qatar (through Education Above All Foundation) of US$20 million, an additional US$8 million pledge from the LEGO foundation, and an increase of US$7.8 million from Japan.
3. However, despite this, the overall financial position has further deteriorated primarily due to ongoing and significant strengthening of the US dollar, notably in the context of conflict in Ukraine. As a result of the movement in Foreign Exchange (FX) rates and some further minor refinements (mainly offsetting), the forecast is currently showing a deficit of US$435.5 million (using the FX Rates as of March 31).
4. The Board has three options in this situation: Option A (Secretariat recommended) is to increase the carryover of unfinanced grant obligations into the next financing period (2026-2030). Option B is to reduce planned GPE grant allocations to eliminate the projected deficit, and Option C is to take a combination of an increased carryover with some cuts to planned allocations.

Options	**Analysis**
A. Increase the carryover (**Secretariat Recommendation**)	GPE should have sufficient cash in the GPE Fund to pay for all disbursements falling due to the end of 2025, and remain within an average of 9-12 months disbursement cover. Therefore, from a cash flow perspective, there would be no need to reduce allocations assuming a successful replenishment of at least similar size in 2026-2030. This approach would allow GPE to maintain its commitment to Partner Countries, and ensure approval and disbursements grow over the course of GPE2025 contributing to the success of the strategy and supporting

	future resource mobilization efforts. It also recognizes that should FX rates move in the opposite direction before much of the donor payments are made, the carryover would reduce automatically. The downside of this approach is that it would reduce the level of new grants that could be funded in the 2026-2030 period as more funds would need to be set aside to pay for grants approved in the 2021-2025 period. Furthermore, the ability of GPE to provide supplemental funding for any change in priority that may arise before 2036, as happened in 2020 with the response to COVID-19, would be limited. GPE would also find it difficult to preserve grant allocations at announced levels should there be further downward pressure on its finances.
B. Reduce grant allocations to eliminate the deficit	GPE could apply a pro-rata reduction to the Multiplier and Strategic Capabilities envelop to eliminate the deficit. GPE's financial position would improve, and cash balances would likely be significantly higher, and more resources from a future replenishment could be used for new grant allocations in that period. On the other hand, it would significantly reduce overall grant approvals and disbursements which in turn could negatively impact delivery on the ground, result in many more countries not being able to access the Multiplier or fully benefit from KIX and EOL. This is turn could negatively impact results and resource mobilization efforts, and could be damaging to GPE's reputation.
C. Apply a combination of an increased carryover and reduced grant allocations	If the deficit was eliminated through a fifty-fifty split, the upside and downsides implications of both options above would still occur, but with slightly reduced impact due to the level of funds involved being reduced on both ends.

5. In considering Option A to increase the carryover, the Secretariat notes that during the 2018-2020 period, the carryover was increased to US$950 million to

successfully respond to COVID-19. As a percentage of total resources mobilized during that period, the carryover was 39% based on funding raised of US$2.46 billion. The current forecast would require a carryover of approximately US$1.1 billion which in dollar terms is higher, but in the context of pledges currently valued at US$3.8 billion is just 29% and a significantly lower proportion of funds.

6. In addition, the Secretariat's modeling shows that cash levels through the end of 2025 should not drop below 9-12 months disbursement cover which is considered an optimal level to balance the need to move funding quickly out of the GPE Fund while ensuring sufficient liquidity to cope with unanticipated delays or shortfall in donor funding, or higher demand for grant disbursements. In response to FRC recommendation to include a limit on the amount of the carryover under this option, the Secretariat has estimated this to be US$1.2 billion in consideration of the amount that could be safely carried forward without liquidity levels dropping below the targeted range for a sustained period.
7. The Secretariat notes that if adopting Option A, should there be significant further reductions in planned contributions through donors either not fulfilling their pledge or further US dollar appreciation it could result in GPE's projected liquidity levels dropping significantly below the target range of 9-12 months disbursement cover. This would likely result in the need for the Secretariat to recommend to reduce planned grant allocations commencing with reductions to the unallocated Multiplier envelope.
8. The graphs in Annex C model the effect of the cash balance in the GPE Trust Fund based on current estimates.
9. Following the Global Education Summit, the Secretariat noted that two additional countries became technically eligible for GPE Funding, Belize and Iran. The FRC requested the Secretariat to conduct further consultations with stakeholders to determine if there were any restrictions on contributions with respect to Iran that might need to be factored into its deliberations. While that process is not complete, the deterioration in the overall financial position of GPE means that adding an additional country and increasing demand is not recommended at this stage. Therefore, the recommendation is that eligibility should be capped at the existing countries outlined in Table 4 of Annex C as previously reviewed and approved by the FRC (FRC/2021/09-01).
10. The Secretariat notes that based on the comprehensive funding guidelines, GPE expects to have sufficient resources to be able to approve any and all proposals received over the next six months.

Annex B - Financial Tables[1]

Table 1A – Forecast of Assets Available for Allocation (All Figures in USD Millions, as of March 31, 2022)		
Opening Cash	**891.1**	*GPE Fund cash balance*
Balance on Donor Pledges	3,290.2	*Value of outstanding donor contributions based in USD*
Projected additional donor contributions	336.6	*Include projections for donors who could not pledge for the full period but intend to*
Projected Investment Returns	45.0	*Estimate of future investment returns on the GPE Fund*
Projected Reflows from Closing Grants	20.0	*Assumption of unused funds to be returned on closing grants*
(A) Total Resources Available	**4,582.9**	
Disbursements on approved allocations	(1,452.0)	*Funds required to disburse to Grant Agents and for OPEX on existing approved allocations*
Balance on MCAs (ESPIG/Multiplier/Accelerated Funding)	(111.3)	*Existing indicative allocations yet to be converted into GPE grants*
Provision for System Transformation Grants	(2,760.0)	*Provision for System Transformation Grants*
Multiplier	(616.83)	*Amount available for new Multiplier MCAs*
Girls Education Accelerator	(176.50)	*Available funds for GEA MCAs for Replenishment 4*
Program Development Grants	(19.3)	*Balance of the PDGs for Replenishment 4*
System Capacity Grants	(255.4)	*Balance of the SCG MCAs for Replenishment 4*
Provision for Strategic Capabilities	(180.0)	*Provision for Strategic Capabilities of US$80m for KIX, US$60m for EOL, and US$40m for other Strategic Capabilities*
Provision for Agency Fees	(100.0)	*Estimate for agency fees on future grant allocations*
Provision for Operating Expenses (OPEX)	(180.0)	*Assumptions for Secretariat OPEX for FY23, FY24, FY25, and 50% of FY26*
Provision for Trustee Budget	(4.2)	*Assumptions based on growth in GPE Fund balances and historic budgets*
Provision for World Bank Indirect Cost Recovery	(43.2)	24% mark up as communicated by World Bank on projected Secretariat OPEX
Discounting on System Transformation Grants	251.0	Discount represents roughly 10% of the System Transformation Grant maximum values to reflect that not all funds may be approved or if approved, disbursed. .
(B) Total Funding to be set aside	**(5,647.8)**	
(C) Authorized Carryover to be financed from next financing period	629.4	*Amount that will need to be financed in the 2026-2030 period from future pledges*
(A+B+C) Projected Surplus/ (Deficit)	**(435.5)**	

[1] Sub-totals in the tables may not add up due to rounding.

Table 1B - Girls Education Accelerator – capped at US$250m	
Donor	**Amount**
Belgium	$2.5m
Ireland	$12m
Germany	$120m
OSF	$1m
Dubai Cares	$1.25m
Lego Foundation	$15m
Denmark	$7.5m
Unlocked matching from PF/PS[2]	$17.25m
Total	**$176.5m**

Table 1C - Financing Breakdown by Income Status (in US$ millions)		
Income Status	**Amount Available for STG Financing**	**Percentage of STG Financing**
Low Income Countries	1,778.8	64%*
Other Countries	981.3	36%
Total	**2,760.0**	**100%**

*As per the December Board Document on Eligibility (BOD/2020/11/12 DOC 06), the percentage of funding under simulation 1 going to Low Income Countries (LICs) was 66.3%, roughly 2.3% more than is currently being proposed. The change is minor and attributable to a number of countries moving from LIC status to Lower-Middle Income Country (LMIC) status as of 1 July 2021. As this difference is minor, no further action is recommended. The Secretariat will in subsequent financial forecasts report on actual allocations to LICs to monitor whether there are any challenges with LICs in terms of accessing funds compared to other countries.

[2] Matching funds of up to US$25m are available for contributions to the Girls Education Accelerator (GEA) from Private Foundations and the Business Community – the matching funds are sourced from the overall Multiplier allocation.

Table 2 (A/B) – FORECAST OF ASSETS

Table 2A - FORECAST OF CASH BALANCE						
All Figures in USD Millions	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
A. Opening Cash Balance (as of Mar 31 2022)	891	943	953	858	854	361
B. Inflows	688	876	886	1,000	241	-
C. Outflows	(636)	(866)	(982)	(1,003)	(735)	(693)
D. Closing Cash Balance 31 December (A + B – C)	943	953	858	854	361	(333)
While the information in Table 1 is used to calculate overall resources available for allocation, this table shows the projected inflows (i.e. predominantly donor contributions) into the GPE Fund and outflows (i.e. predominantly grant disbursements) and the impact on the cash balance. GPE aims to keep cash balances within a range of 9-12 months of disbursements and the projections through end of 2025 are expected to be within that range						

Table 2B - FORECAST OF UNCOMMITTED ASSETS						
All Figures in USD Millions	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
A. Opening Uncommitted Cash Balance (as of Mar 31 2022)	741	872	930	715	835	361
B. Inflows	688	876	886	1,000	241	-
C. Estimated Commitments	(558)	(818)	(1,100)	(880)	(715)	(693)
D. Funds Available to Commit (A + B – C)	872	930	715	835	361	(332)
While a Grant may be approved for a 3,4, or 5-year implementation period, the funds are only committed (earmarked in the fund as available for the Grant Agent) on an annual basis. In order to commit funds, the cash must be available in the Trust Fund. Therefore the level of uncommitted assets is important for GPE's ability to make grant approvals and funds available for Grant Agents. As donors make contributions into the Fund, it increases the funds available for commitments, however as grants are approved and subsequently committed on an annual basis, it reduces the available funds for commitment. The current forecast shows that GPE will run out of commitment authority in 2027 meaning that existing programs may need to be placed on hold. However there may be periods when levels of uncommitted funds are under pressure and therefore timely payment of donor contributions are important.						

Annex C - Donor contributions and grant outflows[3]

Table 3 - STATUS OF 4th REPLENISHMENT (All figures in Millions)		Pledge	Paid as of Mar 31 2022	Remaining Value Mar 31, 2022	Total Value Mar 31, 2022
Donor	**CUR**	**Pledged Amount**	**USD Value**	**USD Value**	**USD Value**
Australia	AUD	180	25.1	109.7	134.8
Belgium	EUR	28	8.5	22.7	31.3
Canada	CAD	300	27.9	211.6	239.5
Denmark	DKK	1,050	7.6	149.1	156.7
Dubai Cares	USD	2.5	0.0	2.5	2.5
Estonia	USD	1	0.2	0.9	1.1
European Union[4]	EUR	700	0.0	776.6	776.6
Finland	EUR	25	29.2	0.0	29.2
France	EUR	333	30.6	339.3	369.9
Germany	EUR	325	74.4	287.3	361.8
Ireland	EUR	60	11.8	55.5	67.3
Italy	EUR	25	5.9	22.2	28.1
Japan	USD	15.0	15.0	0.0	15.0
Kuwait	USD	30	0.0	30.0	30.0
LEGO	USD	18	18.0	0.0	18.0
Luxembourg	EUR	2.5	1.1	1.7	2.8
Netherlands	USD	59.2	11.8	47.3	59.2
Norway	NOK	1,850	81.8	128.5	210.4
Open Society Foundations	USD	1	0.0	1.0	1.0
Qatar (through Education Above All Foundation)	USD	20.0	0.0	20.0	20.0
Republic of Korea	USD	15	0.8	14.2	15.0
Saudi Arabia	USD	38	0.0	38.0	38.0
Spain	EUR	20	0.0	22.2	22.2
Sweden	SEK	1,200	34.8	96.6	131.4
Switzerland	CHF	52	13.0	43.2	56.3
United Arab Emirates	USD	100	0.0	100.0	100.0
United Kingdom	GBP	430	0.0	564.1	564.1
United States of America	USD	305	100.0	205.0	305.0
Total			**497.7**	**3,289.4**	**3,787.1**
Balance on 3rd Replenishment Pledges				**0.8**	**0.8**
Total Donor Pledges				**3,290.2**	**3,787.9**

[3] Sub-totals in the tables may not add up due to rounding, and pledges may be subject to legislative approval processes.
[4] The pledge is for 2021 – 2027.

Table 4 - List of Indicative Allocations Approved for 2021-2025 as of Mar 31 (All figures in USD Millions)			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[5]**	**System Capacity Grant**
Afghanistan	102.02		5
Algeria	Not Eligible		3.7
Angola	Not Eligible		3.7
Bangladesh	97.69		4.7
Belize	Not Eligible		1.6
Benin	25.70		2.4
Bhutan	5.00	3.33	1
Bolivia	Not Eligible		2.3
Burkina Faso	67.39		3.4
Burundi	68.24		3.6
Cabo Verde	5.00		1
Cambodia	15.39		2.7
Cameroon	62.50		3.7
Central African Republic	35.95		2.9
Chad	90.52		3.6
Comoros	5.00		2.2
Congo, Dem. Rep.[6]	162.50		3.94
Congo, Rep.	11.03		2.9
Cote d'Ivoire	44.91	15	2.4
Djibouti	5.00		1.6
Egypt, Arab Rep.	Not Eligible		4.4
El Salvador[7]	Not Eligible	10	1.6
Eritrea	11.82		2.2
Eswatini	Not Eligible		1.6
Ethiopia	117.59		4.1
Gambia, The	5.86		1.9
Ghana	31.43		3.1
Guatemala[8]	Not Eligible	10	Not Eligible
Guinea	33.38		3
Guinea-Bissau	5.71		2.2
Haiti	31.60		2.9
Honduras	Not Eligible		2

[5] Amounts indicatively allocated based on approved Expressions of Interest.
[6] Eligible for a further US$25 million from the GEA.
[7] Eligible for a further US$5 million from the GEA.
[8] Guatemala secured a Multiplier EOI as part of the third replenishment period but is no longer eligible for new funding under GPE2025.

Table 4 - List of Indicative Allocations Approved for 2021-2025 as of Mar 31 (All figures in USD Millions)			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[5]**	**System Capacity Grant**
India	Not Eligible		4.1
Indonesia	Not Eligible		4.7
Kenya	53.30		3.8
Kiribati	2.50		1
Kyrgyz Republic	Not Eligible		1
Lao PDR	10.00		2.6
Lesotho	5.00		1.6
Liberia	19.50		2.2
Madagascar	89.44		3.7
Malawi	68.82		3.7
Mali	75.95		3.4
Mauritania	7.53		0.6
Micronesia, Fed. Sts.	2.50		1
Moldova	Not Eligible	5	1
Mongolia	Not Eligible	5	1.3
Morocco	Not Eligible		3.7
Mozambique	117.59		4
Myanmar	42.94		4
Nepal	20.00		3.4
Nicaragua***	5.00		1.3
Niger	117.59		3.4
Nigeria	117.59	15.45	9.4
Pakistan	117.59		8.8
Papua New Guinea	14.91		2.6
Philippines	Not Eligible		4.7
Rwanda	31.29	30	2.4
Sao Tome and Principe	2.50		1.5
Senegal	38.22		2.4
Sierra Leone	22.47		2.6
Solomon Islands	5.00		1.5
Somalia[9]	98.74		7.2
South Sudan	56.43		2.9
Sri Lanka	Not Eligible		2.7
Sudan	86.50		5
Syrian Arab Republic	18.75		3.6

[9] Eligible for US$25 million from the GEA.

Table 4 - List of Indicative Allocations Approved for 2021-2025 as of Mar 31 (All figures in USD Millions)			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[5]**	**System Capacity Grant**
Tajikistan	10.00		2.6
Tanzania	117.59		5.4
Timor-Leste	5.00		1.5
Togo	20.64		2
Tunisia	Not Eligible		2.3
Uganda	162.50		3.8
Ukraine	Not Eligible		2.7
Uzbekistan	Not Eligible		3.1
Vanuatu	2.50		1.3
Vietnam	Not Eligible	17.5	4.7
West Bank and Gaza	Not Eligible		1.6
Yemen, Rep.	61.57		4.3
Zambia	31.55		3.3
Zimbabwe[10]	24.83		3.0
Dominica	2.50		1
Fiji	5.00		1.5
Grenada	2.50		1
Guyana	5.00		1.5
Maldives	5.00		1.5
Marshall Islands	2.50		1
Samoa	2.50		1
St. Lucia	2.50		1
St. Vincent and the Grenadines	2.50		1
Tuvalu	2.50		1
Tonga	2.50		0.25
OECS Region			1
Pacific Region			1
Total	**2,760.03 ***	**111.28**	**255.45 ****

*The value of STG allocations exceeds the amount in Annex 1 under the assumption that roughly 10% of the value would either not be applied for, approved, or disbursed considering the significant amounts linked to the enabling conditions and results based financing.
**Based on the proposal to increase allocations in Federal States and regional contexts per the separate FRC document, this may increase by a further US$19 million.
***Country has been accepted to slip into the next round.
Cohort 1 Pilot Countries Cohort 2 Countries Cohort 3 Countries

[10] Eligible for US$12.415 million from the GEA.

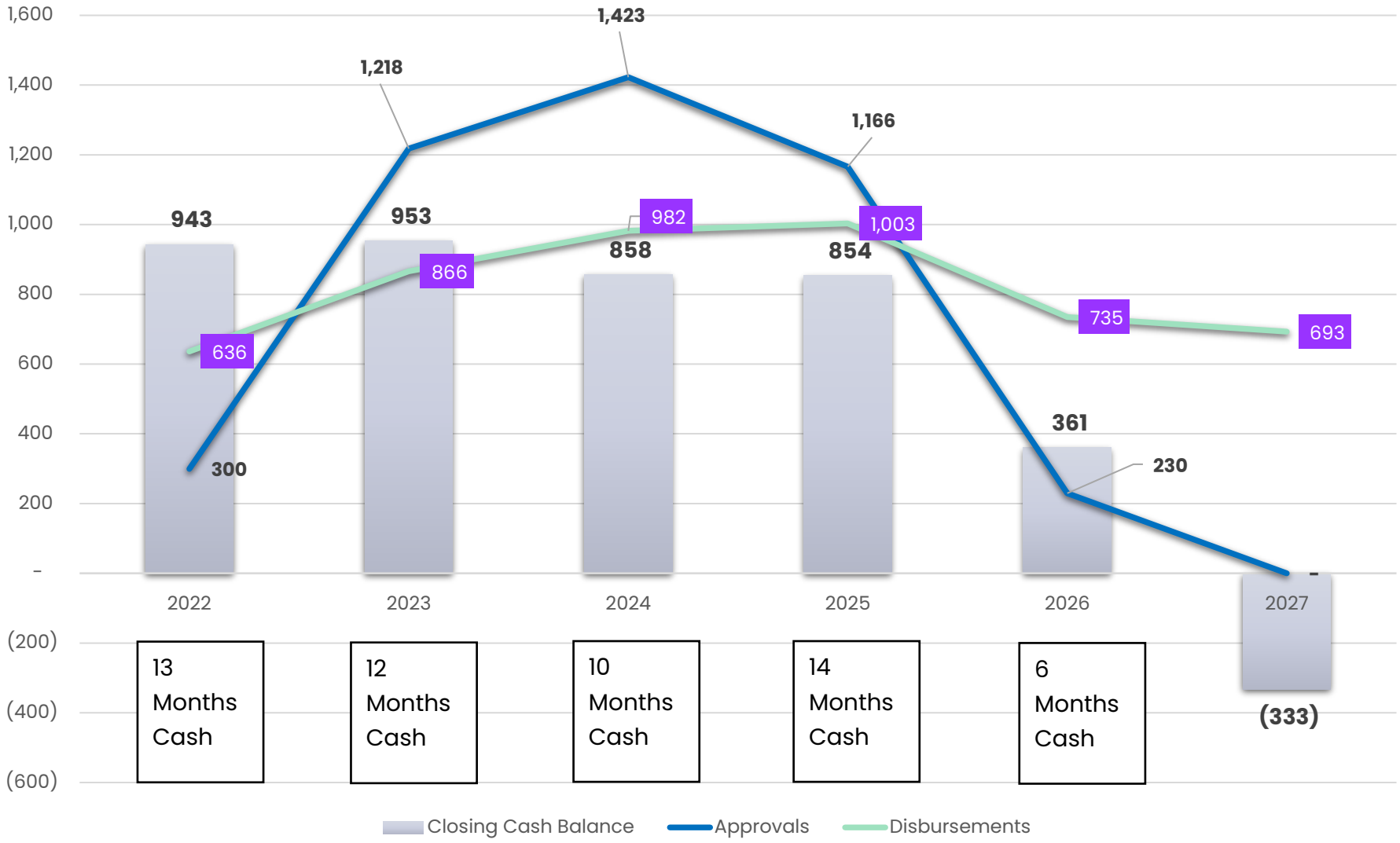
Table 5a – Information on Active Grant Portfolio as of 31 March 2022 (All figures in USD millions)

Total Value of Approved & Active Grants	3,597.2
Total Value of Disbursements from the GPE Fund	2,145.17
Balance to be Disbursed from the GPE Fund for Grants	1,452.0

Table 5B – Information on Active Grant Portfolio as of 31 March 2022 (All figures in USD millions)

Grant Agent	Value of Approved and Active	Value of Disbursements	Value to be Disbursed
ADB	15.0	6.5	8.5
AFD	294.0	183.5	110.6
CARE	25.9	25.8	0.0
FCDO	0.0	0.0	0.0
GCE	0.0	0.0	0.0
IDRC	70.5	52.4	18.1
IsDB	24.5	16.8	7.7
OECS	13.0	4.6	8.4
OXFAM	72.9	54.6	18.2
Save the Children Australia	3.8	2.6	1.1
Save The Children UK	40.6	26.6	14.0
Save The Children US	68.5	61.8	6.7
Sida	142.7	126.2	16.5
UNESCO	72.6	55.6	17.0
UNICEF	777.2	605.0	172.2
World Bank	1976.2	970.0	1006.2
Agency Fee + Admin Budget	46.7	0.0	46.7
Total	**3643.9**	**2191.9**	**1452.0**

Cash Balance (US$mm, in bold) based on Current Estimates



GPE Transforming Education

A quality education for every child