DECEMBER 6-7, 2022

MEETING OF THE BOARD OF DIRECTORS

PARIS, FRANCE	BOD/2022/12 DOC 06	FOR INFORMATION

FINANCIAL FORECAST

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Key issues for consideration:

- At its October 2022 meeting, the Finance and Risk Committee (FRC) was requested to review the Financial Forecast and consider, in light of a further deterioration in projected finances, whether to recommend for Board decision an immediate reduction in planned allocations or, as was recommended by the Secretariat, to note and monitor the situation over the next 6-12 months before considering if a reduction was necessary.
- The FRC raised concerns over the increased risks to GPE's financial situation, including the continued strengthening of the US dollar, the low level of disbursements and delays in utilization of funds in the portfolio of grants particularly where the World Bank plays the role of Grant Agent. The FRC noted the explanation from the World Bank that causes for delays are mainly temporary and that disbursement rates on its GPE grant portfolio are not out of line with IDA. The Secretariat acknowledged that while disbursements are behind, they should rise significantly as delays are addressed and as more grants under the operating model are approved. The Secretariat stressed the importance of all partners taking timely action to advance this issue.
- The FRC concurred with the Secretariat's recommendation to continue to monitor the situation before considering a potential reduction in allocations, noting that there was no immediate need, and that the situation could change. The Secretariat will monitor the situation, inform the FRC should any significant changes occur, and consult the Committee at its April 2023 meeting.

Objective

1. This document is designed to provide the Board with sufficient information on the financial position of the GPE Fund in order to enable it to make decisions on how to allocate its financial resources in support of implementation of GPE strategic objectives.

Background

2. In June 2022, the Board authorized an increase in the amount of unfinanced obligations that may be carried forward into the next financing period (2026-2030) 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 (BOD/2022/06-01).

3. Since the last financial forecast and Board discussion in June 2022, the US dollar has continued to strengthen to decades-high level, resulting in further erosion in US dollar terms of the value of many non-USD pledges. The projected difference between resources expected to be available for allocation and projected funding to be set aside is over US$1.3 billion. Without improvement, this would exceed the authorized US$1.2 billion carryover by just under US$120 million. However, cash levels are not expected to drop below 9 months disbursements cover through the end of 2025 which should ensure GPE can make disbursements as and when they are required.
4. The financial position could change for better or worse over the coming months. As the funds that could be proposed for reductions would not be expected to be allocated before the end of 2023, there is no immediate need to implement reductions in planned allocations. Considering this, the Finance and Risk Committee (FRC) will monitor the evolution of GPE's financial position over the next 6-12 months and recommend to the Board the need to make reductions if it does not improve or deteriorates further in 2023. If the financial position improves, a reduction may not be needed. If the situation deteriorates, a reduction would be proposed. The Secretariat will monitor the situation and consult the FRC at its April 2023 meeting.
5. As there is US$2.4 billion in outstanding non-USD pledges, GPE is still heavily exposed to Foreign Exchange rates either positively or negatively. The operational design work on the foreign exchange management pilot concept approved by the Board in June 2022 (BOD/2022/06-04) is ongoing with the Trustee and on schedule for use in early 2023.
6. Resource mobilization risks are elevated in light of the deterioration in the global economy and pressure on donor governments to respond to inflationary pressures, and the impact of the war in Ukraine. While these risks have not materialized yet in pledge reductions, they may impact the timing of some donor payments, making mobilizing new resources more challenging.

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. Disbursements in 2022 were US$237 million as of the end of August and will be significantly lower than initially projected for the whole year (US$450-$500 million instead of US$600-$650 million). This is primarily driven by low utilization of funds in the portfolio of grants where World Bank plays the role of Grant Agent, compared to the World Bank's own projections (39% of target as of June 30, 2022). This low utilization results in less need for immediate cash from the GPE Fund than expected. As the World Bank portfolio accounts for over 60% of the value of outstanding grant disbursements to be made, this will have a material impact on GPE's overall disbursement numbers for the year. The World Bank has assured the Secretariat that utilization is increasing. It has explained that most of the delays are temporary and relate to the impact of COVID-19 on classroom-based activities and the ability to conduct verification work. The Bank has also noted the time taken to scale up implementation on more recent grant approvals. Some delays are also due to the impacts of the crisis and political instability. The Secretariat is actively engaging with the World Bank to identify solutions based on the recently updated operating framework for engaging in fragile and conflict-affected settings. These solutions, in some cases, include a change of Grant Agent. The Bank has also explained that these delays are not exclusive to its GPE portfolio.
2. Grant Approvals in 2022 are broadly in line with expectations. It is expected that approvals in 2023 will exceed US$1 billion as remaining pilot countries, along with those in Cohort 2 and Cohort 3, and potentially some Cohort 4 countries will be approved.
3. Donors have continued to contribute to the GPE Fund throughout 2022. In light of the uncertainty and risks created by the current global economic conditions, some donors have sought to contribute funds earlier than anticipated, which is always welcomed by the Secretariat, while another donor informed of the need to delay a contribution. There is also still uncertainty on the timing of many donor contributions, but the Secretariat has not been notified of any further reductions in pledges, although the risk remains.
4. As of 31 August, 24% of donor pledges under this financing period have now been received, which is a strong number given it is only a little more than one year since the Global Education Summit. In addition, since the last forecast, the United States has increased its initial three year pledge from US$305 million to US$350 million.
5. As noted above, the strengthening of the US dollar since June has reduced the projected funding available for allocation. However, the strong donor inflows

combined with some disbursement delays explained above signify that cash levels through the end of 2025 are not expected to drop below 9-12 months of disbursement cover. This is considered the 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.

6. While the Secretariat's recommendation to the FRC was not to go forward with any reductions at this stage, particularly because there is no immediate need to make a decision and the situation might improve, there is also a risk that it further deteriorates, particularly in light of the continued exposure to substantial currency exchange volatility.
7. The risks to GPE finances can be reduced through increased efforts on resource mobilization, which will require strong demonstration of need, meaning higher levels of grant approvals and disbursements. In addition, currency exchange exposure can be reduced through:
    a. Timely conversion of donor pledges into contributions;
    b. Commencing the piloting of a currency hedging solution scheduled for early 2023;
    c. Encouraging donors to sign contribution agreements and to contribute in US dollars where feasible; and
    d. Increased use of Euro grant allocations.
8. The graphs in Annex C model the projected future approvals, disbursements, and cash balance in the GPE Trust Fund based on current estimates from September 1, 2022 onwards.
9. The Secretariat notes that based on the comprehensive funding guidelines, GPE expects to have sufficient resources to be able to approve proposals received over the next six months.

Annex B - Financial Tables[1]

Table 1A – Forecast of Assets Available for Allocation (All Figures in US$ millions, as of September 1, 2022)		
Opening Cash	**1,182.0**	*GPE Fund cash balance*
Balance on Donor Pledges	2,713.0	*Value of outstanding donor contributions based in USD*
Projected additional donor contributions	291.6	*Include projections for donors who could not pledge for the full period but intend to*
Projected Investment Returns	40.0	*Estimate of future investment returns on the GPE Fund*
Projected Reflows from Closing Grants	15.0	*Assumption of unused funds to be returned on closing grants*
(A) Total Resources Available	**4,241.7**	
Disbursements on approved allocations	(1,482.6)	*Funds required to disburse to Grant Agents on existing approved allocations*
Balance on Multiplier Expression of Interest	(112.9)	*Existing indicative allocations yet to be converted into GPE grants*
Provision for System Transformation Grants	(2,741.0)	*Provision for System Transformation Grants*
Multiplier	(524.3)[2]	*Balance Amount available for new Multiplier MCAs*
Girls Education Accelerator	(171.5)	*Balance Available funds for GEA MCAs for Replenishment 4*
Program Development Grants	(19.3)	*Balance of the PDGs for Replenishment 4*
System Capacity Grants	(247.0)	*Balance of the SCG MCAs for Replenishment 4*
Provision for Strategic Capabilities	(180.0)[3]	*Provision for Strategic Capabilities of US$80m for KIX, US$60m for EOL, and US$40m for other Strategic Capabilities - US$2m has been authorized by the Board and a further US$10m is now requested*
Provision for Agency Fees	(105.0)	*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	**(5,560.0)**	
(C) Authorized Carryover to be financed from next financing period	1,200.0	*Amount that will need to be financed in the 2026-2030 period from future pledges*
(A+B+C) Projected Surplus/ (Deficit)	**(118.3)**	

[1] Sub-totals in the tables may not cast exactly due to rounding.
[2] Note that if a reduction is applied of US $ 100 million, this would fall to US$ 424.3m.
[3] Note that if a reduction is proposed of US$ 20 million, this would fall to US$ 160m.

Table 1B - Girls Education Accelerator – capped at US$ 250 million	
Donor	**US$ millions**
Belgium	2.5
Ireland	12.0
Germany	120.0
OSF	1.0
Dubai Cares	1.25
Lego Foundation	15.0
Denmark	7.5
Unlocked matching from PF/PS[4]	17.25
Total Funds Available	**176.5**
Partner Country Allocation	
El Salvador	**(5.0)**
Total Allocations	**(5.0)**
Balance Available	**171.5**

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%[5]
Other Countries	981.3	36%
Total	**2,760.0**	**100%**

[4] 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.

[5] As per the December 2020 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.

Table 2 (A/B) – FORECAST OF ASSETS

Table 2A - FORECAST OF CASH BALANCE						
All Figures in US$ Millions	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
A. Opening Cash Balance (as of Sept 1 2022)	1,182.0	1,321.8	1,351.3	1,103.4	845.5	80.0
B. Inflows	270.8	765.1	816.8	951.6	255.2	0.0
C. Outflows	(131.1)	(735.5)	(1,064.8)	(1,209.5)	(1,020.7)	(732.4)
D. Closing Cash Balance 31 December (A + B – C)	1,321.8	1,351.3	1,103.4	845.5	80.0	(652.4)
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 although with annual variations. For a graphical representation, see Graph 1 below.						

Table 2B - FORECAST OF UNCOMMITTED ASSETS						
All Figures in US$ Millions	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
A. Opening Uncommitted Cash Balance (as of Sept 1 2022)	1,016.2	1,126.3	1,094.9	923.6	641.6	20.0
B. Inflows	270.8	765.1	816.8	951.6	255.2	0.0
C. Estimated Commitments	(160.7)	(796.5)	(988.2)	(1,233.6)	(876.7)	(672.4)
D. Funds Available to Commit (A + B – C)	1,126.3	1,094.9	923.6	641.6	20.0	(652.4)
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. It is also noted that a replenishment campaign will be expected to fund the 2026-30 period.						

Annex C - Donor contributions and grant outflows[6]

Table 3 - STATUS OF 4th REPLENISHMENT (All figures in Millions)		Pledge (local currency)	Paid as of Sept 1, 2022	Remaining Value Sept 1, 2022	Total Value Sept 1, 2022
Donor	**CUR**	**Pledged Amount**	**US$ Value**	**US$ Value**	**US$ Value**
Australia	AUD	180.0	34.9	90.9	125.8
Belgium	EUR	28.0	15.1	14.0	29.1
Canada	CAD	300.0	47.3	183.0	230.3
Denmark	DKK	1,050.0	7.6	134.2	141.8
Dubai Cares	USD	2.5	0.0	2.5	2.5
Estonia	USD	1.0	0.2	0.8	1.0
European Union[7]	EUR	700.0	0.0	698.5	698.5
Finland	EUR	25.0	29.2	0.0	29.2
France	EUR	333.0	110.9	230.3	341.2
Germany	EUR	325.0	110.0	224.5	334.6
Ireland	EUR	60.0	24.6	37.9	62.5
Italy	EUR	25.0	5.9	20.0	25.8
Japan	USD	15.0	15.0	0.0	15.0
Kuwait	USD	30.0	0.0	30.0	30.0
LEGO	USD	18.0	18.0	0.0	18.0
Luxembourg	EUR	2.5	1.1	1.5	2.6
Netherlands	USD	59.2	11.8	47.3	59.2
Norway	NOK	1,850.0	109.6	84.9	194.5
Open Society Foundations	USD	1.0	1.0	0.0	1.0
State of Qatar (through Education Above All Foundation)	USD	20.0	0.0	20.0	20.0
Republic of Korea	USD	15.8	0.8	15.0	15.8
Saudi Arabia	USD	38.0	0.0	38.0	38.0
Spain	EUR	20.0	0.0	20.0	20.0
Sweden	SEK	1,200.0	34.8	84.1	118.9
Switzerland	CHF	52.0	23.4	30.6	54.0
United Arab Emirates	USD	100.0	20.0	80.0	100.0
United Kingdom	GBP	430.0	0.0	499.4	499.4
United States of America	USD	350.0	225.0	125.0	350.0
Total			**846.3**	**2,712.2**	**3,558.5**
Balance on 3rd Replenishment Pledges				**0.8**	**0.8**
Total Donor Pledges				**2,713.0**	**3,559.3**

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

Table 4 - List of Remaining Indicative Allocations Approved for 2021-2025 as of Sept 1, 2022 (All figures in US$ Millions)[8]			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[9]**	**System Capacity Grant**
Afghanistan	102.0		5.0
Algeria	Not Eligible		3.7
Angola	Not Eligible		3.7
Bangladesh	97.7		4.7
Belize	Not Eligible		1.6
Benin	25.7		2.4
Bhutan	5.0	3.3	1.0
Bolivia	Not Eligible		2.3
Burkina Faso	67.4		2.4
Burundi	68.2		2.9
Cabo Verde	5.0		1.0
Cambodia	15.4		2.7
Cameroon	62.5		3.7
Central African Republic	36.0		2.3
Chad	90.5		3.6
Comoros	5.0		2.2
Congo, Dem. Rep.[10]	162.5		3.9
Congo, Rep.	11.0		2.9
Cote d'Ivoire	44.9	15.0	2.4
Djibouti	5.0		1.6
Egypt, Arab Rep.	Not Eligible		4.4
El Salvador[11]	Not Eligible		1.6
Eritrea	11.8		2.2
Eswatini	Not Eligible		1.6
Ethiopia	117.6		4.1
Gambia, The	5.9		1.9
Ghana	31.4		3.1
Guinea	33.4		3.0
Guinea-Bissau	5.7		2.2
Haiti	31.6		2.9
Honduras	Not Eligible		2.0
India	Not Eligible		4.1

[8] Amounts already approved have been reduced from these numbers
[9] Amounts indicatively allocated based on approved Expressions of Interest.
[10] Eligible for a further US$ 25 million from the GEA.
[11] Was approved for a US$ 5 million allocation from the GEA.

Table 4 – List of Remaining Indicative Allocations Approved for 2021–2025 as of Sept 1, 2022 (All figures in US$ Millions)[8]			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[9]**	**System Capacity Grant**
Indonesia	Not Eligible		4.7
Kenya	53.3	50.0	3.8
Kiribati	2.5		1.0
Kyrgyz Republic	Not Eligible		1.0
Lao PDR	10.0		2.6
Lesotho	5.0	2.5	1.6
Liberia	19.5		2.2
Madagascar	89.4		3.7
Malawi	68.8		3.7
Mali	76.0		3.4
Mauritania	7.5		0.6
Micronesia, Fed. Sts.	2.5		1.0
Moldova	Not Eligible		1.0
Mongolia	Not Eligible		1.3
Morocco	Not Eligible		3.7
Mozambique	117.6		4.0
Myanmar	42.9		4.0
Nepal	20.0		3.4
Nicaragua	5.0		1.3
Niger	117.6		3.4
Nigeria	117.6	2.1	9.4
Pakistan	117.6		8.8
Papua New Guinea	14.9		2.6
Philippines	Not Eligible		4.7
Rwanda	31.3		2.4
Sao Tome and Principe	2.5		1.5
Senegal	38.2	40.0	2.4
Sierra Leone	22.5		2.6
Solomon Islands	5.0		1.5
Somalia[12]	79.7		7.2
South Sudan	56.4		2.4
Sri Lanka	Not Eligible		2.7
Sudan	86.5		5.0
Syrian Arab Republic	18.8		3.6

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

Table 4 - List of Remaining Indicative Allocations Approved for 2021-2025 as of Sept 1, 2022 (All figures in US$ Millions)[8]			
Country name	**System Transformation Grant Indicative Allocation**	**Multiplier Allocation[9]**	**System Capacity Grant**
Tajikistan	10.0		0.0
Tanzania	117.6		4.5
Timor-Leste	5.0		1.5
Togo	20.6		2.0
Tunisia	Not Eligible		1.6
Uganda	162.5		3.8
Ukraine	Not Eligible		2.7
Uzbekistan	Not Eligible		3.1
Vanuatu	2.5		1.3
Vietnam	Not Eligible		4.7
West Bank and Gaza	Not Eligible		1.6
Yemen, Rep.	61.6		4.3
Zambia	31.6		3.3
Zimbabwe[13]	24.8		3.0
Dominica	2.5		1.0
Fiji	5.0		0.9
Grenada	2.5		1.0
Guyana	5.0		1.3
Maldives	5.0		1.5
Marshall Islands	2.5		1.0
Samoa	2.5		1.0
St. Lucia	2.5		1.0
St. Vincent and the Grenadines	2.5		1.0
Tuvalu	2.5		1.0
Tonga	2.5		0.3
OECS Region			0.3
Pacific Region			1.0
Total	**2,740.98** [14]	**112.9**	**247.02** [15]

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

[14] 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.

[15] 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.

Cohort 1 Pilot Cohort 2 Cohort 3 Cohort 4

Table 5a – Information on Active Grant Portfolio as of 1 September 2022 (All figures in US$ millions)

Total Value of Approved & Active Grants	3,713.7
Total Value of Disbursements from the GPE Fund	2,231.1
Balance to be Disbursed from the GPE Fund for Grants	1,482.6

Table 5B – Information on Active Grant Portfolio as of 1 September 2022 (All figures in US$ 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	53.7	16.8
IsDB	37.9	19.2	18.7
OECS	13.0	4.6	8.4
OXFAM	72.9	55.6	17.2
Save the Children Australia	8.8	2.6	6.1
Save the Children Italy	5.3	0.0	5.3
Save The Children UK	40.6	32.6	8.0
Save The Children US	74.2	61.6	12.6
Sida	142.7	142.7	0.0
UNESCO	72.6	72.6	0.0
UNICEF	807.1	604.3	202.8
World Bank	2,033.4	965.8	1,067.6
Total	**3,713.7**	**2,231.1**	**1,482.6**

Cash Balance (US$ million, in bold) based on Current Estimates as of 1 Sep 2022

