JUNE 7-8, 2023

MEETING OF THE BOARD OF DIRECTORS

BRUSSELS, BELGIUM | BOD/2023/06 DOC 06 | FOR DECISION

GPE TRUSTEE BUDGET ESTIMATE FROM JULY 1, 2023 TO JUNE 30, 2024, AND UPDATE ON APPROVED BUDGET FROM JULY 1, 2022 TO JUNE 30, 2023

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:

- The Finance and Risk Committee (FRC) considered the GPE Trustee Budget at its April 25-26, 2023 meeting and is recommending the budget to the Board, for its approval.
- The request is for the GPE Board of Directors to consider approval of the administrative expenses for the World Bank acting as Trustee of the GPE Fund of US$1,095,000 for FY24 and a supplementary budget of US$152,000 for FY23

Objective

1. This document sets out the estimated administrative expenses of the World Bank, acting as Trustee for the Global Partnership for Education Fund (the "GPE Fund") from July 1, 2023 to June 30, 2024 (FY24) for the approval by the Board of Directors. It also provides an update of the estimated administrative expenses from July 1, 2022 to June 30, 2023 (FY23), including the development of the foreign exchange managament proposal.

Recommended decision

BOD/2023/06-XX—<u>Trustee Budget:</u> The Board of Directors:

1. Approves the estimated administrative expenses of US$1,095,000 for trustee services for the period of July 1, 2023, to June 30, 2024, and a supplementary budget of US$152,000 for the period of July 1, 2022, to June 30, 2023, to cover higher investment management costs resulting from a larger than anticipated average fund balance.

Background and overview

1. According to the GPE Fund Governance Document, the Trustee is required to submit a budget estimate for services provided by the Trustee to the Board of Directors for approval on an annual basis.
2. As with all Financial Intermediary Funds ("FIFs") for which the World Bank serves as Trustee, the World Bank's costs associated with delivering trustee services are reimbursed on the basis of full cost recovery.
3. The services and related costs of the World Bank in the role of Trustee are separate and distinct from the services and related costs of the World Bank in the roles of host of the GPE Secretariat and Grant Agent. There is no duplication of costs.
4. The Trustee budget estimate from July 1, 2023, to June 30, 2024 (FY24), and update on the approved budget from July 1, 2022, to June 30, 2023 (FY23) are set out in Annex A.

Annex A – Trustee Budgets for FY23 and FY24

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Trustee Budget from July 1, 2022, to June 30, 2023 (FY23)

1. Table 1 below presents the budget approved for FY23 (BOD/2022/06-03) relative to actual costs incurred.
2. The Trustee is reimbursed for its services based on the principle of full cost-recovery and presents budgets to the GPE Board for approval, including adjustments as required at the end of each fiscal year should there be changes in FIF activities during the year as compared to previous years. The investment management fee is calculated as a flat fee of 4.5 basis points on the average annual liquidity balance of the GPE Fund.
3. The estimated actual costs for FY23 for financial and program management, accounting and legal services are in line with the budget approved. Investment management fees were higher than anticipated due to a higher than anticipated average fund balance throughout FY23 (the FY23 budget assumed an average fund balance of US$840 million while the actual balance was US$1,180 million, resulting in an additional cost of US$152,000). In total, the FY23 trustee fee of US$1,058,000 is US$152,000 higher than the approved budget of US$906,000.
4. The one-time setup cost of US$800,000 for the development of the foreign exchange proposal was approved by the GPE Board in June 2022, and the estimated actual costs are US$792,000. The balance of US$8,000 will be returned to the GPE Fund.

Trustee Budget from July 1, 2023, to June 30, 2024 (FY24)

5. Table 1 presents the estimated budget for provision of trustee services in FY24.
6. The estimated budget for FY24 of US$1,095,000 is US$37,000 (3.5%) higher than the estimated actual costs for FY23. This increase is due to an anticipated increase in investment management costs resulting from a higher average fund balance. The average fund balance in FY23 was US$1,180 million and is expected to increase to US$1,250 million in FY24 as contributions following the 2021 replenishment continue to be received. The underlying trustee activities and related cost drivers with respect to financial and program management, accounting and reporting, and legal services are expected to remain unchanged from FY23.

Table 1: Budgetary Requirements for Services Provided by the Trustee (in USD)

Trustee Services	Budget for FY2023	Estimated Actual for FY2023	Proposed budget for FY2024
Financial and Program Management	384,000	384,000	384,000
Investment Management	378,000	530,000	563,000
Accounting and Reporting	54,000	54,000	58,000
Legal Services	90,000	90000	90,000
Total	**906,000**	**1,058,000**	**1,095,000**

7. These budget estimates will be subject to adjustment at the end of the period, based upon costs incurred in the provision of following trustee services to GPE:

    a. **Financial and program management** includes the management and execution of financial transactions, including receiving and processing of receipts of donor contributions, recording allocations and commitments, and processing cash transfers to Grant Agents using World Bank financial systems and procedures, and resolving any financial and transactional issues with these counterparts; coordination with the Secretariat and Grant Agents to develop and implement operational procedures related to financial transactions; maintenance of systems for reporting and transactional processes and procedures for the Trust Fund; and travel costs, if any, for trustee representatives to attend regular GPE Board meetings.

    b. **Investment management** fees are calculated as a flat fee of 4.5 basis points (i.e. 0.045%) of the average annual balance of the undisbursed cash in the GPE Fund. The projected average annual balance over FY24 is US$1,250 million. The actual investment management costs may vary depending on the actual average liquidity level during FY24.

    c. **Accounting and reporting** includes the management of the accounting model for the GPE Fund, and maintenance of appropriate records, accounts and systems to identify contributions and other receipts as well as GPE Fund liabilities to Grant Agents and to support financing reporting.

    d. **Legal services** includes drafting and finalizing contribution agreements/ arrangements with contributors and financial procedures agreements with Grant Agents. It also covers providing policy advice, legal review of financial documents and drafting new legal documents as required.

8. Assuming the current scope of GPE continues over the subsequent two years (FY25 and FY26), program and financial management, accounting and reporting, and legal costs are anticipated to remain unchanged. Given the Investment management costs are a function of GPE's liquidity, the cost is expected to fall slightly as the average annual fund balance is expected to decrease based on anticipated disbursements. In FY25, the anticipated trustee budget is US$1,100,000 based on an estimated average fund balance of US$1,150 million, and in FY25, the anticipated budget is US$1,120,000 based on an estimated average fund balance of US$1,200 million.
9. If a foreign exchange (FX) management strategy is adopted, associated costs would be additional. The estimated ongoing operating costs of this strategy are US$400,000 per year.