DECEMBER 5-6, 2023

MEETING OF THE BOARD OF DIRECTORS

ZANZIBAR, TANZANIA	BOD/2023/12 DOC 03	FOR DECISION

GPE'S INSTITUTIONAL ARRANGEMENTS

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:

- GPE's current hosting arrangements with the World Bank as agreed in the Memorandum of Understanding (MOU) remain in place through April 2025.
- For the next strategic plan period, GPE will require greater flexibility to diversify how it raises support, leverages co-financing from both traditional and non-traditional sources, and expands options to deliver funding that responds better to partner country needs.

Objective

1. Per Board decision BOD/2023/01-01, the Board is requested to consider a recommendation from the Secretariat related to GPE's institutional arrangements, specifically that GPE remain hosted at the World Bank for the foreseeable future.

Recommended decision

BOD/2023/12-XX—Institutional Arrangements: The Board of Directors:

2. Refers to its decision on institutional arrangements from January 2023 (BOD/2023/01-01) and welcomes the progress made on exploring options that could achieve potential cost savings, facilitate new fundraising instruments, and provide greater operational flexibility as requested;
3. Thanks the World Bank for its willingness to continue hosting the Secretariat for the foreseeable future, and
4. Mandates the Secretariat to further explore such fundraising approaches and operational flexibility in the context of developing its next strategic plan and

approach to financing and funding and welcomes the World Bank's commitment to support GPE in this process.

5. Considering progress made to secure a reduction in the hosting cost recovery fee, the ability to source support from non-sovereign donors, and agreement to explore options to strengthen country systems, agrees that the Secretariat should remain hosted by the World Bank for the foreseeable future on the same terms as the current MOU, noting that the board retains the ability to review such arrangements.
6. Mandates the CEO to work with the World Bank to extend the hosting memorandum of understanding before its expiry and without renegotiating the MOU make any necessary procedural updates to reflect agreements reached since it was originally signed.
7. Requests the Secretariat to report back to the Board in June 2024 on progress, including options for fundraising approaches and operational flexibility for the next strategic plan period for Board consideration by December 2024.

Background and overview

8. The GPE Board convened in December 2022 to deliberate what future institutional arrangements would best accommodate the operational flexibility GPE requires in the future to diversify the ways in which it can raise finance and deliver support to partner countries at a reasonable cost. Following Board discussion of KPMG's report "Comprehensive Analysis of Institutional Arrangement Options for the Global Partnership for Education", the Board requested additional information regarding what operational flexibilities GPE requires, as well as what capabilities partner countries would like GPE to have but cannot because constrained by its hosted status.
9. At its January 2023 meeting, the GPE Board considered a Secretariat report to the Board Considerations for the Future of GPE which articulated the key capabilities GPE would require to fulfill future ambitions and better respond to the learning crisis facing partner countries. Specifically, these included the abilities for GPE to expand its resource base, enter into a wider range of strategic partnerships, and strengthen country systems, national ownership, and equality among partners where government capacity is strong.
10. The GPE Board at its January meeting recognized risks to ending the hosting relationship given the potential disruption to implementation of the strategy in a context of ongoing recovery from COVID-19 impacts on the learning crisis, further exacerbated by interconnected crises of climate threat, conflict, and

food and energy shortages. As well, a challenging resource mobilization environment for education further increased the risk. The Board also affirmed changes are required to GPE's hosting arrangements to enable it to fulfil the Board's future ambitions, and mandated the CEO to engage the World Bank to further explore options that could achieve potential cost savings, more flexible fundraising modalities and greater operational flexibility, reporting on progress to the board at its December 2023 meeting.

11. Between February and June 2023, the GPE Secretariat sent three confidential internal management memoranda to the World Bank Vice President of Human Development containing proposals in each for: (i) a reasonable hosting fee, (ii) the ability to source support from non-sovereign donors – "money in", and (iii) the ability to provide a fit-for-purpose solution to strengthen country systems – "money out".

12. On the basis of the first memorandum regarding a reasonable hosting fee, the Secretariat advocated for the Bank to take a differentiated approach to FIF cost recovery fees. The outcome was the World Bank offered the Secretariat a tiered hosting fee structure, an approach that set a precedent for other World Bank hosted FIFs. Under this approach, the Secretariat would pay a hosting cost recovery fee reflective of actual services used amounting to 20.5% on direct costs (with scope for some further minor reductions based on services not used by GPE). This is a reduction on the previously notified rate of 24% and will save GPE approximately US$2 million per year.

13. On the basis of the second memorandum regarding the ability to source support from non-sovereign donors the Secretariat discussed in-depth with the World Bank a number of scenarios representative of GPE's potential required capabilities to determine their feasibility. These possible scenarios were built around both real examples that emerged over the past few years as well as hypothetical future cases. Not all these scenarios may be actualized in the next strategic plan as their feasibility and relevance will be needed to be further analyzed as the plan is developed. The outcome of these discussions was to secure 14 out of 15 desired future possible operational capabilities, plus clarity that the GPE board can establish a separate legal entity if necessary. A separate legal entity could give GPE greater flexibility to facilitate these capabilities in the event they could not be achieved through existing arrangements, all while continuing to have the Secretariat hosted at the World Bank.

14. This gives strong confidence that GPE will be able to implement the Board's strategic directions for GPE. The summary of these agreements is contained in

Annex A. In the coming months, the Secretariat will engage in further analysis with the World Bank and bring more concrete proposals and options for these operational flexibilities including a potential separate legal entity to the board and its committees.

15. On the basis of the third memorandum regarding the ability to provide a fit-for-purpose solution to strengthen country systems, the Secretariat reached agreement with the World Bank to explore a range of possible options which would seek to provide greater flexibility and choice to best meet partner country needs with respect to implementation of GPE grants. In the context of these discussions, it was agreed that as the term 'direct access' has a narrower meaning in World Bank policy compared to how GPE was referencing it, that going forward, we would refer to "Fit-for-purpose solutions" which will focus on exploring a joint GPE-World Bank pilot to test how to best achieve this additional flexibility. As the Board develops GPE's future strategic direction over 2024-25, having the confidence that the World Bank can support a wide range of potential operational capabilities to allow GPE to fulfill the Board's high ambitions is crucial to knowing if GPE's next strategic plan can be delivered while hosted by the World Bank. The Secretariat is confident that with the wide menu of potential operational flexibilities GPE can be successful while remaining hosted by the World Bank.

16. These greater operational flexibilities will require technical analysis and in some cases changes to GPE and World Bank policy. Similar to finding a currency hedging solution, developing these new operational flexibilities is complex and requires further analysis. The Secretariat will update the Board with progress and present options for decision as options on these operational flexibilities are developed.

17. The decision language before the Board asks the Board to agree for the Secretariat to remain hosted by the World Bank past 2025 when the hosting MOU expires. Included as Annex B is a letter from the World Bank confirming its desire to continue hosting GPE on the same terms as the current MOU. This letter also contains the World Bank's confirmation that the range of potential operational flexibilities are feasible and its willingness to work with the Secretariat to realize these solutions. The decision language also asks the Board to mandate the Secretariat to begin exploring pathways towards these operational flexibilities, including options for a parallel separate legal entity to the Secretariat to facilitate expanded fundraising and partnerships. Any future decision to establish a separate legal entity does not imply the need to end GPE's hosting arrangements provided the relationship between such an entity,

the Secretariat, World Bank, and GPE Board complies with applicable policies. The coming months will be important to explore with the World Bank how to action these operational flexibilities for GPE's next strategy and establish what form of legal entity would best fit GPE's future ambitions while respecting World Bank policy concerning the hosting of the Secretariat. The Secretariat would bring an update and options for a separate legal entity for Board consideration at its June 2024 meeting.

18. As well, the Board is asked to mandate the Secretariat to work with the World Bank to develop options for solutions to strengthen country partner systems, again with an update to the board at its June 2024 meeting.

Annex A – Summary of Agreements – Proposals for Greater Operational Flexibility

Annex B – Letter from the World Bank

Annex A - Summary of Agreements – Proposals for Greater Operational Flexibility

Memorandum # 2 - The ability to source support from non-sovereign donors

1. The second memorandum to the World Bank contained fifteen proposals for ways to source support from non-sovereign donors. The Secretariat and World Bank agreed that of those fifteen proposals, eight could be accommodated as is, including funds from private firms (both direct and in-kind contributions), expertise-based partnerships support, strategic advice to the GPE board, and funds from Islamic sovereigns and foundations.
2. The Secretariat and World Bank agreed that six of the fifteen proposals could be accommodated under clear and reasonable conditions, including funds from high-net-worth individuals, cause related marketing contributions, staff community fundraising, and private in-kind support to GPE partner countries.
3. Only one, the issuing of *sukuk* certificates for Islamic financial transactions on behalf of the GPE fund, cannot be accommodated given the GPE fund is a pooled fund that issues grants, making it difficult to determine whether there is a return on investment and how to attribute that investment to an Islamic donor.
4. Additionally, the Secretariat and World Bank agreed that World Bank policies do not regulate the ability of members of the GPE Board (except for the World Bank's representative to the GPE board) to establish a separate legal entity in any jurisdiction. The GPE Board can approve the creation of a separate legal entity and a GPE stakeholder would establish that legal entity and not the Bank.
5. The Secretariat and World Bank further agreed that World Bank staff (and therefore Secretariat staff) cannot serve as members of the board of or perform work for a separate legal entity whose purpose is to raise funds for the GPE Fund. However, Secretariat staff could support the GPE board with the analytical work needed to prepare for the creation of a separate legal entity.

Memorandum # 3 - The ability to provide a fit-for-purpose solution to strengthen country systems

6. Concerning a fit-for-purpose solution to strengthen country systems contained in the third memorandum to the World Bank, the World Bank noted the Secretariat's efforts to diversify grant agents to better support partner country priorities and acknowledged that while the Secretariat had made substantial progress, finding a suitable grant agent continues to present a challenge for partner countries.

7. The Secretariat identified several alternative options that could potentially expand the modalities in which GPE funds could be deployed and the World Bank agreed to explore the viability of these options with the eventual aim to pilot an approach that streamlines operations and strengthens country systems over the next 18 months.

Annex B - Letter from the World Bank



Akihiko Nishio
Vice President
Development Finance

Mamta Murthi
Vice President
Human Development

October 2, 2023

Ms. Laura Frigenti
Chief Executive Officer
Global Partnership for Education

Dear Laura,

Thank you for the Memoranda, dated 20 April 2023, related to options to expand GPE's ability to diversify financing strategies and receive financial contributions from a wider range of sources; and to expand its financing to partner countries through direct access, dated 20 June 2023.

We appreciate the constructive and solution-oriented approach taken by our respective teams to explore these proposals in more detail, which included the establishment of a working group comprising colleagues from the GPE Secretariat, the Legal Department, and the Development Finance Vice Presidency (DFI).

We are very pleased with the progress achieved by this working group. In particular, we appreciate the strength of the collaboration and commitment shown by our teams to identify solutions with the shared goal of ensuring GPE is best positioned to meet its strategic objectives and ambition going forward. The framework agreed by the working group, set out in Annex 1, has our full support. As many of the outcome options and proposals require further exploration, we are committed to continuing the constructive dialogue with the GPE Secretariat on the specifics of these options.

We take this opportunity to reaffirm the principles underpinning our approach to the 2019 hosting discussions: the Bank strives to be a constructive and agile partner, and an excellent host to GPE in support of its mission. As a founding member, and considering the challenges in the education sector which require stronger partnerships in order to drive impact at scale, it is our preference for GPE to remain hosted by the Bank for the foreseeable future under the terms of the existing Hosting Memorandum.

We look forward to the discussions at the upcoming GPE Board Meeting in December 2023, and are pleased to note that Maitreyi Das, Director of Trust Funds and Partner Relations, will attend this Board meeting to express our commitments outlined above.

We look forward to our continued collaboration, and to being a strong partner to GPE.

Sincerely yours,

Akihiko Nishio
Vice President
Development Finance

Mamta Murthi
Vice President
Human Development