GLOBAL PARTNERSHIP *for* EDUCATION

Report of the Financial Advisory Committee

Camilla Helgø Fossberg
FAC Chair

Meeting of the Board of Directors
Paris, France, 19-20 November 2012

Outline

Recommendations for Decision:

1. Revision of list of indicative allocations and commitment of funds for program implementation grants on annual basis
2. Allocations for program implementation grants and observations on general trends
3. Supervision allocations in fragile and conflict-affected states
4. Approach for review and assessment of Supervising and Managing Entities
5. Launch of results based financing pilot

For Information

6. Discussion on implementation modalities
7. Next FAC meeting and work plan
8. Accelerating GPE support in emergency and early recovery situations (covered in later session)

FAC Face-to-Face Meeting

- 10-12 October 2012 (2.5 days)
- Washington, DC
- Participation: all members other than Eastern Europe, Middle East and Central Asia constituency
- Large participation by Secretariat, especially Country Support Team
- Next meeting in Washington to manage costs

Recommendations 1 + 2: Annual Commitments and Revision of Indicative Allocations List

1. **Trustee to commit funds in annual tranches** for Program Implementation Grants
2. **Approve revised list** of indicative allocations and clarify Small Island Developing States eligibility
3. **Secretariat to develop:**
   - **description of eligible resources** available for allocation for FAC review
   - **criteria for prioritizing allocations** for program implementation grants if there is a shortfall
4. **Post new approved list of indicative allocations** on GPE website and advise relevant LEGs

Indicative Allocations Review: Background

January 2012: indicative allocations approved, subject to annual review

June 2012: approval of standards for review

- **Agreed that current list valid through Round 1 of 2013**
- **Cover all eligible countries**

→First review by FAC, recognizing that decisions made on indicative allocations and annual commitments both impact financial position of GPE and are interrelated

Countries on the List: Eligibility

- IDA classifications updated annually on 1 July

- Due to IDA classification, Nigeria, Djibouti, and Uzbekistan will no longer be eligible for funding after Round 1 of 2013 (2 consecutive years as Category iii) – Secretariat had requested an exception

- Several small island developing states included on the list
  - Clarification of definition to IDA-eligible only
  - Expected allocations are low
  - Feasibility of applications needs to be considered

Countries on the List: Readiness

- **Guinea, Lao PDR, Togo:**
  - Grants on schedule and expected to be ready to receive an allocation in next year

- **Mozambique, Lesotho, Liberia, Papua New Guinea:**
  - Low disbursement rate
  - Will remain at Zero

- **Rwanda, Malawi and Nepal:**
  - Accelerating disbursements
  - Will remain at zero since not expected to require funds until Round 2 of 2014

Changes to List

Removed (Eligibility)

Djibouti
Nigeria
Uzbekistan

Reduced to Zero

Burundi
Chad
DRC
Ghana
Nicaragua
Sudan
South Sudan
Vietnam

Newly included

SIDS: Guyana, Maldives, Marshall Island, Samoa, St. Lucia, St. Vincent & Grenadines, Tuvalu

Accelerated disbursements:
Guinea
Lao PDR
Togo

Background

It is often said there are two types of forecasts …

lucky or wrong!!!!

- Forecast is a projection of future events and is therefore subject to significant change
- Forecast will be refined and updated over time

Funding Assumptions 2012-2014

January 2012 Assumptions

	USD Millions
Projected contributions	2,000
Less previous approvals and funds set aside	(368)
Projected funds available	1,632
25% over programming	408
Funds for indicative allocations	2,040

- US$1,500m – results of the replenishment
- US$500m expectation of additional pledges

- US$168m for Dec 2011 implementation grants
- US$50m for results based financing
- US$150m for other costs

Based on assumption that not all countries would apply in 2012-2014 period

Funding Assumptions 2012-2014

- US$480m received
- US$26m from Kenya refund
- US$724m expected from signed contribution agreements
- US$868m in Secretariat projections of additional contributions

- Dec 2011 - US$168m
- Jul 2012 – US$228m
- Nov 2012 – US$278m
- Other Costs – US$156m

Value of indicative allocations of countries not expected to apply in the period

Current Assumptions

	USD Millions
Projected contributions	2,098
Less previous approvals and funds set aside	(832)
Projected funds available	1,268
Over programming	42
Funds for indicative allocations	1,310

Funding Assumptions 2012-2014

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Over programming	42
Funds for indicative allocations	1,310

Funds Available: Projections 2012-2014 – US$868 million

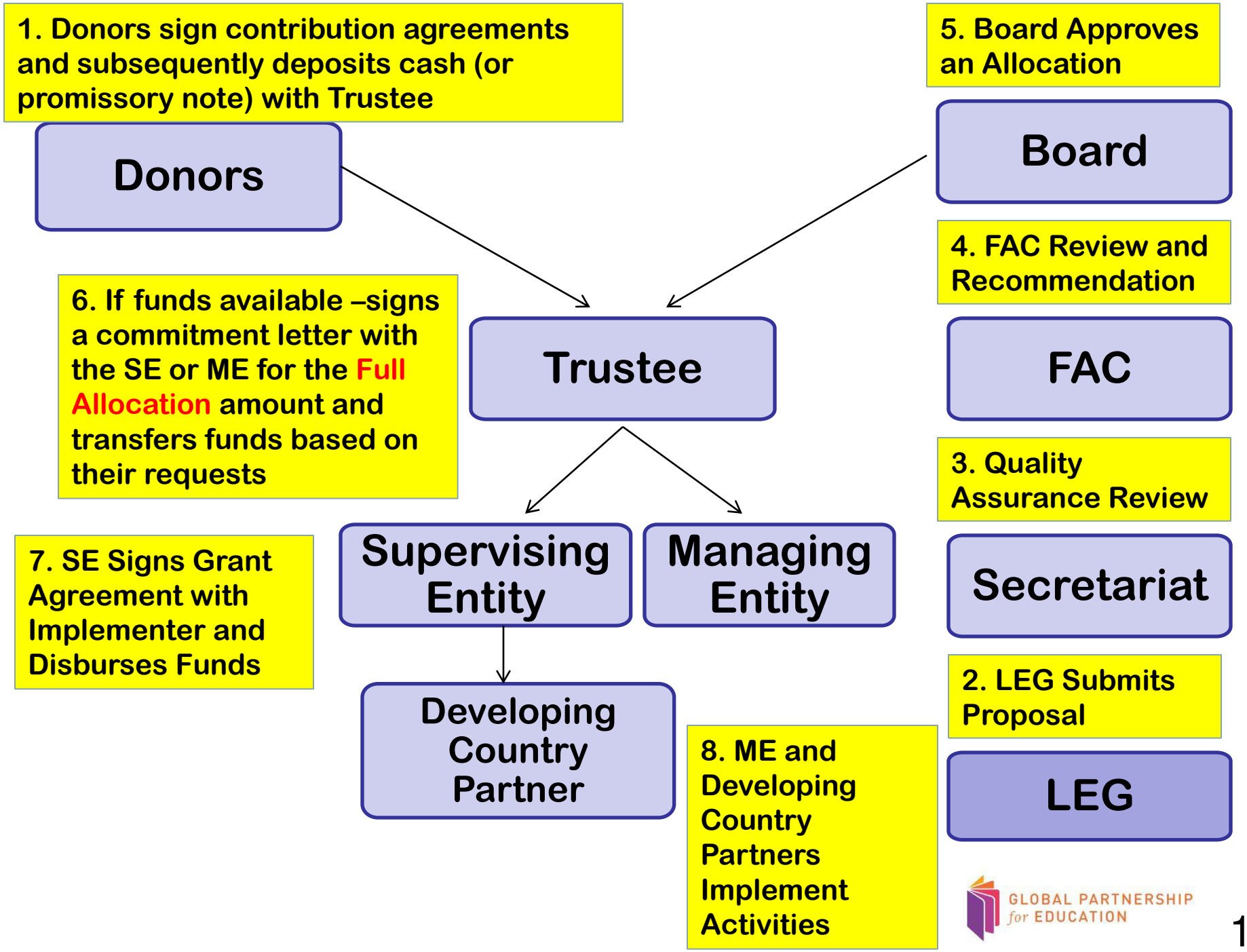
- Amounts pledged at replenishment but not signed into contribution agreements - US$231 million
- Amounts indicated verbally by senior officials in donor countries - US$243 million
- Projection of continuation of current funding levels in 2014 - US$34 million
- Projected investment returns on funds held in trust funds - US$30 million
- Conservative approach to remaining US$330 million –
  - No amounts included for emerging donors
  - US$83 million projected for G7 countries
  - Only one new donor included

Demand for Program Implementation Grants

- Information from countries: up to 28 applications in Round 1 of 2013
  - Valued at US$1,234 million
- Secretariat assessment: between 15-18 applications in Round 1 of 2013
  - Valued at US$524-678 million
- Existing indicative allocations apply
- Funding will need to come from US$1,310m

Analysis of Options for Indicative Allocation Levels

	OPTION 1 –Existing Allocation Levels	OPTION 2 – Reduce Allocations to Match Projected Funding in the Period	OPTION 3 – Adhere to Board Approved Criteria for the Review
Indicative Allocation Amount	US$1,490 million	US$936 million *(adjusted from US$1,310 for Round 1 2013)*	US$0
Country Allocations	No Change	Reduced by 46%	Reduced by 100%
Projected Shortfall in 2012-2014	US$0.3 billion	0	0
Risks	• Delayed implementation (Full Commitment) • Resources may not materialize as planned • Risk of program disruption (Annual Commitments) • Increased pressure on next replenishment	• Delayed implementation • Reputational • Resources may not materialize as planned	• Reputational • Severe Impact on ability to achieve strategic objectives


1. Donors sign contribution agreements and subsequently deposits cash (or promissory note) with Trustee
Donors
5. Board Approves an Allocation
Board
4. FAC Review and Recommendation
FAC
6. If funds available –signs a commitment letter with the SE or ME for the Full Allocation amount and transfers funds based on their requests
Trustee
3. Quality Assurance Review
Secretariat
7. SE Signs Grant Agreement with Implementer and Disburses Funds
Supervising Entity
Managing Entity
Developing Country Partner
2. LEG Submits Proposal
LEG
8. ME and Developing Country Partners Implement Activities
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Commitment of Funds

- Trustee can only commit up to the amount of unallocated assets (cash/promissory notes)
- Current practice: Commit entire allocation upon Board approval
- Cash transfers are made over the lifetime of the allocation

Full Commitment - Example

- Board approves an allocation of US$30 million. US$100 million is currently deposited in the GPE Fund, of which US$60 million is committed.

- Can the Trustee make the commitment of US$30 million?

- Yes, as US$40 million is unallocated. Once the commitment is made, US$90 million of the US$100 million in GPE Funds will be committed

Annual Commitment

- Board would continue to approve allocation of the full amount of a proposal, but Trustee will commit the funds in tranches equivalent to the annual cash requirement of the grant

- No need for subsequent reviews or Board interventions

- To apply from 2013 onwards

Annual Commitment - Example

- Board approves an allocation of US$30 million

- US$100 million is in the GPE Fund, of which US$90 million is committed; available funds total US$10 million
  →Full amount of the proposal cannot be committed

- Board instructs Trustee to commit a portion of the total (say US$10 million) so implementation can commence
  → Remaining US$20 million would be required to be funded from new contributions to the GPE Fund

Analysis of Commitment Approaches

Full Commitment	Annual Commitment
Pros: • *Maximum predictability of funds for developing country Partners* • *Reduced risk of program disruption due to funding shortages* **Cons:** • *Could require significant front-loading of donor contributions* • *Could result in significant cash balances if donors do not use promissory notes*	**Pros:** • *Reduced risk of delays in starting grants* •*Closer alignment between timing of commitments and donor contributions* •*Keeps cash levels to a minimum* **Cons:** •*Reduced funding predictability* •*Increased risk of program disruption if outer year funds aren't available*

Option 1 – Annual Commitments	2012	2013	2014	2015-
Opening Balance Cash and Promissory Notes	1029	1		
Total Committed	691	978	932	585
Total Uncommitted	338			
INFLOWS	310			
OUTFLOWS	234			
NEW COMMITMENTS	522			
Closing Balance Cash and Promissory Notes	1105	1047	1046	1621
Total Committed	978			
Total Uncommitted	126			

The Opening Balance is actual cash with the Trustee and is either committed to SE/MEs or uncommitted and available to fund new allocations

The committed balance is calculated by taking the opening committed funds less outflows plus new commitments
691 – 234 + 522 = 978

Uncommitted balance is calculated by taking opening uncommitted balance plus inflows less new commitments
338 + 310 – 522 = 126

The Closing Balance is calculated from the Opening Balance + Inflows less Outflows
1,029 + 310 – 234 = 1105

Option 1 – Annual Commitments	2012	2013	2014	2015-2017
Opening Balance Cash and Promissory Notes	1029	1105	1047	1046
Total Committed	691	978	932	585
Total Uncommitted	338	126	116	461
INFLOWS	310	465	843	2018
OUTFLOWS	234	523	845	1443
NEW COMMITMENTS	522	476	498	897
Closing Balance Cash and Promissory Notes	1105	1047	1046	1621
Total Committed	978	932	585	40
Total Uncommitted	126	116	461	1581

2013 numbers represent just one third of the Board approved allocation

The forecast shows no negative figures but we must remember that we have shifted liabilities into 2015 and 2016

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Due to the large approvals in 2012 and 2013, disbursements expected to significantly increase in 2014

Projected Uncommitted Funds at end of 2017 if No new implementation grants approved after Round 1 of 2014

Risks Identified by the FAC

- Donors must ensure contributions made on schedule
  - Preferably advanced and/or increased
- Close monitoring of resources required going forward
- Benefits of proposed approach outweigh risks and strongly support decisions

FAC Recommendations on Key Issues

- Continuing the current practice of committing funding in full or moving to annual commitments.
- **FAC Recommend Annual Commitments**

- Options for the indicative allocations
- **FAC Recommend Option 1**

- Exceptional extension of eligibility for Nigeria, Uzbekistan, and Djibouti
- **FAC Recommend No Extension**

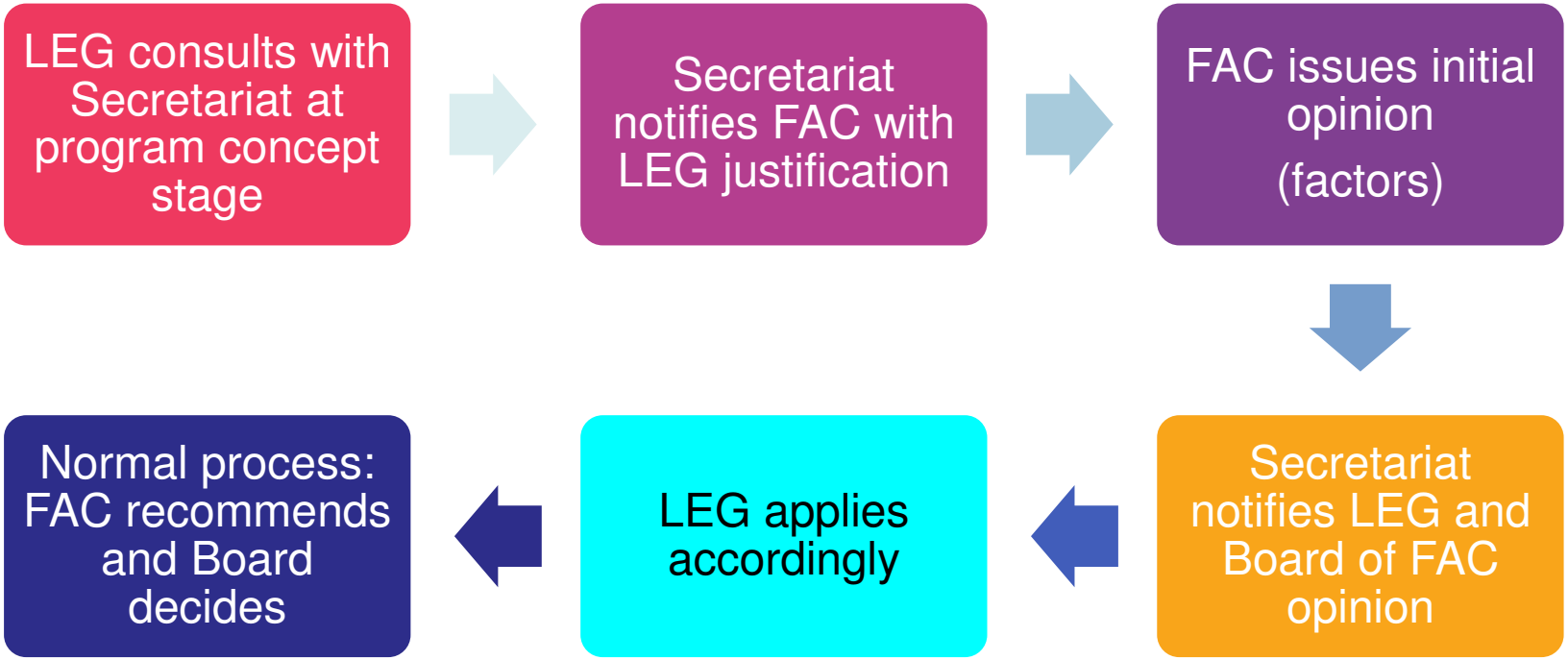
FAC Recommendation on Key Issues

- Clarify the language on eligibility for small island developing states
- **FAC Recommend the modification to the language**

- Prioritization of Funding and Clarification on the basis for Board allocations
- **FAC Recommend that this be developed in time for the next Board meeting**

- Ethiopia request for an above the cap indicative allocation

Requests Above the Cap: Process



Requests Above the Cap: Factors for FAC initial opinion

1. Current **resources available** and impact on other allocations

2. Country efforts to secure **other donor funding**

3. Country **domestic contribution**

4. Evidence of **good past use** of donor funding

5. Evidence of **need**

FAC Recommendation on Key Issues

- Clarify the language on eligibility for small island developing states
- **FAC Recommend the modification to the language**

- Prioritization of Funding and Clarification on the basis for Board allocations
- **FAC Recommend that this be developed in time for the next Board meeting**

- Ethiopia request for an above the cap indicative allocation
- **FAC was not in favor**

Decision Requested: Commitment of Trust Funds for Program Implementation Grants (1)

The Board of Directors decides that allocations for program implementation grants to be funded from the Global Partnership for Education Fund after 1 January 2013 shall be committed by the Trustee in annual installments up to the maximum amount approved by the Board of Directors as follows:

i. an initial commitment of the amount of the first year's budget in the approved proposal; and

Decision Requested: Commitment of Trust Funds for Program Implementation Grants (2)

ii. subsequent commitments, pending availability of uncommitted funds, based on the request for commitment of funds submitted by a Supervising or Managing Entity which outlines the current availability of funds for each program implementation grant under their supervision or management and projected funding needs for the subsequent twelve-month period.

The Board of Directors will continue to approve allocations for the full term of proposals received.

Decision Requested: Revision of the Indicative Allocation List for Program Implementation Grants (1)

The Board of Directors:

a. approves the revised list of indicative allocations for program implementation grants 2012-2014 set out in Annex 9 of the Report of the Financial Advisory Committee (BOD/2012/11 DOC 07), which shall be in effect for the second round of funding in 2013 and the first round of funding in 2014; and

Decision Requested: Revision of the Indicative Allocation List for Program Implementation Grants (2)

b. replaces the statement of eligibility for program implementation grants as set out in footnote 1 in the Needs and Performance Framework (BOD/2012/01/ DOC 01) to:

"The following countries are eligible: (i) those that are currently classified, or have been classified as IDA Category i or ii in the past two years; and (ii) those that are currently classified as IDA category iii and are Small Island Developing States (as defined by the United Nations) or fragile states (as defined by the World Bank).";

Decision Requested: Revision of the Indicative Allocation List for Program Implementation Grants (3)

c. requests the Secretariat to post the new approved indicative allocations list on the GPE website and advise the relevant Local Education Groups accordingly; and

d. requests:

i. the Secretariat to develop and provide to the Financial Advisory Committee options on:

- a description of the eligible resources available for allocation from the GPE trust funds; and

- criteria for prioritizing allocations for program implementation grants, should there be a shortfall in eligible resources compared to demand from countries; and

ii. the Financial Advisory Committee to provide its recommendation to the Board of Directors at the first face-to-face Board meeting in 2013.

Questions?

Approval?

Recommendation 3: New Allocations for Program Implementation Grants

- Approve the recommended allocations for Program Implementation Grants
- Include the Financial Advisory Committee's comments in the notification to the Local Education Groups
- Provide to the Tajikistan Local Education Group the reasons that the FAC did not recommend an allocation in response to its proposal

Country	SE/ME	Allocation	Supervision	Agency Fee % and Amount	Period	Fund
Burundi	Belgium	$52.9m	$0.4m	1.75% - $0.9m	3 Years	GPE Fund
Chad	UNICEF	$40.1m	N/A - ME	6% - $2.4m	3 Years	GPE Fund
	UNESCO	$7.1m	N/A - ME	7% - $0.5m	3 Years	GPE Fund
DR Congo	World Bank	$93.6m	$0.4m	1.75% - $1.6m	3 Years	GPE Fund
		$6.4m	Included above	0	3 Years	Catalytic ACP Fund
South Sudan	UNICEF	$36.1m	N/A - ME	7% - $2.5m	3 Years	GPE Fund
Sudan (Comp 2)	World Bank	$25.8m	Included in prior allocation	1.75% - $0.5m	4 Years	GPE Fund
Tajikistan	World Bank	Not recommended at this time				
Total		$262m	$0.8m	$8.4m	$271.2m	

Tajikistan: Reasons for Not Recommending Allocation at this Time (1)

1. Given the universal access to education in Tajikistan, the fact that this is not the first GPE program implementation grant, and the outstanding challenges remaining in the sector, a more balanced sector-wide analysis should be described in the proposal. This should also provide greater clarity around the overall vision of education in the country and in particular outline how each of the in-country partners supports that vision.
2. There is over-emphasis in the proposal on construction and not enough focus on achieving learning outcomes. A revised application package should contain indicator and targets for learning outcomes.

Tajikistan: Reasons for Not Recommending Allocation at this Time (2)

3. The proposal would benefit from an analysis of the needs of minority populations and addressing issues of exclusion.

4. The proposal should reflect an increased use of national systems, including consideration of a pooled funding mechanism if appropriate.

- Early childhood component of the proposal was appreciated and should be included in the revised application
- Tajikistan is invited to re-submit an application to the Secretariat for FAC review and Board approval at the next round of funding

Proposal Review: General Trends

- Welcome Belgium as new Supervising Entity UNESCO as a new Managing Entity
- Implementation modalities continuing concern
- Proposals need to clearly outline all funding sources
- Completeness and consistency
- Final Readiness Reviews
- Publishing proposal documents on website before approval

Questions?

Approval?

Recommendation 4: Supervision Allocations in Fragile States

- Confirm the standard supervision allocation of US$100,000 per year
- Secretariat to conduct an analysis of supervision costs, agency fees, and direct management costs for existing/potential Supervising and Managing Entities
- Pending this analysis – Supervising Entities serving in fragile states may apply for a supervision allocation above US$100,000 and up to US$200,000 per year upon submission of a written justification and a costed plan
  - Will apply to grants approved in 2012 and until a new proposal is developed and approved.

Supervision Costs: Considerations

- Recognize that supervision costs in fragile states may cost more than standard allocation to appropriately manage risk
- Insufficient information at present on services provided and costs
- Proposed approach seeks to address current information gap, while allowing flexibility to request additional funds.
- Oversight retained by provision of a written justification and costed plan. Number of eligible countries expected to be low.

Decision Requested: Supervision Allocation Amounts in Fragile and Conflict-Affected States (1)

The Board of Directors:

a. confirms that a standard supervision allocation of up to US$100,000 per year is available for Supervising Entities supervising program implementation grants;

b. approves an exception to the standard supervision allocation in fragile and conflict-affected states (as defined by the World Bank) of an amount up to US$200,000 per year provided that:

i. the grant has been approved after 1 January 2012;

ii. the Supervising Entity provides a written justification and costed supervision plan to the Secretariat; and

iii. For those grants approved in 2012, the Financial Advisory Committee approves the amount requested .

Decision Requested: Supervision Allocation Amounts in Fragile and Conflict-Affected States (2)

The Board of Directors requests:

i. the Secretariat to conduct an analysis of the costs associated with supervision and management of program implementation grants (including agency fees), in both fragile and non-fragile contexts, and provide a recommendation to the FAC, no later than 30 June 2013, on a possible change to the standard supervision allocation amount; and

ii. the FAC to provide a recommendation to the Board of Directors on this issue at the second face-to-face Board meeting in 2013.

Questions?

Approval?

Recommendation 5: Approach for Review and Assessment of Supervising and Managing Entities

- Requests the Board to endorse the approach proposed

- Requests the Secretariat to develop the review guidelines for FAC review and Board approval

Standards: Background

- Expansion of the number of SEs and MEs among existing eligible entities: can lead to differences in policies and procedures

- Strategic Plan outlines the need to consider expanding eligibility to non-state organizations

- Issue: How to ensure appropriate information to help determine that an SE or ME is suitable to supervise or manage GPE funding and related activities?

- FAC previously considered this subject and recognized the need for more information on existing eligible entities and the need to develop an approach should the Board expand eligibility

SE +M E Standards: Recommended Approach

Review of Policies and Procedures

- Would be applied to those currently eligible to be SEs/MEs
- Seeks to capture key information similar to Nordic Plus
- Would not duplicate Nordic Plus

Institutional Assessment

- Would be applied only to those that become eligible should the Board take that decision
- Similar to GEF
- Allows an Entity access to smaller grants such as Plan and Program Development Grants but not Implementation Grants.

Grant Level Assessment

- Would be applied only to those that become eligible should the Board take that decision
- Similar to Global Fund/GAVI
- Assessment would be performed for each Program Implementation Grant application
- Assessment would be tailored based on risk

Decision Requested: Standards for Supervising and Managing Entities (1)

In order to support the approval of the Board of Directors of:

- the appointment of agencies currently eligible to be a Supervising Entity or Managing Entity for a grant funded by GPE trust fund resources (including program implementation grants, education plan development grants, program development grants and Global and Regional Activities grants); and

- the expansion of eligible entities to serve as Managing Entities, as currently anticipated in the Strategic Plan 2012-2015,

Decision Requested: Standards for Supervising and Managing Entities (2)

the Board of Directors:

a. endorses the approach to be taken to the review and assessment of the relevant policies and procedures of potential supervising and managing entities as set out in Annex 4 of BOD/2012/11 DOC 07; and

b. requests the Secretariat to develop guidelines for the review and assessment consistent with the approach, for consideration by the Financial Advisory Committee and recommendation to the Board of Directors, no later than the first face-to-face meeting of the Board of Directors in 2013.

Questions?

Approval?

Recommendation 6: Launch of Result-Based Financing Pilot

- Focused on learning outcomes for Round 2 of 2013
- Guidelines to be developed and approved by FAC by 30th April 2013
- US$125,000 increase requested to Secretariat budget for 2013

Background

- December 2011:
  GPE BoD approves NPF and request Secretariat to develop paper on "top-ups"

- January 2012 NPF paper included figure of US$50 million for top-ups.

- April 2012:
  Initial "top-ups" paper presented to FAC

- June-October 2012:
  FAC Working Group develops and endorses revised results-based financing approach

- Main arguments: i) Top-ups a way to promote learning outcomes ii) GPE should be testing innovative financing mechanisms



Country decides if it wants to focus on learning outcomes and, if so, submits a proposal as normal and also expresses interest in pilot, including proposing indicators and targets	Proposal is subjected to normal review process; if more countries express interest in pilot than slots available, selection of pilot countries	Indicators, baselines, targets, and payout functions are added to the normal agreement signed by the Supervising Entity	Country tracks performance over course of implementation, reports results to the GPE and publishes them locally	Independent verification of the results data	If targets are achieved, country receives payout; if targets are not achieved, country is targeted for technical support on learning outcomes

Results-Based pilot: Considerations

- Broad support for the proposal with one FAC member disagreeing on ideological grounds
- Will incur significant transactional costs
- Detailed guidelines need to be developed
- Operational implications over the lifetime of the project (US$1.9m – US$3.6m), for 2013 costs limited to US$125,000 to cover Secretariat staffing
- Pilot funds would be expected to be up to US$50 million –factored into the financial forecast in the 2015-2017 period

Decision Requested: Launch of Results-Based Financing Pilot

The Board of Directors:

a. approves:

i. the launching for the second round of funding in 2013 of a results-based financing pilot, focused on learning outcomes and based on the principles set out in Annex 5 of BOD/2012/11 DOC 07 (the "Pilot"); and

ii. an increase to the Secretariat budget of 1 July 2012 to 31 December 2013 of US$125,000 to cover the costs of a 0.5 full time equivalent position to support the Pilot; and

b. delegates to the Financial Advisory Committee the authority to approve the operational guidelines for the Pilot, which shall be released by 30 April 2013 to allow countries to make an informed decision about whether they wish to participate in the Pilot in Round 2 of 2013.

Questions?

Approval?