REPORT OF THE FINANCIAL ADVISORY COMMITTEE PART 1: RECOMMENDATIONS AND INFORMATION (EXCLUDING PROGRAM IMPLEMENTATION GRANT RECOMMENDATIONS)

For Decision and Information

1. PURPOSE

1.1. The purpose of this paper is to summarize the deliberations of the Financial Advisory Committee ("FAC") since its report to the Board of Directors (the "Board") in January 2013,[1] other than the program implementation grant recommendations in Part 2 (BOD/2013/05 DOC 07b). Since January 2013, the FAC met face-to-face on 16-19 April 2013 in Washington, DC. The agenda and attendance record of that meeting are in **Annex 1** and **Annex 2**.

1.2 Part 1 of this report contains the FAC's recommendations to the Board of Directors on the following:

- Section 2: Guidance on Dividing Indicative Allocations for Program Implementation Grants in Federal States (see para. 2.1)
- Section 3: Review and Assessment of Supervising and Managing Entities (see para. 3.1)
- Section 4: Comprehensive Funding Guidelines (see para. 4.1)

Part 2 contains some items for information including the following:

- Section 5: Financial Forecast
- Section 6: FAC approval of increased supervision allocations in Burundi, Democratic Republic of Congo and Sudan

[1] This report was issued as background for the Board audio-conference meeting on 7 February 2013: http://www.globalpartnership.org/media/docs/board/meetings/2013-02-board-audioconference-Financial-advisory-committee-report.pdf

- Section 7: FAC approval of management costs of UNESCO for the Civil Society Education Fund

- Section 8: Update on the Results-Based Funding Pilot

- Section 9: Portfolio Review

1.3 This paper has the following annexes:

Annex 1 – Agenda for FAC face-t0-face meeting on 16-19 April 2013
Annex 2 – Attendance List for FAC face-to-face meeting on 16-19 April 2013
Annex 3 – Guidance on Dividing Indicative Allocations for Program Implementation Grants in Federal States
Annex 4 – Timeline for Review of Supervising and Managing Entity Costs and Policies and Procedures
Annex 5 – Guidelines for the Review of Relevant Policies and Procedures of organizations currently eligible to be Supervising and/or Managing Entity
Annex 6 – Comprehensive Funding Guidelines
Annex 7 – Financial Forecast

PART 1 – FAC RECOMMENDATIONS TO THE BOARD OF DIRECTORS

2. GUIDANCE NOTE ON DIVIDING INDICATIVE ALLOCATIONS FOR PROGRAM IMPLEMENTATION GRANTS IN FEDERAL STATES

Recommended decision

2.1 The FAC recommends that the Board approves the following decision:

BOD/2013/05-XX — Guidance Note on Dividing Indicative Allocations: The Board of Directors approves the Guidance Note on Dividing Indicative Allocations for Program Implementation Grants in Federal States as outlined in Annex 3 of BOD/2013/05 DOC 07.

Background

2.2 At its June 2012 meeting, the Board approved a decision regarding engagement with potential developing country partners with federal systems of government (BOD/2012/06-05). Key features of this decision included the following:

- Countries with federal systems of government would join the Global Partnership at the national level only and the federal government would typically be the first point of engagement for the Global Partnership.

- A sub-national education plan must be appraised and endorsed by a Development Partner Group.

- Sub-national governments of eligible federal states responsible for education may apply for education plan development grants of up to US$ 250,000 and program development grants of between US$ 200,000 and US$ 400,000 in certain circumstances.

2.3 The decision did not specify how indicative allocations would be divided in situations where the national and sub-national levels could not agree. The Board requested that the Secretariat provide guidance on this issue for FAC review and recommendation to the Board of Directors for approval. This issue was discussed by the FAC at a conference call in January 2013 and was followed up by comments provided in writing by FAC members over the next few months. The final guidance note recommended by the FAC for Board approval is provided in **Annex 3**.

2.4 The Secretariat's approach to this issue, endorsed by the FAC, is to keep the guidance as simple as possible considering the small number of cases to which it will be expected to apply (Somalia,[2] Nigeria, Pakistan, Tanzania, and Comoros[3]) and the desire that, given the country-led basis of the partnership, issues of division of indicative allocations to sub-national levels should be made by the country itself where practicable.

2.5 The Secretariat will apply the principles used in the needs and performance framework as far as possible by treating each of the sub-national entities as separate countries for the purpose of the calculation, and the country's existing indicative allocation as the amount available for allocation. Further details on how this can work in practice are outlined in Attachment 1 to Annex 3.

[2]The principles of this note were applied in Somalia in connection with the program implantation grant applications made in this round.
[3] Comoros applied in this round for the full national allocation of US$ 4.6 million.

3. REVIEW AND ASSESSMENT OF SUPERVISING AND MANAGING ENTITIES

Recommended Decision

3.1 The FAC recommends that the Board approve the following decision:

BOD/2013/05-XX – <u>Review and Assessment of Supervising and Managing Entities</u>:

The Board of Directors:

a. requests that the Secretariat conduct a review of currently eligible entities acting or interested in acting as supervising or managing entity in the future, in line with the approach outlined in Annex 5 of the Report of the Financial Advisory Committee (BOD/2013/05 DOC 07, the "FAC Report") and deliver a report on the results to the FAC no later than 31 December 2013;

b. requests that the Secretariat deliver to the FAC by its next face-to-face meeting the "ME Eligibility Expansion Plan" described in paragraphs 3.6 to 3.8 of the FAC Report, for recommendation by the FAC and approval by the Board at its next face to face meeting; and

c. endorses the approach used for the guidelines for capacity and grant level assessments as described in paragraphs 3.11 to 3.19 of the FAC Report.

Background: Assessing Supervising and Managing Entities to Support Eligibility Expansion

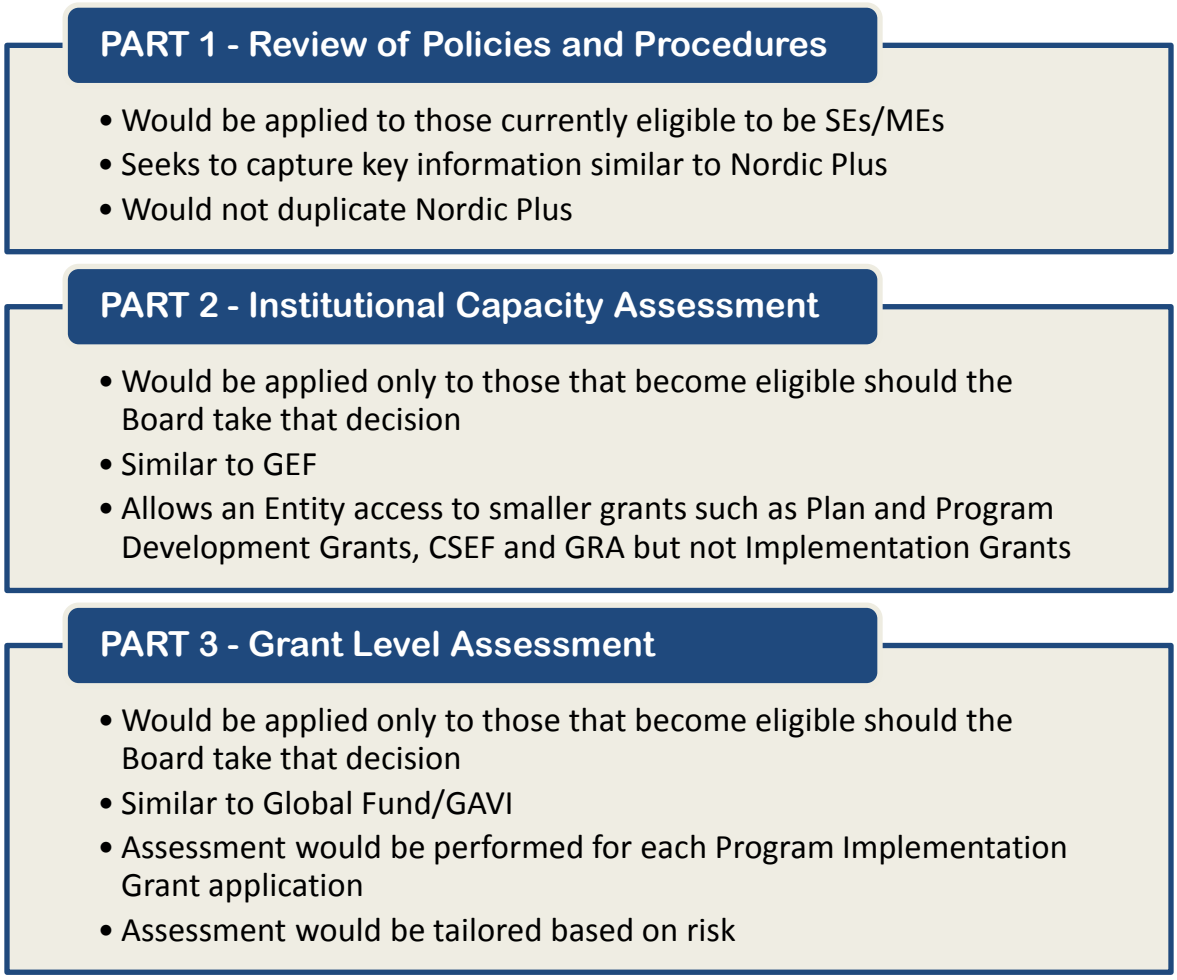
3.2 The Strategic Plan 2012-2015 Implementation Plan (BOD/2013/05 DOC 05) points to the need to expand the current number of entities that may serve as the supervising or managing entity for GPE grants. The current eligibility (under the GPE Fund Governance document[4]) to serve in this role is limited to those bilateral/donor and multilateral agencies that are represented in the constituencies of the Board. This eligibility potentially applies to all types of grants (program implementation grants, education plan development grants, and Global and Regional Activities grants). Non-governmental organizations are currently not eligible to act in these roles.

3.3 In order to support this expansion as contemplated in the Strategic Plan, the Board, at its meeting in Paris in November 2012, endorsed an approach to be taken to assessing (current and potential new) supervising and managing Entities and requested the Secretariat to develop guidelines for the review and assessments consistent with this approach (BOD/2012/11-07).

3.4 The approach endorsed by the Board is a three tiered risk-based review and assessment of Supervising and Managing Entities based on the type of entity involved and

[4] http://www.globalpartnership.org/media/docs/publications/funds_governance.pdf

the type of grant to be supervised or managed. This differentiated risk-based approach was designed to address the need to balance additional oversight on higher risk areas without being overly bureaucratic or incurring significant costs where risks were deemed to be lower. The approach proposed is summarized below.



Reviewing Supervising and Managing Entity Costs

3.5 At the same meeting in November 2012, the Board also requested the Secretariat to conduct an analysis of the management costs associated with supervision and management of program implementation grants, in both fragile and non-fragile contexts (BOD/2012/11-10). Members of the Board also requested that the Secretariat try to avoid duplication and look for synergies within these two pieces of work. The timing of these two lines of work are not aligned, as the analysis of costs must be delivered to the FAC by its face-to-face meeting in the third quarter of 2013 and so commenced in early May 2013, whereas the review of eligible Supervising and Managing Entities policies and procedures will take more time.

However, in order to avoid duplication and achieve the synergies requested by members of the Board, the Secretariat will consider the analysis of supervision and management costs, and the review of policies and procedures to be one project. The consultant(s) hired to do the work will be responsible for both streams. A combined timeline for this work is provided in **Annex 4**.

Eligibility Expansion Issues: Need for a Plan

3.6 The expansion of eligibility to non-governmental organizations as contemplated in the Strategic Plan requires the consideration of a number of issues, including:

- defining the scope of the kinds of non-governmental organizations that will be eligible (e.g. international only? With a certain level of assets?); and
- defining the type of grants they will be eligible for and whether there will be any restrictions on the amounts (e.g. Global and Regional Activities, Education Plan Development, Program Development and Program Implementation)

3.7 In addition, in order for the expansion to take legal effect, the following steps need to occur:

- amend the GPE Fund Governance Document and the standard terms of the Financial Procedures Agreements; and
- agree on a time frame and process for engaging with donors to amend their Contribution Agreements to ensure that their contributions can be used to directly fund these entities, and outline in further detail the implications if certain donors do not agree (such as the potential need to create a segregated trust fund); the Trustee will need to be involved in this process.

3.8 Finally, a process for identification of new Managing Entities (e.g. an open call for expressions of interest, an invitation to a select group, or waiting for Local Education Groups to propose organizations) will need to be agreed. Options for the decisions and the steps above will need to be outlined in an "ME Eligibility Expansion Plan", which will be delivered by the Secretariat to the FAC at its next face-to-face meeting and then for approval by the Board at its next face-to-face meeting.

3.9 The FAC stresses the importance that the selection of the Supervising and Managing Entity is made at the local level.

The Assessment Guidelines

3.10 The assessment guidelines fall into three different categories, in line with the three-tiered approach described above:

- for the review of policies and procedures of currently eligible entities (**Annex 5**);
- institutional capacity assessment (for newly eligible Managing Entities); and
- grant-level assessment (for newly eligible Managing Entities implementing program implementation grants).

The forms for each of the Institutional Capacity Assessment and Grant Level Assessment, along with the assessment tools, have been shared with the FAC, whose members have provided comments, and can be made available to Board members upon request. These forms and tools are operational in nature and will be further developed and refined by the Secretariat over time.

Guidelines for the Review of Policies and Procedures of Currently Eligible Entities

3.11 The assessment described in **Annex 5** consists of a basic review of currently eligible entities' policies and procedures. Much of the information for this analysis will be collected through the cost analysis referred to above. The costs of this work will be limited to recruitment of a short-term consultant and will be included in the updated Secretariat budget request to be presented to the Board in May 2013.

Institutional Capacity Assessment

3.12 The institutional capacity assessment is designed to ensure an appropriate level of due diligence on potentially newly eligible entities who could take on the role of a managing entity, once the details of the ME Eligibility Expansion Plan are approved by the Board. The assessment would *not* be conducted on entities currently eligible to be a supervising or managing entity. It is aimed at reviewing the capacity of an organization to manage relatively small amounts of grant funds (e.g. up to US$ 5 million per grant) and to assess the level of risk associated with managing these funds. The assessment covers the following relevant areas:

- legal status;
- effectiveness of organizational leadership, management, decision making and accountability systems;
- adequacy of infrastructure and information systems to support proposal implementation;
- adequacy of technical expertise;
- strength of financial management and systems; and
- sub-recipient management (where activities would be subcontracted to other organizations).

3.13 The assessment would be completed by a suitably qualified external consultant or consultant firm working with Secretariat staff and would be submitted to the Secretariat for review with a recommendation as to whether the entity has sufficient capacity or not. The process and relationship between Secretariat, FAC, and Board for confirming that the entity has the capacity to implement would still need to be defined, and will be outlined in the "ME Eligibility Expansion Plan". The contracting process for the consultants to support this work will be done in the most cost effective manner and will also be determined as part of the ME Eligibility Expansion Plan. This process will need to take into account the scope of the proposed expansion in terms of numbers of organizations to be assessed and their geographic distribution.

3.14 Confirmation that capacity was sufficient could potentially enable these entities to serve as Managing Entities of the following grant types:

- Education Plan Development Grant (maximum US$ 250,000);
- Education Program Development Grant[5] (maximum US$ 400,000); and
- Global and Regional Activities (no ceiling – range of US$ 100,000 to US$ 3,000,000 expected).

3.15 The timing of the assessment would need to be worked out based on the Board's decision following the receipt of the "ME Eligibility Expansion Plan". However there are essentially two ways of going about the assessment:

[5]The Education Program Development grant will allow an organization to prepare for the application of a future Program Implementation Grant.

- Invite a number of entities to be assessed. The assessments once completed would remain valid for a period of two or three years, allowing the entities to apply or be nominated as appropriate for the type of grants listed above during that period.

- Carry out the assessment only when an eligible entity wishes to apply for funding or is nominated to be Managing Entity. This has the disadvantage that the assessment process might delay implementation if not well planned in advance.

Several FAC members have expressed their preference for the second option outlined above in order to avoid unnecessary costs. This will be explored in further detail in the ME Eligibility Expansion Plan.

3.16 The assessment should normally be completed prior to approval of a proposal that identifies the entity as Managing Entity for a grant. Recommendations or observations to be addressed by the organization arising from the assessment should be completed either prior to transfer of funds or based on an agreed timeframe. The costs for these assessments should not be excessive (approximately US$ 15,000 – US$ 25,000) per assessment with variation dependent on whether a desk review was possible or a visit to the location was required.

Grant Level Assessment

3.17 The grant level assessment is a more robust and in-depth review of the capacity of a Managing Entity to implement the proposed program implementation grant (which can range from less than US$ 1 million to up to US$ 100 million). The more detailed assessment is designed to address the increased risk of managing a potentially significantly increased amount of funds as opposed to the smaller and less complex grants described above.

3.18 The expected process for the assessment is outlined in the table below. Special arrangements may need to apply for the accelerated funding process in order to limit the potential for delay. These will be developed as part of the "ME Eligibility Expansion Plan".

Description of the Detailed Grant Assessment Process

Stage	Description	Timing
Background Assessment	Prior to engaging in a detailed assessment, an entity should ideally be pre-assessed through the institutional capacity assessment, as it is highly unlikely an entity that failed such an assessment would be able to manage a larger more complex grant. In order to ensure that the detailed assessment is tailored to the	Between QAR Phase 1 and Phase 2

Stage	Description	Timing
	appropriate level of risk, the first step following the Local Education Group's nomination of a Managing Entity for the grant is to conduct a background assessment as part of phase 1 of the Secretariat's Quality Assurance Review. This assessment would provide a high level evaluation of the entity's experience and expected capacity in key functional areas to carry out the activities in the proposed program (whose development would still be at an early stage) and would be used to help determine the overall scope of the detailed assessment that would be carried out once the proposal was nearing finalization. The assessment would most likely be carried out by an external consultant, or a combination of Secretariat staff with a consultant.	
Detailed Assessment	Conducted following completion of phase 2 of the Quality Assurance Review but prior to submission of the completed application. The advantage of this approach is to ensure that any recommendations arising from the assessment concerning the proposed Managing Entity's capacity to implement the grant can be addressed in the final proposal submitted to the FAC. A typical assessment would look at a number of areas in detail: 1 Program Management (including legal status, management and organization, infrastructure and systems, feasibility of proposed grant work plan) 2 Sub-recipient Management (in the event that activities will be subcontracted) 3 Financial Management and Systems (including grant budget review) 4 Monitoring and Evaluation (including results framework) 5 Procurement	Between Phase 2 and Phase 3
Recom-mendations	The entity should complete addressing the recommendations from the assessment either prior to the transfer of funds or based on some other agreed timeframe	

3.19 Depending on the scope of the assessment and whether it can be performed by locally based consultants or requires international consultants, the costs would be expected to be in the region of US$ 25,000 – US$ 50,000 per assessment, based on similar assessments performed by the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Next Steps

3.20 The Secretariat will continue work on the analysis of supervision and management costs. The Secretariat will make a recommendation to the FAC in time for review and potential recommendation to the Board at their second face-to-face meeting in 2013.

3.21 Presuming Board approval of the approach outlined in this paper, the Secretariat will review the relevant policies and procedures of existing eligible entities that are currently acting or interested in taking on the role of a Supervising or Managing Entity and deliver a report to the FAC by 31 December 2013.

3.22 In addition, the Secretariat will develop the "ME Eligibility Expansion Plan" to be delivered to the FAC in time for review and potential recommendation to the Board at its second face-to-face meeting in 2013. Depending on the decisions made on the "ME Eligibility Expansion Plan", the work on the institutional capacity and grant-level assessments will begin.

4. COMPREHENSIVE FUNDING GUIDELINES

Recommended Decision

4.1 The FAC recommends that the Board approves the following decision:

BOD/2013/05-XX — Comprehensive Funding Guidelines: The Board of Directors approves the Comprehensive Funding Guidelines attached as Annex 6 of BOD/2013/05 DOC 07.

Background

4.2 In the context of approving the first annual review of the indicative allocations list for program implementation grants, the Board made the following decision at its face-to-face meeting in Paris in November 2012:

> **BOD/2012/11-05 – Revision of the Indicative Allocation List for Program Implementation Grants**: The Board of Directors:
> ....
> 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 on the items in d.i. to the Board of Directors at the first face-to-face Board meeting in 2013.

Eligible Resources Available for Allocation

4.3 Currently, there is no requirement that limits the amount of funds that the Board can *approve* for program implementation grants. However, the Trustee can only *commit* the funds (i.e. create a financial obligation) for a grant to the Supervising or Managing Entity if there are available assets (cash and/or promissory notes that are not already committed) deposited with it. While this protection prevents the Board from incurring an actual financial obligation it cannot meet, the Board has a strong moral obligation to fund the grants that it approves. An inability to do so can create a considerable reputational risk as well as cause disruption to the organizations involved in supervising, managing, and implementing the funds.

4.4 The Board decided in November 2012 to commit funds on an annual basis, which means that it has the ability to better manage the balance between the cash needs of the grants and the timing of donor contributions (typically annually). It allows the Global Partnership to start financing a larger number of programs quicker than if programs were delayed until sufficient contributions were deposited that could cover the entire three-year budget of the grants. However, the downside of this approach is that it increases the risk that funds will not be available when they are needed to make second and subsequent annual commitments because resources do not materialize as planned or demand for funding is higher than expected.

4.5 In order to better manage the risk that the Board may approve grants without reasonable assurance that it would have the resources to actually finance them, the Board requested the FAC to recommend a description of the eligible funds to be considered by the Board when making the decision to approve grants. The FAC's recommended approach is outlined in Part 1 of the Comprehensive Funding Guidelines in **Annex 6** and discussed further below.

Prioritization Criteria for Approvals and Commitments

4.6 In addition to the need to have a solid and consistent basis for its financial decisions, it is also necessary for the Board to have an approach to prioritization of funding, both for

grant approvals and the commitment of funds by the Trustee. This approach should also be made transparent to all stakeholders. The approach is included in Part 2 of the Comprehensive Funding Guidelines, in **Annex 6** and is discussed further below. The FAC notes that this prioritization is only about the efficient flow of funds and is not a reflection of the priorities of the Global Partnership. The priorities should be reflected in the formula used to determine the indicative allocations for program implementation grants and the criteria used for eligibility for grants.

Description of Eligible Resources for Grant Approvals – Practical Considerations: Understanding the overall financial position

4.7 In order for the Board to be in a position to make decisions on grant approvals, it should first have a solid overview of the financial position over the medium term. The current financial forecast is included in **Annex 7.** Being a longer term forecast and including projections of both resources and commitments based on expected future applications for funding, the risk of change in the forecast is significant, and therefore this type of forecast is more suitable for supporting indicative allocations (which carry a certain level of reputational risk if they cannot be financed, but not at the same level as being unable to finance an actual Board approval in terms of negative impact) and for identifying potential future pressure points in terms of funding availability.

Forecasting for the Purpose of Grant Approvals

4.8 In order to provide reasonable assurance that funding will be available to make commitments for the first year of implementation of proposals recommended for approval to the Board by the FAC, a shorter term and potentially more accurate forecast will be used, focused on resources that have a low risk of not materializing and only upcoming known liabilities based on previous Board approvals requiring commitment of funds and a continuation of recurrent costs. This forecast will exclude projections of donor contributions (i.e. Secretariat estimations of resources from donors who are not yet in a position to make a pledge) and only consider cash on hand as well as contributions from pledges (i.e. signed contribution agreements, pledges made at the replenishment conference, publicly announced by a senior donor representative, or outlined in writing by a senior representative of the relevant donor to the Secretariat) that are expected to materialize over the course of the next six-month period. The six-month period is based on the expected time to sign a grant and therefore indicative of the timeframe in which the initial tranches of

funds would be required.

4.9 The expected resources available make up one part of the forecast, but consideration also needs to be given to the moral liabilities that the Board has created through its previous approvals (e.g. second and subsequent commitments of already approved program implementation grants, or recurrent costs such as a continuation of funding for the Secretariat and Trustee budgets) and therefore these amounts will be deducted from the projected resources to establish the funds expected to be available to make the first commitments for any new grants approved. Using this approach, the available funds to finance the first commitment of any new proposed program implementation grant recommended for approval can be estimated with a high degree of accuracy.

Commitment Reserve

4.10 While this approach provides strong assurance that the first commitment may be made, the question arises as to the ability to fund the subsequent years of the program. This is why the overall financial forecast described in paragraph 4.7 is relevant to ensure that the Board has good visibility on any future projected shortfalls. If that forecast shows a shortfall at the end of any calendar year or over two subsequent semesters, then a commitment reserve could be considered for forecasting purposes which would be equivalent to the shortfall.

4.11 A commitment reserve is designed to eliminate a future projected shortfall in funds. It functions by setting aside an amount of funds for the purpose of forecasting the funds available to finance a first commitment of a new grant approval. Delaying the approval of new program implementation grant applications until such time as there would be sufficient funds to eliminate a shortfall reduces the overall risk of running into shortages that would affect second and subsequent year's commitments.

4.12 In addition, to ensure that there is a strong certainty of being able to make such a commitment when required, prioritization is typically given to these second and subsequent commitments over the first commitments for new approvals. The rationale of this approach is that it is normally less disruptive to delay the start of a new program than to halt or delay funding for an existing functioning program.

4.13 As the Board typically makes new approvals every six months, the forecast would also move forward every six months, and allow for upcoming commitments of existing grants during that period to be deducted from the projected available funds for the first commitments of new grant approvals.

4.14 Using this approach, the Board would have the comfort of knowing that second and subsequent commitments would have priority over commitments for new approvals at the relevant point in time in the future and that a commitment reserve for forecasting purposes can always be included to mitigate the risk of future shortfalls in commitment authority. This provides greater assurance that the moral liabilities the Board has created when it previously approved proposals can be satisfied before it goes and creates new ones by approving additional grants.

Criteria for Prioritizing Approvals in the Event of a Projected Shortfall

4.15 There could always be a situation where the projection shows that there will be insufficient assets available to cover the entire amount of the first annual commitment, and therefore the Board would need to consider prioritization of the approvals. To address this situation, the FAC considered the options in the table below:

Options for Prioritizing Approvals of Program Implementation Grants

	Option 1	**Option 2**	**Option 3**	**Option 4**
Description	Rank the proposals based on value for money (VFM) criteria	Develop tranches based on grant starting date	Develop tranches based on the categorization of the grant (fragility and IDA income category)	Develop tranches based on expected grant starting dates and then prioritize within categories using categorization (fragility and IDA income category)
Advantage	Introduces VFM in a more formal manner into the review process	Prioritizes approval based on grants that need the money quicker	Provides a clear and simple method while still allowing prioritization based on a valid reason	Prioritizes approvals based on funding need but also allows a secondary prioritization if the assessment of funding need is insufficient

Disadvantage	Would take time to develop and add another layer of complexity to an already busy FAC	Incentivizes LEGs to be unrealistic about the starting date of activities	Does not recognize the unique characteristics of individual applications	Adds an additional layer of subjectivity that the Secretariat would have to assess the expected readiness to sign a grant and require funds

4.16 The FAC recommends Option 4 as it allows for a prioritization by need and ability to utilize funds with a further simple level of prioritization if required. The approvals could be classified into the following two categories first:

1. Proposals expected to be signed into grant agreements and requiring funds *before* 30 September for approvals made at the first face-to-face Board meeting of the year or 31 March of the subsequent year for approvals made at the second face-to-face Board meeting of the year.
2. Proposals expected to be signed into grant agreements and requiring funds *after* 30 September for approvals made at the first face-to-face Board meeting of the year or 31 March of the subsequent year for approvals made at the second face-to-face Board meeting of the year.

4.17 If the Board still needs to prioritize within any of the above categories based on the availability of funds for approval, the prioritization would be based on the following three tranches:

Tranche 1: Accelerated funding requests
Tranche 2: Fragile States (as defined by the World Bank) and current IDA Category i countries
Tranche 3: All other countries

4.18 The rationale for this approach is that it allows approvals to be prioritized based on need and ability to utilize funds as evidenced by a signed grant agreement or financial procedures agreement for a Managing Entity. Further prioritization can then be made within the two categories if required with accelerated funding requests first, given the emergency nature of these applications (they would presumably fall into the first category anyway due to need). The next prioritization would be for fragile states, which is a key objective of the

current Strategic Plan, and also to those countries expected to have the greatest financial need due to their low income status as IDA Category i countries.

4.19 While the Board would approve all the proposals in principle, the effective approval date of the next tranche of proposals would only be made once the Secretariat determines that funding is expected to be available and notifies the Board and the country accordingly. The approval date for the purposes of the Policy on Time Frames for Grant Agreement Signing and Implementation and Procedures for Proposed Revisions to Implementation Grant Programs would be the date of notification to the Board so as not to disadvantage any countries whose funding approval was delayed. The funding of supervision allocations and agency fees would be made at the same time.

Criteria for Prioritizing Commitments of Funds

4.20 While the paragraphs above covered prioritization of approvals, the prioritization of actual commitments also needs to be considered, as there could be temporary shortfalls of uncommitted assets within the six-month window referenced in earlier sections. These shortfalls would normally relate to timing differences. For example, a commitment that is required to be made in September could be delayed if it requires a donor contribution that is not scheduled until December.

4.21 In these cases, the first approach should be to discuss with the relevant organizations involved whether any commitments can be delayed. For example, if the scheduled second commitment for a program implementation grant was due in September, but the Supervising Entity still had sufficient funds from the first commitment to last for several more months, then the commitment could be delayed without impacting implementation.

4.22 In the unlikely event that there was a shortfall that could not be dealt with through delaying non-required commitments, then criteria would need to be established for prioritization. The FAC therefore recommends the tranches list in Annex 6 (Part 3) which is again not a reflection of the priorities of the Global Partnership, but an efficient system for the flow of funds. This list initially prioritizes the normal and recurrent activities and costs such as the Secretariat budget and Trustee budget, followed by commitments for accelerated funding requests given the emergency nature of these requests. There are then a number of smaller grants that are prioritized such as Education Plan and Program Development Grants and the Civil Society Education Fund, along with any other special initiative financed by the Board. These activities contribute to the overall partnership but do not incur a significant

percentage of total costs when compared to the program implementation grant costs. Then, the remaining program implementation grant commitments would be prioritized based on the following:

- Second and subsequent commitments for existing approved grants
- First commitments for new grant approvals.

The final category is commitments to Global and Regional Activities.

4.23 Where there was still a shortfall between these categories, the Secretariat would need to make a determination, in consultation with the organizations involved, which grant should be prioritized on a case-by-case basis. The CEO would make this determination and report to the FAC through the annual portfolio review on any such cases.

4.24 The FAC notes that while there is a significant amount of detail and level of complexity in the approaches outlined above which could be open to lengthy debate, it is not expected that the aspects of prioritization would be applied often. If there were a need to apply such an approach frequently, it would likely be as a result of an unanticipated and significant deterioration in the financial position, which would most likely be as a result of a withdrawal in support or suspension of scheduled payments by a number of key donors. The need to utilize the proposed Comprehensive Funding Guidelines can be greatly reduced by ensuring that the Indicative Allocations are appropriately established and adjusted through the annual review.

4.25 The guidelines outlined in **Annex 6** capture the approach described above. The guidelines and overall approach outlined in this paper draws heavily on the Comprehensive Funding Policy of the Global Fund to Fight AIDS, Tuberculosis and Malaria, given the similarity in issues between both organizations operating with a Financial Intermediary Fund with the World Bank as Trustee, and dealing with issues such as grant approvals, commitments, and the differences between pledges and projections, and of course, annual commitments.

4.26 The FAC recommends approval of the guidelines but notes that the forecasting methodology proposed and suitability of the guidelines may need to be adapted as the Global Partnership for Education evolves.

PART 2 – ITEMS FOR INFORMATION

5. FINANCIAL FORECAST

5.1 The Board was first provided with a financial forecast paper at its previous face-t0-face meeting in Paris in November 2012 in the context of the discussion on review of the indicative allocations. Members of the Board mentioned that it would be useful for a regular financial forecast to be prepared and the FAC Chair advised that the FAC would review a financial forecast on a semi-annual basis and provide it to the Board.

5.2 The financial forecast provided by the Secretariat to the FAC is in **Annex 7.** The FAC notes that while the current forecast makes it possible for the Board to approve its program implementation grants in this round (applying the Comprehensive Funding Guidelines recommended by the FAC), there is a need to closely monitor the financial position given the projected deterioration in the forecasted position of US$ 89 million from the previous forecast submitted in November 2012. The FAC was somewhat concerned that if the Board, in addition to approving the current recommended proposals, also approves the currently expected proposals for Round 2 of 2013 and Round 1 of 2014, that approximately US$ 406 million of commitments from Board approvals are currently forecast to be required from the next replenishment. The next forecast will therefore be critical in that indicative allocations for Round 2 of 2014 are scheduled to be reviewed and preparations for the indicative allocations for next replenishment period (2015-2017) will also need to be considered taking account plans for the next replenishment, any proposed changes to eligibility and any changes to the Needs and Performance Framework formula. This will be a challenging exercise as the outcomes of the next replenishment will not be known at this stage.

5.3 FAC members also noted that it would be useful for the Secretariat to provide details on actual and projected contributions and disbursements in future iterations of the forecast. It was also noted that current information on contributions and disbursements should be posted on the GPE website for transparency purposes..

6. FAC APPROVAL OF INCREASED SUPERVISION ALLOCATIONS IN BURUNDI, DEMOCRATIC REPUBLIC OF CONGO AND SUDAN

Background

6.1 At its meeting in November 2012, the Board made the following decision:

BOD/2012/11-10– **Supervision Allocations and Agency Fees**:

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) for Supervising Entities supervising program implementation grants of an amount up to US$ 200,000 per year provided that:

i. the grant was approved after 1 January 2012; and

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

-as part of its application package; or

-for those grants approved in 2012, as a separate request for approval by the Financial Advisory Committee.

Considerations and Decision

6.2 In accordance with the delegation made by the Board, the FAC has reviewed the request for increased supervision allocations for the Supervising Entities in Burundi, Democratic Republic of Congo and Sudan, each which had a grant approved in 2012.

6.3 The FAC did not find that the quality of the costed plans was strong. FAC members were concerned about some of the expenses that would be covered by the increased supervision allocations, especially, with respect to Sudan and the Democratic Republic of Congo, high costs of international travel, when local capacity could potentially be sourced. There was a particular concern in the Democratic Republic of Congo, as the FAC noted in its initial review and recommendation that the World Bank as Supervising Entity would need to have sufficient in-country staff in place to oversee such a large program, and should consider options to address this.[6] The World Bank has been informed about this concern.

6.4 However, recognizing that this was a temporary measure while the review of Supervising and Managing Entity costs described above is undertaken, the FAC approved the following additional amounts for supervision allocations:

- US$ 300,000 to the Belgian Development Cooperation for the Program Implementation Grant to Burundi approved in decision BOD/2012/11-06;
- US$ 400,000 to the World Bank for the Program Implementation Grant to the Democratic Republic of Congo approved in decision BOD/2012/11-06; and

[6] http://www.globalpartnership.org/media/Board/Paris-2012/GPE_BoardofDirectors_November2012_DOC_07_FACReport.pdf, p.7

- US$ 500,000 to the World Bank for the Program Implementation Grant to Sudan approved in decision BOD/2012/07/04 and BOD/2012/11-06.

6.5 All future requests for increased supervision allocations will be made as part of the Program Implementation Grant application package (as occurred in the case of Yemen in this round).

7. FAC APPROVAL OF MANAGEMENT COSTS OF UNESCO FOR THE CIVIL SOCIETY EDUCATION FUND

Background

7.1 At its face-to-face meeting in Paris in November 2012, a proposal for funding the Civil Society Education Fund ("CSEF") was presented for approval by the Board. At that time, the Board agreed that there should be continuity of the CSEF with no break in the funding and requested the Secretariat to conduct an expedited quality review of the CSEF funding proposal, prior to an audio-conference of the Board (BOD/2012/11-08). Part of that review related to UNESCO's supervision role.

7.2 The Board of Directors made the following decision at its audio-conference meeting in December 2012:

> **BOD/2012/12-1** — **Civil Society Education Fund:** The Board of Directors:
>
> a. approves an allocation of up to US$ 14.5 million from the Global Partnership for Education Fund to fund the proposal submitted by the Global Campaign for Education delivered to the Board of Directors on 11 December 2012 (the "CSEF Proposal"), with UNESCO serving as Managing Entity. The Trustee is requested to commit:
>
> i. US$ 7.25 million of this amount upon the signing of an agreement with UNESCO; and
>
> ii. a further US$ 7.25 million of this amount upon further instructions from the Board of Directors, which will be considered at the second face-to-face meeting of the Board of Directors in 2013.
>
> b. requests the Secretariat to continue to work with the Global Campaign for Education and UNESCO to further address issues raised in the expedited review of the CSEF Proposal, and to agree to milestones to be reached which may result in revisions to the CSEF Proposal;
>
> **c. delegates to the Financial Advisory Committee the authority to approve an additional agency fee or other direct management costs to be paid from the GPE Fund, based on a costed plan provided by UNESCO;**
>
> d. requests the Secretariat to provide a report on progress of implementation of the CSEF Proposal, based on input from the Managing Entity, at the second face-to-face meeting of the Board of Directors in 2013; and

e. confirms its commitment to the principle of strategic civil society engagement being a core element of the Global Partnership for Education, and requests the Secretariat to work with partners to develop a plan for such engagement, for consideration by the Board of Directors at its second face-to face meeting in 2013.

7.3 Under point c. of the decision, the Board delegated to the Financial Advisory Committee the authority to approve the additional agency fee or other direct management costs to be paid from the GPE Fund, based on a costed plan provided by UNESCO.

Considerations and Decision

7.4 The costed plan is a prerequisite for the implementation of the CSEF. As requested by the Board, the Secretariat worked with the Global Campaign for Education ("GCE") and UNESCO to further address content and process issues raised in the expedited review of the CSEF proposal. Based on these discussions and on the terms of reference of a Supervising Entity and a Management Entity, it was agreed by all that the proper designation for UNESCO in this role was as a Supervising Entity.

7.5 UNESCO took the decision to charge 7% of the total budget of the program as an agency fee when acting as Supervising or Managing Entity, which, in the case of the CSEF, amounts to US$ 1,016,157 for the total grant amount of US$ 14.5 million.[7]

7.6 UNESCO presented a costed plan to the FAC that outlines the main supervision areas and activities, for an amount of US$ 648,454 for the complete period of implementation (April 2013 – December 2014).

7.7 The FAC noted that the plan and other information presented by UNESCO did not clearly differentiate between the different roles of UNESCO and GCE in monitoring the CSEF program. Additional information was provided by GCE during the meeting which helped distinguish these roles, however there was still concern that the overall costs appeared to be high. Questions were also raised why the same standard for supervision allocations for program implementation grants should apply. The Secretariat noted that this proposal fell within the Global and Regional Activities program that did not have standard supervision allocations. The FAC noted this kind of case would have benefited from the kind of information and analysis that will be made available when the Supervising and Managing Entity costing exercise is completed.

[7] 7% is consistent with the agency fee approved by the Board for UNESCO as Managing Entity for a Program Implementation Grant in Chad approved in November 2012.

7.8 Given the circumstances, the FAC approved the amounts requested on the following basis: (i) the agency fee on the first tranche approved by the Board (US$ 7.25 million) of US$ 508,078.50; and (ii) the supervision costs for the first year of implementation which amount to US$ 324,227 to be committed upon the signing of an agreement with UNESCO. The commitment of the remaining funds related to the second tranche will be based on further instructions from the Board. This will allow the Board to consider recommendations arising from the FAC's analysis of supervision, agency and direct management costs of Supervising and Managing Entities before authorizing the Trustee to make the second commitment. Based on the FAC's analysis, it may make recommendations to the Board. These recommendations may or may not impact the supervision and agency costs requested by UNESCO for CSEF. If they do, then the Board will have the opportunity to consider this before authorizing the second commitment of funds after the first year of implementation. As the Board will already be reviewing the second commitment for the CSEF funding in general (US$ 7.25 million), the timing is appropriate and they can consider both issues together.

8. UPDATE ON RESULTS-BASED FUNDING PILOT

8.1 The Chair of the FAC Result-Based Funding Pilot Working Group and the Secretariat provided an update to the FAC regarding the Results-Based Funding Pilot approved in November 2012.

8.2 The report indicated that the work on the guidelines for the pilot was delayed due to lack of time and resources in the Secretariat. Progress was being made to identify a consultant to undertake the work, but it was very unlikely that the guidelines would be ready for a launch of the pilot for the second round of 2013 as initially planned.

9. ANNUAL PORTFOLIO REVIEW

9.1 The Secretariat requested more information from the FAC on what it expects from the annual Portfolio Review, which will be delivered to the FAC in September 2013 for its review and subsequent submission to the Board.

9.2 FAC members noted the importance of this document, which is essential for making the case for the replenishment next year. It is essential that the document not only contain information on moneys disbursed, but on results. The Results Report covered results of the

sector as a whole, but this would need to be more specific, to the extent possible, with respect to the programs that GPE funds.

9.3 The Secretariat reported that the World Bank is working on improving access to information on the trust funds on its website, and the Secretariat is working with them to be able to provide information regarding the GPE funds. The Secretariat is also working on posting on the GPE website current information on both contributions and disbursements as soon as possible.

9.4 The FAC Chair noted the importance of Supervising Entities providing good information in a timely manner to the Secretariat. The importance of facilitating any Secretariat requests for information, particularly around results, in order to prepare the information required by the FAC in the annual Portfolio Review was emphasized.

ANNEX 1



FAC /2013/04 —DOC 01
Meeting of the Financial Advisory Committee
Washington D.C., U.S.A.
16-19 April 2013

Agenda

Tuesday, 16 April 2013

Time			Presenter Document
08:30-09:00 (30mins)	**Coffee and Registration**		
09:00-09:30 (30 mins)	**Welcome and Agenda Setting** ➢ Welcome ➢ Overview of agenda ➢ Purpose/desired outcomes of meeting ➢ Brief Introduction from CEO	**Information**	Chair / CEO DOC 01
09:30-10:15 (45 mins)	**Semi Annual Financial Forecast** ➢ Variance since last forecast ➢ Forward looking changes ➢ Revised Forecast	**Information**	Secretariat DOC 03
10:15-10:30 (15 mins)	**Coffee Break**		
10:30-11.30 (1 hour)	**Criteria for Availability of Resources and Prioritization** ➢ Defining the financial criteria to be used by the Board when approving grant allocations ➢ Defining prioritization criteria in the event of a funding shortfall	**Recommendation**	Secretariat DOC 04
11:30-12:30 (1 hour)	**Requests for Increased Supervision Allocations** ➢ Burundi (Belgium) ➢ Sudan (World Bank) ➢ DR Congo (World Bank)	**Decision**	Secretariat DOC 05

12:30-14:00 (1 hr 30mins)	**Lunch (Discussion with Governance Working Group)**		
14:00-15:00 (1 hour)	**Guidelines for Review and Assessment of SEs/MEs** ➢ Defining the content and approach for the assessment ➢ Expanding Eligibility ➢ Verbal Update on Analysis of Supervision/Agency/Management Costs	**Recommendation**	Secretariat DOC 02
15:00-15:15 (15 mins)	**Results Based Financing Pilot** ➢ Progress on Operational Guidelines	**Information**	Chair of Working Group / Secretariat (Presentation)
15.15-15:45 (30 mins)	**Portfolio Review** ➢ Short update on current status of portfolio ➢ Plans for next review	**Information**	Secretariat (Presentation)
15:45-16:00 (15 mins)	**Coffee Break**		
16:00-17:00 (1 hour)	**Tajikistan Program Implementation Grant Application**	**Recommendation**	Secretariat
17:00-17:15 (15 min)	**Day 1 wrap**		

Wednesday, 17April 2013

08:30-09:00 (30 minutes)	**Coffee**		
09:00-10:00 (1 hour)	**Senegal Program Implementation Grant**	**Recommendation**	Secretariat
10:00-11:00 (1 hour)	**Burkina Faso Program Implementation Grant**	**Recommendation**	Secretariat
11:00-11:15	**Coffee**		
11:15-12:15 (1 hour)	**Benin Program Implementation Grant**	**Recommendation**	Secretariat
12:15-13:45 (1h 30 min)	**Lunch**		
13:45-14:45 (1 hour)	**Central African Republic Program Implementation Grant**	**Information**	Secretariat
14:45-15:45 (1 hour)	**Zimbabwe Program Implementation Grant**	**Recommendation**	Secretariat
15:45-16:00 (15 min)	**Coffee**		
16:00-17:00 (1 hour)	**Yemen Program Implementation Grant**	**Recommendation**	Secretariat
17:00-17:15 (15 min)	**Day 2 wrap up**		

Thursday, 18 April 2013

08:30-09:00 (30 minutes)	**Coffee**		
09:00-10:00 (1 hour)	**Mauritania Program Implementation Grant**	**Recommendation**	Secretariat
10:00-11:00 (1 hour)	**Zambia Program Implementation Grant**	**Recommendation**	Secretariat
11:00-11:15	**Coffee**		
11:15-12:15 (1 hour)	**Zanzibar Program Implementation Grant**	**Recommendation**	Secretariat
12:15-13:45 (1h 30 min)	**Lunch**		
13:45-15:30 (1 h 45 mins)	**Somalia Program Implementation Grant** ➢ **Somaliland** ➢ **Puntland**	**Recommendation**	Secretariat
15:30-15:45 (15 min)	**Coffee**		
15:45-16:45 (1 hour)	**Comoros Program Implementation Grant**	**Recommendation**	Secretariat
16:45-17:00 (15 min)	**Day 3 wrap up**		

Friday, 19 April 2013

08:30-09:00 (30 minutes)	**Coffee**		
09:00-10:00 (1 hour)	**Madagascar Program Implementation Grant**	**Recommendation**	Secretariat
10:00-10:45 (45 mins)	**Review of UNESCO Supervision Plan for Civil Society Education Fund**	**Decision**	Secretariat DOC 06
10:45-11:00	**Coffee**		
11:00-12:00 (1 hour)	**Finalization of Recommendations for Program Implementation Grant Applications and Identification of Trends**	**Recommendation**	Secretariat
12:00-12:15 (15 mins)	**Review of FAC Workplan**	**Information**	Chair
12:15-13:00 (45 mins)	**AOB and Wrap-up**	**Information**	Chair
13:00-	**Lunch**		

ANNEX 2: MEETING OF THE FINANCIAL ADVISORY COMMITTEE 16-19 APRIL 2013, WASHINGTON D.C., U.S.A.

ATTENDANCE LIST

Chair:

Camilla Helgø Fossberg (Norway)

Committee Members:

Charles Y. Aheto-Tsegah (Africa 3)
Hamoud Al-Seyani (Eastern Europe, Middle East and Central Asia)
David Atchoarena and Jordan Naidoo (UNESCO/UNICEF)
Olav Christensen (in place of Elizabeth King) (Multilateral and Regional Banks)
Paula Nolan (Donor 4 and Donor 2)
Imad Sabi (CSO 1 and 2)
Sylvia Schmitt (Donor 5)
Ronald Siebes (Donor 1)
Artem Stepanenko and Maggie Koziol (Donor 6)
Aleesha Taylor (Private Sector/Private Foundations and CSO 3 (Teaching Profession))
Dan Thakur (Donor 3)
Minister Alim Hadidja Youssouf (Africa 2)

Chair of the Board of Directors:

Carol Bellamy

Secretariat:

Alice Albright (CEO) (April 16 only)
Paul Coustère (Coordinator, Country Support Team ("CST"))
Gisele Goudiaby (Board Logistics Liaison)
Douglas Lehman (CST Lead for Benin)
Jean-Marc Bernard (CST Lead for Central African Republic)
Hugues Moussy (CST Lead for Burkina Faso, Senegal, and Tajikistan)
Margarita Focas Licht (CST Lead for Madagascar, Zanzibar and Zimbabwe)
Tal Sagorsky (Board Services Team)
Kouassi Soman (CST Lead for Comoros, Mauritania and Zambia)
Joris Van Bommel (CST Lead for Puntland, Somaliland and Yemen)
Padraig Power (Sr. Financial Officer and FAC Liaison)
Charles Tapp (Sr. Replenishment Advisor)
Karin Jahr de Guerrero (Sr. Operations Officer)

Observers:
Paul Valentin Emog (Ministry of Education, Cameroon)
Natalia Cherevatova (World Bank)
Apollinaire Tchameni (Ministry of Education, Cameroon)
Chie Ingvoldstad (World Bank, Trustee)
Jay Pascual (World Bank, Trustee)
Dierdre Williams (Open Society Foundations)

Apologies:
Daniel Nkaada (Africa 1)
Sangay Zam (Asia and Pacific)

ANNEX 3: Guidance on Division of Indicative Allocations for Program Implementation Grants in Federal States

1. Indicative allocations for program implementation grants from the Global Partnership for Education (the "Global Partnership" or "GPE") are calculated on a national basis and for a three-year period. In countries with federal systems of government, a division of the national indicative allocation will need to be made between sub-national authorities that will access the funds.

2. Once a Federal State has become a Member of the GPE through the special provision adopted by the Board of Directors, sub-national levels will need to have their education sector plans appraised and endorsed by a development partner group in order to become eligible for a program implementation grant.

3. One of the most important principles of the Global Partnership is that it is country led, and therefore this guidance should only be used in circumstances where no agreement can be made at the country level on how to divide an indicative allocation.

4. In the event, that the indicative allocations across sub-national levels cannot be determined or agreed upon, the Local Education Group, through the Coordinating Agency should notify the Secretariat.[8] The notification should indicate how many sub-national levels will be applying for a program implementation grant during the relevant indicative allocation period.[9]

5. The responsibility for selecting the eligible sub-national levels that will be included in an application for a program implementation grant, and therefore will require an indicative allocation, rests at the country level. The Secretariat can provide information and advice but will not make this determination.

6. Upon receipt of the request, the Secretariat, for calculation purposes only, will apply the principles of the needs and performance framework by treating each of these sub-national entities in the same way as separate countries are treated when the formula is applied to the entire portfolio of eligible countries. Certain elements will not be available - for example the World Bank does not assess fragility and policy and institutional performance assessments for sub-national levels. The country's existing indicative allocation will be considered as the amount available for division.

7. In order to provide as accurate an allocation as possible, the Secretariat may require additional information from the country, which will be communicated through the LEG along with a timeline for response. Where information is not provided or is incomplete, the Secretariat will need to rely on the information previously available to it to complete the calculation, or may need to leave out certain variables from the calculation in order to base the calculation on the same variables for each sub-national entity.

8. It is preferable that applications for program implementation grants from sub-national levels all be submitted at the same time. Where this is not possible, applications will be accepted at different times provided that the LEG has agreed on the division of the

[8] In the absence of a LEG at the Federal level, the developing partner federal government and a representative on behalf of the development partner group will fulfill this function.

[9] The indicative allocation for the country will be divided across the sub-national levels expected to apply as notified by the LEG, and not across all sub-national levels in the country (e.g. if a country has 20 states but the LEG informs the Secretariat that only 5 will apply, then the indicative allocation for the country will be divided across these five only).

indicative allocation to sub-national levels in advance of the first application. However, at no time will an allocation be made above the country's national indicative allocation in the applicable period. For those countries that have an indicative allocation that is capped at US$ 100 million, they may follow the normal process to request consideration of an indicative allocation above the US$ 100 million. In these circumstances, the request should be made before the first application for a program implementation grant from the country's indicative allocation is submitted.

9. The Secretariat will only provide a calculation upon request, to assist the country in dividing its own indicative allocation among the sub-national levels that the country itself proposes. Ultimately, it is the country and not the Secretariat, that determines whether to accept the division performed by the Secretariat or to agree on an alternative division.

Attachment 1 to Annex 3: Supplementary Information on Application of the Needs and Performance Framework

The current Needs and Performance Framework formula uses a set of factors and weights to allocate funding to countries. These factors fall into the categories of "needs" and "performance." The factors and their weights are reproduced here for easy reference, though they are documented in the GPE web site:

	Factor	**Weight**
Needs	Fragility status (as defined by the World Bank)	0.15
	Gender parity in completion (the more parity the less funding)	-0.35
	Distance from 100% completion (the greater the more funding)	0.15
	Number of school-age children (the more, the more funding)	0.9
	Per capita income (the richer, the less funding)	-0.125
	Availability of external aid for education (the more, the less funding)	-0.10
Performance	Own-source educational effort as measured by the share of education spending in GDP (the larger, the more funding)	0.30
	Policy and institutional performance (the higher, the more funding) (derived from the CPIA index of IDA and The World Bank)	1.0
	Progress towards universal completion (the faster, the more funding)	0.30

Issues in applying a similar method to sub-national governments

Several data issues arise in trying to "generalize" this formula when dividing the funds among sub-national entities in federal or quasi-federal countries.

Data aspects

It is very likely that many of the "drivers" in the NPF formula will not be found for sub-national governments in most GPE countries. For example, Fragility and CPIA data is not currently available. However the issue of fragility at the sub-national level may be revisited in the future as GPE evolves its guidelines for engagement in Conflict-Affected and Fragile States. Those least likely to be found are, generally (from least likely to most likely): a) the institutional performance index; b) fragility status differences within the country as captured by an accepted quantitative indicator; c) own-source educational effort (many countries will not have sub-national estimates of the denominator of this variable, namely, sub-national GDP); d) sub-national allocation of external aid; and e) progress towards completion.

This suggests a potential problem, in that *most* (but not all) of the factors that are difficult to find are the performance-related ones.

The "needs" factors are much easier to find even in sub- national settings. In order of approximate difficulty, approximately from least to most: a) completion rate; b) gender parity factors; c) sub-national population of school age, all three of which are relatively easy to find; d) local donor funding; and e) local per capita income, both of which are fairly difficult to find.

There are two solutions to this problem. The obvious one is that one should make some effort to estimate the missing factors from proxy data, or indeed get the needed data.

The second solution is to make do with only some of these factors by focusing on the ones that are easiest to get at sub-national level. This solution is not as problematic as it may sound.

Empirically, the performance factors in the formula "weigh" only about 2/3 as much as the needs factors. This cannot be judged just from summing up the exponents or weights. Since these weights are applied exponentially, their impact depends on the actual value of the "drivers" and can therefore only be gauged by doing what is called "sensitivity analysis," whereby one takes the typical case or country, and systematically varies each factor a little, to see what the total impact is. The GPE Secretariat has done this, and has determined that the impact of the needs factors taken together is about 0.8, and the impact of the performance factors together is about 0.55.

In addition, one has to compare the worth of using some formula not against the use of an *ideal* formula, but against the use of no formula at all. Non-formula methods are *ad hoc*, contain the possibility of favoritism, and tend to reduce transparency and predictability.

The conclusion of the Secretariat is that even a set of sub-national allocations based on, say, school-aged population and primary school completion, is likely to be better than no formula at all, if the issue of the division of funding within the country poses problems.

In cases where GPE's opinion is sought, the GPE Secretariat, in collaboration with the LEG, will find as many elements of the NPF formula as possible within a reasonable amount of time to assist the country in arriving at a consensus.

It is not possible to produce a generic list of factors or drivers that one could always find. The general principle will be to try to find the easiest ones immediately and with certainty, make some effort in trying to find the ones of medium difficulty, and most likely give up on the most difficult ones. But this will vary from country to country, so it is difficult to set a general rule that is absolute. A "soft" general rule would be to try to find and use factors in list a) below, to make some effort in finding the factors in list b), and to be prepared to give up on the factor in list c) if it does not readily exist.

List a: school age population, completion rates for boys and girls (and gender parity in completion)

List b: change over time in completion rate, sub-national allocations of education foreign aid, sub-national per capita income and sub-national own-source effort (education expenditure as a share of GDP)

List c: policy and institutional performance

Application of the approach to date

Countries where the indicative allocation has so far been divided among sub-national entities include Pakistan, Somalia and the United Republic of Tanzania. In Pakistan, with a large number of sub-national states or regions, there has been a pre-selection of benefiting sub-national entities by the Federal Government and its partners, prioritizing certain states or regions based on factors such as low levels of donor support, greatest need, and availability of or likely development of an endorsed education sector plan. In Somalia and Tanzania the allocation has been divided among all sub-national entities—three in Somalia and two in Tanzania, respectively.

Once it has been determined which sub-national entities will benefit from the funding in the current period, the Secretariat has worked with the LEG through the Coordinating Agency to obtain as much information on NPF data as possible. This has also involved verification that data from different sub-national entities is reliable, and verification that variables have been calculated in the same way in each sub-national entity and are therefore comparable, etc. This process has enabled the Secretariat, in consultation with national partners, to determine which NPF variables can be used for the calculation.

Once the calculation has been made, the results are communicated to the CA for dissemination to the LEGs, and sub-national entities have developed their applications on this basis. The LEG has made the final decision to use the division proposed by the Secretariat.

The table below shows the variables used in the countries that requested GPE support with their indicative allocations:

Allocations within Federal countries: variables used and regions with allocations		
Country	**Variables used for the allocation**	**Regions with allocations**
Somalia	**Need** Children of primary school age Gross enrollment ratio in primary[10] Parity in gross enrollment[11]	Puntland Somaliland South and Central Somalia
Tanzania	**Need** Gender parity in completion rate Primary completion rate Children of primary school age Per capita income External resources already available **Performance** Public educational expenditure as % of GDP	Mainland Zanzibar
Pakistan	**Need** Gender parity in completion rate Primary completion rate Children of primary school age Per capita income External resources already available **Performance** Public educational expenditure as % of GDP	Balochistan Sind

[10]As a proxy for completion. Completion data not available or not reliable. Note that since the tool allocates shares, not absolute values, proxies can be used as long as they have approximately the same range.
[11] As a proxy for gender parity in completion.

ANNEX 4: TIMELINE FOR REVIEW OF SUPERVISING AND MANAGING ENTITY COSTS AND POLICIES AND PROCEDURES

Step	Description	Timeline to complete activity
1	Finalize TORs and recruit a consultant to support both the cost analysis and the review of policies and procedures	31 May 2013
2	Request for information to support the analysis of supervision and management costs associated with Program Implementation Grants (will be sent by Secretariat)	31 May (responses by 31 July)
3	Finalize the information requirements focused on remaining policies and procedures not covered by the cost analysis work	15 June
4	Contact eligible entities to solicit their potential interest in becoming a Supervising or Managing Entity in the future in order to define the number of entities to be included in the review	15 June
5	Complete analysis of existing information for Case Studies (cost analysis)	30 June
6	Complete interviews and clarification process for Case Studies (cost analysis)	31 July
7	Document existing publicly available policies and procedures and past reviews (e.g. Nordic Plus) relevant to this work and circulate a request for outstanding information to relevant partners	31 July (responses due by 30 September)
8	Liaise with partners for clarifications on information provided and analyze the policies and procedures identifying strengths/weaknesses and potential recommendations for FAC review including finalization of information from Case Studies (Cost Analysis)	15 September
9	Deliver final report (cost analysis) to FAC for consideration at FAC face-to-face meeting in October for recommendation to Board at second face-to-face Board meeting of 2013	30 September
10	Liaise with partners for clarifications on information provided and analyze the policies and procedures identifying strengths/weaknesses and potential recommendations for FAC review (review of policies)	30 November
11	Deliver final report to the FAC	31 December

ANNEX 5: GUIDELINES FOR THE REVIEW OF RELEVANT POLICIES AND PROCEDURES OF ORGANIZATIONS CURRENTLY ELIGIBLE TO BE SUPERVISING AND/OR MANAGING ENTITY

Introduction

1.1 The review will focus on gathering information on key policies and procedures with the aim to be able to prepare a comparative analysis across currently eligible organizations. The approach will be to source as much of the information as possible from existing sources (e.g. Nordic Plus review) and the responses envisaged through the analysis of supervision and management costs. The remaining information will be sought directly from the entities involved.

1.2 The review will seek to ensure information is available on a number of relevant areas and will build on the information that will be requested through the work on the analysis of supervision, agency, and administrative costs:

Information Requirements for the Review

Background Information

- Overview of the organization's experience in supervising or managing funding for education in the development sector.
- List of programs directly financed or supervised/managed on behalf of others over the past five years in the education sector in GPE partner countries including the size, status, focus of the program and funding modality used.
- Information on the organizations staffing dedicated to education financing in GPE partner countries, if any.

Key Focus Areas:

- Operational Policies (including aid effectiveness issues, funding modalities)
- Organizational and Management (roles and responsibilities of HQ, Country Office)
- Description of the Organization's processes and relevant policies from concept phase to grant signing (including development of program, assessments and quality assurance/risk reviews performed etc.)
- Contents and Standard Terms/Conditions of Grant/Funding Agreements
- Fund Flow mechanisms (separate bank accounts/co-mingling, frequency of disbursements, limits on amounts, and review processes)
- Monitoring and Evaluation (results or performance conditions, are results linked to funding, use of independent evaluations)
- Financial Management (audit requirements – internal/external, and supervision, accounting basis, policies on interest/investment income)
- Capacity Building (requirements to include Technical Assistance to address capacity gaps)

- Information on the organizations key policies in relation to use of its funds by implementing partners in the following areas
    - Procurement Procedures, Travel and Subsistence Costs, Salary and Benefits/Consultants, Overheads, Asset Management
- Policies and Procedures on misuse of funds

ANNEX 6: COMPREHENSIVE FUNDING GUIDELINES

The purpose of this document is to provide guidance on the forecasting available resources that can be considered by the Board when making approvals for program implementation grants, and to guide the prioritization of approval and commitment of funds in the event of a shortfall.

Part 1: Establishing the Available Resources

The Secretariat will prepare two forecasts for review by the Financial Advisory Committee ("FAC") at each of its semi-annual face-to-face meeting and subsequently the Board for its semi-annual face-to-face meetings: (i) a financial forecast; and (ii) a forecast for the purpose of program implementation grant approvals.

(i) Financial Forecast

The Financial Forecast covers the remainder of the existing and next replenishment period. This forecast will include both pledged resources and projections developed by the Secretariat using reasonable assumptions as to future contributions and future commitment needs (informed by the list of indicative allocations for program implementation grants). The first version of such a forecast was presented to the Board in November 2012.

The purpose of this forecast is to:

a. help inform the annual review of indicative allocations for program implementation grants and to provide the FAC and Board with an overview of the projected financial position over the medium term; and

b. to identify potential future shortfalls in the ability of the Board to make subsequent commitments of funds for program implementation grants subject to commitment of funds in annual installments as decided by the Board at its meeting in Paris in November 2012 (BOD/2012/11-04).

In the event that the forecast shows a potential shortfall based on future commitments arising from either previous approvals or those current proposals being considered for approval that would not be eliminated over the course of two semesters or the end of a calendar year, the Secretariat would create a commitment reserve in the forecast. The commitment reserve would reduce the available funds that could be considered by the Board when making new program implementation grant approvals. This approach is designed to maximize the chances that sufficient funds are available for second and subsequent commitments for program implementation grants previously approved by the Board.

(ii) Forecast for the Purpose of Program Implementation Grant Approvals

In determining the forecast of available funds for the purpose of grant approvals, the forecast of expected resources will be based on confirmed pledges (defined as the balance of funds in contribution agreements, amounts pledged publicly at a replenishment conference or publicly announced subsequently, and written confirmation of an expected contribution from a senior donor official), and expected available uncommitted cash on hand. This will provide a greater level of certainty on the financial position because projections for contributions from donors who have not yet pledged or signed a contribution agreement will be excluded.

The forecast will be prepared for the subsequent six-month period ending on 31 December for the first face-to-face Board meetings in a calendar year and 30 June for the second face-to-face meeting in a calendar year. This estimate will show clearly the assets expected to be available for commitment for the first year of funding of FAC recommended program implementation grants.

The Board will only approve proposals (including related agency fees and supervision allocations) when the expected available assets are sufficient to cover the first commitment within the next semester following the respective Board meeting. (i.e. 1 July – 31 December for the first face-to-face Board meeting and 1 January – 30 June for the second face-to-face Board meeting). To determine the available assets, the Secretariat will deduct from the expected resources, any expected commitments in the period arising from previously approved grants (i.e. second and subsequent commitments for program implementation grants approved in earlier application rounds) and after provision for routine recurrent costs has been made (Secretariat budget, Trustee Fees, Education Plan and Program Development Grants, Global and Regional Activities grants, Civil Society Education Fund, and any other initiatives approved by the Board with financing requirements). If a commitment reserve is required to eliminate an expected financial shortfall in a future period, it will also be deducted.

Part 2: Prioritization Criteria for Board Approvals

In the event that the available assets are expected to be insufficient to allow for approval of all the recommended program implementation grants, Board approval for grants and related supervision and agency fees will be made for those proposals whose cumulative first commitments do not exceed the value of available assets based on the following prioritization criteria:

1. Proposals expected to be signed into grant agreements and requiring funds **by** 30 September for approvals made at the first face-to-face Board meeting of the year, or 31 March for approvals made at the second face-to-face Board meeting of the year.

2. Proposals expected to be signed into grant agreements and requiring funds **after** 30 September for approvals made at the first face-to-face Board meeting of the year, or 31 March for approvals made at the second face-to-face Board meeting of the year.

If there is a shortfall within the categories above, the following prioritization criteria will then be applied:

- Tranche 1 – Accelerated Funding Requests
- Tranche 2 - Fragile States (as defined by the World Bank) and countries categorized as IDA Category i in the most recent list issued by the World Bank
- Tranche 3 - All other countries other than those in Category i (i.e. IDA Category ii, Small Island Developing States, and IDA Category iii that have been classified as IDA Category i or ii within the previous two years)

- The Board would approve all proposals in principle, however the effective approval date for any proposals that could not be immediately financed due to insufficient forecasted funds would only be made once the Secretariat determines that funding is expected to be available and notifies the Board and the country accordingly. The determination that additional available assets would be expected to be available within six months will be based on the same forecasting principles used to determine the initial available amounts (i.e. a forecast that excludes Secretariat projections of resources and only considers actual pledged amounts). The approval date for the purpose of application of the **Policy on Time Frames for Grant Agreement Signing and Implementation and Procedures for Proposed Revisions to Implementation Grant Programs** will be the date of notification to the Board of such availability.

- In the unlikely event that there were still unapproved program implementation grants after 12 months from the date of the Board meeting in which they were reviewed and approved in principle, the validity of the application and recommendation would need to be considered by the FAC based on a recommendation from the Secretariat and subsequently the Board based on recommendation of the FAC.

Part 3: Prioritization of Commitments

In the event of an actual or expected shortfall in uncommitted assets, the Secretariat would first follow the approach outlined below:

- in consultation with the concerned parties, delay commitments in cases where there would be no negative impact (e.g. if the funds for activities were not immediately required or if sufficient funds were available from an earlier commitment that could continue to finance operations for a certain period);

- following this step, any remaining activities requiring funds would be committed in the following order:

    a. Secretariat budget and Trustee budget;
    b. commitments arising from approved Accelerated Funding Requests;
    c. commitments for the Civil Society Education Fund, education plan and program development grants, and any other special initiatives or funding amounts approved by the Board other than those related to program implementation grants;
    d. second and subsequent commitments for program implementation grants;
    e. first commitments for program implementation grants; and
    f. commitments for Global and Regional Activities.

In the event of a shortfall in available assets within any of the categories resulting in the inability to fund the entire category at that time, the Secretariat in consultation with the parties concerned would make a determination of what it believed to be the most urgent case for commitment of funds. The CEO will provide the rationale to the Financial Advisory Committee for the purpose of the annual review of the portfolio.

ANNEX 7: FINANCIAL FORECAST

INTRODUCTION

The following is provided in this paper:

Section 1: Current forecast including explanations for how the figures were determined

Section 2: A reconciliation with the previous forecast presented to the Board in November 2012

Section 3: Supplementary forecast focused on the ability of the Board to make approvals for the financing of program implementation grants submitted in Round 1 of 2013 in accordance with the proposed Comprehensive Funding Guidelines

Section 4: Conclusion

1. CURRENT FINANCIAL FORECAST

1.1 As communicated in previous forecasts, it is important to note that the forecast is a projection of future events and is therefore subject to significant change that could both positively and/or negatively affect the forecast.

1.2 These changes can be permanent in nature (e.g. a reduction in donor contributions or an increase in commitments required) or temporary in nature (e.g. a shift in the timing of a donor contribution from the end of one year to the start of another or a movement in the expected approval date of a grant.

1.3 The most recent forecast covering the remainder of the existing replenishment period and the next replenishment period is provided on the next page. The forecast should be read in conjunction with the relevant explanatory notes.

FORECAST OF AVAILABLE ASSETS	CURRENT INDICATIVE ALLOCATION VALIDITY PERIOD			FUTURE INDICATIVE ALLOCATION PERIODS			
	CURRENT REPLENISHMENT PERIOD				NEXT REPLENISHMENT PERIOD		
All Figures in USD Millions	SEMESTER 1 2013	SEMESTER 2 2013	SEMESTER 1 2014	SEMESTER 2 2014	2015	2016	2017
A. Opening Balance Cash and Promissory Notes	1021	1040	1026	998	1224	1163	1356
A1. Total Committed	942	999	935	867	748	523	446
A2. Total Uncommitted/Available for Approval	79	41	91	131	476	640	910
B. Inflows	184	286	250	563	672	673	673[12]
Public Sector Contributions - Contribution Agreement	157	212	77	262	28	0	0
Public Sector Contributions – Pledge	20	4	47	4	0	0	0
Public Sector Contributions – Projection	5	67	125	294	638	667	667
Others – Projection	2	3	2	3	6	6	6
C. Outflows	166	300	278	338	733	480	424[13]
D. New Commitments	223	236	210	219	508	403	91[14]
Program Implementation Grants 1st Commitments	186	196	168	0	0	0	0
Program Implementation Grants 2nd Commitments	0	0	0	210	364	0	0
Program Implementation Grants 3rd Commitments	0	0	0	0	104	364	0
Other Commitments	37	40	42	9	40	39	91
E. Closing Balance Cash and Promissory Notes (A+B-C)	1040	1026	998	1224	1163	1356	1605
E1. Total Committed (A1-C+D)	999	935	867	748	523	446	113
E2. Total Uncommitted/Available for Approval (A2+B-D)	41	91	131	476	640	910	1492[15]

At the end of 2014, it is expected that there will be US$ 476 million in uncommitted assets available, while the value of outstanding commitments to be made after 2015 for program implementation grants and the results-based funding pilot all expected to be approved in the 2012-2014 period will be in the region of US$ 882 million. Therefore, the difference of US$ 406 million will need to be funded from new contributions in the 2015-2017 replenishment period.

[12] 2015-2017 contributions forecasted tentatively at approximately US$ 2 billion based on 2012-2014 projections.
[13] Disbursements drop off as no new allocations for program implementation grants are forecast in this scenario after Semester 1 of 2014.
[14] New commitments in this scenario are low as no new approvals of implementation grants are currently included beyond Round 1 of 2014 (indicative allocation list validity period).
[15] This amount would be reduced for any new commitments for program implementation grants that the Board would approve from Round 2 of 2014 onwards.

Explanatory Notes

Opening Balance

1. The opening balance of funds reflects the cash available in both the Catalytic Funds and GPE Funds as of 1 January 2013.

2. Committed Assets refers to the amount of assets that are earmarked to pay for existing obligations such as program implementation grants already approved by the Board of Directors but not as yet disbursed.

3. Uncommitted Assets/Available for Approval refers to the amount of funds available that can be allocated to new activities approved by the Board.

Inflows

4. Inflows are comprised primarily of funding from the public sector through donor governments. Other sources include refunds from grants, and investment income.

5. Public sector contributions refer to expected contributions from donors based on either:

- **Signed Contribution Agreements:** Agreements signed between the donor and trustee outlining the amount that a donor agrees to pay, payment schedule, and any conditions attached to such payments. The balance on signed contribution agreements expected to be contributed by the end of 2014 is **US$ 708 million.**

- **Pledges:** These are amounts that donors have announced they expect to contribute either through a replenishment conference, public announced, or written communication from an authorized official, but which have not yet been signed into a contribution agreement. It is important to note that while some donors pledge over a multi-year period, they are only in a position to sign a contribution agreement on an annual basis. The balance on outstanding pledges to the end of 2014 is **US$ 75 million.**

- **Projections:** These are estimates developed by the Secretariat of additional contributions that are expected to be made based on the information available to them from their interactions with current and potential donors. Projections typically consist of estimates of increased contributions from donors that are not yet confirmed, estimates of continued contributions from existing donors whose pledge/contribution agreement period has expired, and estimates of contributions from new potential donors. The value of projections to the end of 2014 is **US$ 491 million.**

6. Other projected sources of funds include investment income which refers to the returns generated from investing the cash balance. The projected returns reflect the current market environment. In addition, the Secretariat may also receive a repayment of funds from a program implementation grant as happened in the case of Kenya which repaid US$ 26 million in 2012. Currently no refunds are forecasted.

Outflows

7. Outflows reflect the cash transfers from the Trust Funds to Supervising and Managing Entities and the transfer of funds to cover the operational expenses of the Secretariat and Trustee.

8. The majority of outflows relate to transfers of funds from the Trustee to finance disbursements for program implementation grants. The current outflows are based on simple projections that implementation grants will be disbursed over a four-year period to account for any

projected delays in signings or grant extensions. These assumptions will be further refined in subsequent updates to the forecast to take into account differences in individual grants.

9. It is important to note that outflows impact the level of committed assets and have no impact on the level of uncommitted assets that are used for the purpose of making financial commitments.

New Commitments

10. Grant commitments are obligations for the provision of financial resources to Supervising and Managing Entities over a predetermined period of time. The current practice since 1 January 2013 is to commit funds for program implementation grants in annual tranches over the lifetime of the grant (i.e. 3 tranches for a 3 year grant).

11. The forecast of grant commitments for program implementation grants is based on the Secretariat's assessment of when applications will be received from relevant countries. It should be noted that in a number of cases, the Secretariat's assessment differs from when the country has indicated they will submit an application. Where information is available on the split of a proposal budget over the lifetime of a grant, this is reflected in the forecast, where this is not available, the indicative allocation is forecasted based on three equal installments to reflect the annual commitment approach for a standard 3-year proposal.

12. It is important to note, that as the revised indicative allocation list will only be valid through Round 1 of 2014, no commitments from any new Board approved program implementation grant allocations after this Round are currently forecasted.

13. The commitments shown in the period S2 2014 – 2017 primarily reflect the commitments for year 2 and year 3 for program implementation grants approved in Round 1 and 2 of 2013 and Round 1 of 2014, as well as the provision of funding under the proposed Results-Based Funding pilot, and a continuation of Global and Regional Activities ("GRA") funding, and other operating costs.

Closing Balance

14. The closing balance reflects the projected level of assets available at the end of each period.

15. The uncommitted/available for approval balance is not projected to be negative in this scenario indicating that there should be no disruption to program implementation grants due to lack of funding. However, as forecasts are subject to change, any negative event such as reduced or delayed donor contributions, or higher or earlier than anticipated applications for funding could create a shortfall in uncommitted assets. In these cases, as the Trustee cannot commit negative funds, the impact is that the commitment of funds (and subsequent cash transfer) for grants would be delayed until new contributions had arrived to eliminate the negative balance. These issues are covered in greater detail in the Comprehensive Funding Guidelines.

2. RECONCILIATION WITH NOVEMBER 2012 FORECAST

(*In USD Millions*)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Overall**
Projected Year End Uncommitted/Available Assets (as provided in November 2012)	126	116	461	558	942	1,581	**1,581**
Net Change from Prior Year	N/A	(47)	(25)	15	83	(32)	**N/A**
Positive/(Negative) Changes in Anticipated Contributions (See Note 1)	(90)	5	(29)	0	0	0	**(114)**
(Increases)/Decreases in Anticipated Commitments (See Note 2)	43	17	69	68	(115)	(57)	**25**
Net Change	(47)	(25)	15	83	(32)	(89)	**(89)**
Projected Year End Uncommitted/Available Assets (as of April 2013)	79	91	476	641	910	1,492	**1,492**

Note 1 - Anticipated Contributions

2012 (Actuals)

US$ 90 million lower than forecast - decrease in anticipated contributions mainly relates to net projections being lower than anticipated, low investment returns given historically low interest rates, some negative foreign exchange impacts, and a shift in the timing of some donor contributions to 2013. It is important to note that some contributions were actually advanced from 2013 into December 2012 and some contributions in 2012 were increased versus the forecast, however they were not enough to offset the other reductions. The table below provides further detail:

Adjustment Type	Amount (USD Millions)	Comments
Net Reduction in Projected Contributions (Permanent Adjustment)	(37)	Primarily relates to a Secretariat projection that a major donor would continue to make a supplementary contribution on top of its pledged amount as it had in previous years. The donor was unable to make that additional payment in 2012.
Timing Differences between 2012 and 2013 (Temporary Adjustment)	(51)	In two cases, donors were unable to complete their internal processing before the year end, but payments are expected in Semester 1 2013. In a further case, the donor in consultation with the Secretariat deferred a payment to Semester 1 of 2013 based on the Secretariat having sufficient available assets to meet its scheduled commitments. One donor forecast to contribute in Quarter 1 of 2013, advanced its contribution to December 2012.
Net impact of lower investment returns, foreign exchange, and other minor adjustments (Permanent Adjustment)	(2)	Minor adjustments (both positive and negative)
Net Change	**(90)**	

2013 (Forecast)

While some anticipated contributions from 2012 have shifted into 2013, and some donors have increased their contribution agreements, the Secretariat, based on their interactions with a number of donors, has had to take a more conservative approach to the forecast of projections of contributions in 2013 (projections are estimates of contributions from donors who have not yet pledged the amount). The Secretariat has also lowered the projected investment returns for the remainder of the forecast period based on an expectation of a continued low interest rate environment for the foreseeable future. The net overall effect is still expected to show a minor increase in 2013 contributions.

2014 (Forecast)

A slightly more conservative outlook of projections and investment returns reduces the anticipated contributions during 2014. There is still, however, a sizable amount of projections forecast for Semester 2 of 2014 as a number of current contribution agreements will end in 2013 while some new donors are expected to contribute for the first time.

2015-2017 (Forecast)

At this point, no significant changes have been made to the original projection that the next replenishment period would be expected to raise at least US$ 2 billion. These numbers will be refined as we get closer to the replenishment conference and have better information.

Note 2 - Anticipated Commitments

2012 (Actuals)

Decrease in commitments relates primarily to a timing issue regarding the cancellation of an approval for a grant in Mali that expired in 2012. The grant was subsequently approved by the Board in February 2013 and, therefore, will be committed in annual installments meaning the commitments are spread over the course of 2013, 2014, and 2015.

2013 – Estimates

2013 anticipated commitments are broadly in line with expectations from the Paris, November 2012, Board meeting. It is expected that supervision and agency costs will be slightly lower than forecast due to a combination of certain Managing Entities not charging agency fees, and also due to a reduction in the anticipated amount of program and plan development grants. The pipeline of program implementation grant applications has seen some shifting into 2014 and while this has somewhat reduced expected commitments for 2013, it has not reduced them as much as expected. This is due to higher than anticipated projected first commitments based on the year 1 budgets of proposals received in Round 1 of 2013. The initial forecast assumed three equal commitments (i.e. 33.3% of the proposal value in Year 1), while the expected first commitment based on actual proposals received is estimated to be 37% of the proposal value.

2014 - Estimates

Grant commitments are also expected to be lower in 2014 as there is expected to be some slippage from Round 1 to Round 2 of 2013 meaning that most of the second commitments for Round 2 of 2013 will fall into the early part of 2015.

2015 – 2017 Estimates

As no new commitments for program implementation grants were included in either forecast due to the indicative allocations only being valid through Round 1 of 2014, the main differences in the commitment amounts relate to timing issues in that Round 1 of 2013 is slightly smaller than anticipated resulting in fewer commitments for the 3rd year of those grants in 2015, while Round 2 of 2013 and Round 1 of 2014 as a result are expected to be slightly larger resulting in higher amounts of commitments being made in 2016. The increase in commitments in 2017 is mainly related to an anticipated shift in the timing of the US$ 50 million provision for results-based funding payments from 2016.

3. FORECAST FOR THE PURPOSE OF PROGRAM IMPLEMENTATION GRANT APPROVALS

3.1 The Comprehensive Funding Guidelines outlines a recommended approach for the forecast of funds and timelines that should be taken into consideration by the Board when considering approval of new program implementation grants.

3.2 The recommended approach has the following key features:

- The forecast would be over a shorter period (6 months) to reflect the typical grant signing timeframes. There would still need to be consideration of the overall longer term financial projections as set out in Section 3 of this paper.

- The forecast of contributions will exclude Secretariat projections of additional contributions as there is less certainty that these funds will actually materialize compared to expected contributions arising from pledges and signed contribution agreements.

- The forecast will seek to determine whether there are sufficient funds to be able to finance the first commitment within the six months following Board review of the proposal in order to provide the Board with an appropriate basis for approving a proposal.

- As the Board will approve proposals for the full amount requested, consideration needs to be given as to the likelihood that we will be able to also finance the second and any subsequent commitments. This is provided by reviewing the longer term forecast and ensuring that there are no projected future shortfalls in funds available for commitments, and also by prioritizing upcoming (within the next six months) second and subsequent commitments, along with recurrent costs of the Partnership prior to financing commitments for newly approved proposals.

3.3 Following the approach recommended in the Comprehensive Funding Guidelines, the following forecast was determined.

FORECAST 1 JULY 2013 – 31 DECEMBER 2013	AMOUNT in USD millions
Estimated Available Assets on Hand 1 July 2013 (excluding projected contributions to 30 June 2013)	256
Pledged and Signed Contributions 1 July 2014 – 31 Dec 2014	216
Total Projected Assets	**472**
Recurrent Costs (Secretariat, and Trustee budgets, expected commitments for GRA, Plan and Program Development Grants, CSEF, etc.)	(48)
Total Projected Liabilities	**(48)**
Available Assets for First Grant Commitment of Round 1 2014 Applications	**424**
1st Commitment of Round 1 2013 proposals required by 31 December 2013 (including related Supervision and Agency Fees)	(200)
Projected Surplus/(Shortfall)	**224**

3.4 The expected available cash along with pledged and signed contributions predicted to be made during the period less known liabilities arising from prior Board approvals or recurrent costs exceeds the amount required to make the 1st Commitment of Round 1 2013 proposals and related supervision and agency costs.

3.5 In addition, no shortfall in available assets is predicted over the course of the longer-term forecast that would necessitate including a provision for a commitment reserve in this calculation of available funds.

3.6 Based on the Comprehensive Funding Guidelines, the Board can therefore approve the entire proposal value for Round 1 of 2013 program implementation grant applications should it chose to accept the FAC's recommendations.

4. CONCLUSION

4.1 The overall change in projected uncommitted assets at the end of the forecast period in 2017 versus that provided in November 2012 is currently expected to be minus 5.6% or US$ 89 million.

4.2 Resources are expected to be slightly lower than previously forecast due primarily to a more conservative approach to Secretariat projections of additional resources based on updated information from donors, an assessment of investment return patterns, and actual contributions from the second semester of 2012.

4.3 While the reduction is a cause for concern, the variance from the previous forecast is still rather small in forecasting terms and it is not so significant that it would call into question our ability to finance the indicative allocations previously approved by the Board at this point.

4.4 Currently, there is no anticipation of any shortfall in the ability to make commitments. However, this could easily change if donor contributions do not materialize on schedule or grant signing and implementation for a number of large grants is faster than anticipated. Therefore, we would continue to emphasize those donors who have the ability to advance the timing of their contributions to please do so. This has already happened in a number of cases where donors advanced their 2013 contributions to 2012.

4.5 As always, financial information needs to be monitored carefully and the next financial forecast will be extremely important in that it will support both the next review of the indicative allocations which will take place in time for the second face-to-face Board meeting of 2013 and also the preparations for the next replenishment.