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 September 2013[1], other than the program implementation grant recommendations in Part 2 (BOD/2013/11 DOC 06b). Since September 2013, the FAC met face-to-face on 15-18 October 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: Annual Review of Indicative Allocations (see para. 2.1)
- Section 3: Guidance on Supervision, Agency, and Management and Administrative Costs (see para. 3.1)
- Section 4: Supervising and Managing Entity Eligibility Expansion Plan (see para. 4.1)
- Section 5: Annual Portfolio Review (see para. 5.1)

Part 2 contains some items for information including the following:

- Section 6: Financial Forecast
- Section 7: Results Based Financing Pilot
- Section 8: Next Steps

[1] This report was issued as background for the Board audio-conference meeting on 7 October 2013: http://www.globalpartnership.org/media/Board/2013-10-Board-Audioconference-Report-financial-committee.pdf

1.3 This paper has the following annexes:

Annex 1 – Agenda for FAC face-t0-face meeting on 15-18 October 2013
Annex 2 –Attendance List for FAC face-to-face meeting on 15-18 October 2013
Annex 3 –Indicative Allocations List for 2014
Annex 4 – Annual Review of Indicative Allocations – Details from FAC Paper
Annex 5 - Indicative Allocations - Summary of Options and Financial Implications
Annex 6 – Risk Analysis of the Current Indicative Allocation Model
Annex 7 – Analysis of Supervision, Agency, and Management and Administration Costs
Annex 8– Guidelines for Supervision Allocations
Annex 9– Supervising and Managing Entity Eligibility Expansion Plan
Annex 10 - Guidelines for Assessment of Newly Eligible Supervising and Managing Entities

1.4 This paper has the following attachments:

Attachment 1 – 2013 Annual Portfolio Review Report

Attachment 2 – Financial Forecast

PART 1 – FAC RECOMMENDATIONS TO THE BOARD OF DIRECTORS

2. ANNUAL REVIEW OF INDICATIVE ALLOCATIONS FOR PROGRAM IMPLEMENTATION GRANTS

Recommended decisions

2.1 The FAC recommend that the Board approve the following decisions:

BOD/2013/11-XX — Indicative Allocations List 2014: The Board of Directorsapproves the revised list of indicative allocations for program implementation grants 2012-2014 set out in Annex 3 of the Report of the Financial Advisory Committee (BOD/2013/11 DOC 06A), which shall be in effect for the first and second round of funding in 2014.

BOD/2013/11-XX — Options for Revision of the GPE Funding Model: The Board of Directors:

a. recognizes the need to adapt the model for indicative allocations for program implementation grants to balance the need for predictability of funding for developing country partners with the predictable resources available for the Global Partnership;

b. further recognizes, that the adaption of the indicative allocation model must be done in a way that maximizes the efficient and effective use of GPE resources towards achieving the mission of the Global Partnership; and

c. requests the Secretariat to develop options for a revised funding model for the 2015 – 2018 period to be presented to the relevant committee[2] as soon as possible, and subsequent recommendation to the Board well in advance of the Replenishment Pledging Conference based on the following principles:

i. eligible countries will be provided with an indicative allocation for program implementation grants in advance of applying for such grants;

ii. the minimum indicative allocation will be based on a forecast of available resources that excludes any projections of contributions to the GPE Fund that have not yet been pledged;

iii. a mechanism will be developed that allows eligible countries access to additional funds above the minimum indicative allocation; and

iv. the determination of the level of funds an eligible country may receive above the minimum indicative allocation will be based on both funding availability and consideration of development effectiveness, value for money, and results.

The options for the revision of the funding model shall include an analysis of the suitability of the current Needs and Performance Framework, and a review of the country eligibility criteria for program implementation grants.

Background

2.2. The Board first approved the revised Needs and Performance Framework (NPF) and indicative allocations in January 2012 (decision BOD/2012/01-01) and determined that there would be an annual review of the indicative allocations for program implementation grants.

2.3. Arising from the first annual review of indicative allocations, the Board revised the list in November 2012 recognizing that it would require substantial additional resources from the next replenishment period to cover the difference between the value of program grant approvals expected to be made and the value of contributions to the Global Partnership to be received over the same period.

2.4. In May 2013, the Secretariat presented its semi-annual financial forecast (Annex 7 of BOD/2013/05 DOC 07), which outlined that the difference in the funding forecasted to be required from the next replenishment period to finance the expected approvals to be made in

[2] The relevant committee will be determined based on the Board's decision on the recommendations of the Governance Working Group ("GWG") on establishment of new technical committees (See BOD/2013/11 DOC 03). If the GWG's recommendations are approved, this issue will be within the terms of reference of the Strategy and Policy Committee.

the current replenishment period (to the end of 2014) had now increased to US$406 million and it was noted again, that this figure was subject to further change.

2.5. The Board therefore requested that the Secretariat prepare for consideration by the FAC as part of the annual review of indicative allocations to be delivered to the face-to-face Board meeting in November 2013:

a. options to revise the existing indicative allocation model to provide flexibility to balance allocations with forecasted available resources; and

b. an analysis of risks associated with maintaining the existing allocation model for 2014 grant applications, based on the next financial forecast.

2.6. The FAC therefore focused on two key issues: the indicative allocations to the end of the current replenishment period (2014), and potential revisions to the funding model to address the Board's concerns on the need to balance allocations with resources.

2014 Indicative Allocations

2.7. The FAC noted that in determining the indicative allocations for program implementation grants, consideration needed to be given to both the availability of funds, and demand for program implementation grants (See **Annex 4** for details).

2.8. The Secretariat presented the FAC with three options, as presented in **Annex 5**. The FAC expressed concern that the financial forecast presented by the Secretariat (see **Attachment 2** for current forecast) showed a continuing deterioration in projected donor contributions through the end of 2014 and that this would result in an increasing funding difference of between US$491 million and US$585 million based on the Secretariat's recommended option for 2014 indicative allocations under two different funding scenarios (Best Estimate and Conservative).

2.9. It was noted that projected donor contributions for 2014 had become less certain as donors withhold announcements of new pledges until the June 2014 replenishment conference and that the funding environment continued to be challenging.

2.10. In relation to demand for program implementation grants, the FAC noted that this was determined by two main factors: country eligibility for program implementation grants, and the readiness of eligible countries to apply for program implementation grants in 2014.

2.11. Based on the information provided on eligibility and readiness, the FAC was presented with three options for considering the indicative allocations for 2014 (**Annex 5**) noting that each option would either increase or decrease the funding difference and have an impact on the resources expected to be available for new allocations in the next replenishment period (2015-2018).

2.12. The FAC had a lengthy discussion on the options and potential variants of each option, but ultimately concluded that the Secretariat's recommended Option 2 struck the best balance between meeting the expectations of countries that have already been informed of an indicative allocation arising from the Board's decision in November 2012, and limiting the extent of the increase in the funding difference when there is continuing uncertainty that will not be resolved until the outcome of the June 2014 replenishment is known.

2.13. In recommending Option 2, the FAC were broadly in agreement on issues related to the removal of Angola from the indicative allocations list as they are no longer eligible (IDA category iii and no longer categorized as a fragile state), and to not including Bosnia & Herzegovina, Kosovo. Cape Verde, and Grenada (technically eligible) on the 2014 list until the funding situation becomes clearer following the replenishment.

2.14. The FAC however did not reach a complete consensus on whether Rwanda, Nepal, or Malawi (countries on track to complete existing grants in 2014) should be provided with a new indicative allocation in 2014. There was a robust discussion on prioritization of resources given that these countries were deemed to be performing well, but ultimately, the majority view in the FAC was to decline to provide an indicative allocationto these countries, given the significant impact this would have on the financial position, and considering that these countries would be expected to be able to apply in early 2015 assuming they were provided an indicative allocation shortly after the replenishment conference in June 2014.

2.15. The FAC also carefully considered the Secretariat's recommendation to retain the indicative allocation for Togo in 2014. FAC members expressed concern that performance was currently behind schedule and may not catch up in time before a new application is submitted, and compared the case to that of Rwanda, Nepal, and Malawi.

2.16. The Secretariat clarified that the situation was different in that Togo was already provided with an indicative allocation by the Board and were preparing a proposal on that basis. Nepal, Rwanda, and Malawi had not been advised of any indicative allocation in this period. The Secretariat also provided updated information that disbursements were expected to accelerate significantly in the near future and that the country was committed to implementing the grant on schedule. It was also noted that the country would not apply in Round 1 of 2014 if disbursements had not significantly accelerated.

2.17. A slim majority of the FAC therefore recommended that Togo retain its indicative allocation in 2014.

Options for Revision of GPE Funding Model

2.18. The Secretariat presented to the FAC an analysis of the strengths and weaknesses of the current indicative allocation model (**Annex 6**), noting that the model has been extremely successful in generating demand for funding, but its design contained significant weaknesses in relation to ensuring that the supply of funds could match demand.

2.19. FAC members noted that the difficult decisions related to the 2014 indicative allocations and the size of the funding difference are the consequences of the current funding model created in January 2012 and for which the FAC and Board have been managing ever since.

2.20. There was broad support among FAC members for moving to a new funding model for the next replenishment period where countries would be provided with a minimum indicative allocation based on firm pledges of funding rather than the current practice of being provided with a maximum indicative allocation with far more uncertainty attached to funding.

2.21. The FAC were also in support of the Secretariat's recommendation to develop options for a mechanism to access a higher allocation if funds were available and based on incentives related to development effectiveness, value for money, and results, noting that the FAC or successor committee would be reviewing the details of these options in 2014 before making any final recommendation on moving forward with such an approach to the Board in advance of the replenishment conference.

2.22. FAC members emphasized that in developing options for a new funding model, due consideration needs to be given to limiting administrative complexity that could result in high transaction costs, and ensuring that the basis for any incentives were fair and transparent, and had appropriately designed and clear indicators. FAC members also requested that the issue of when countries with existing grants can reapply should also be clearly addressed.

3. GUIDANCE ON SUPERVISION, AGENCY, AND MANAGEMENT AND ADMINISTRATION COSTS

Recommended Decision

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

BOD/2013/11-XX — <u>Supervision, Agency, and Management and Administration Costs</u>: The Board of Directors:

i. approves the approach to supervision allocations described in Annex 8 of the Report of the Financial Advisory Committee (BOD/2013/11 DOC 06A);

ii. requests the Secretariat to engage with and seek exemptions/reductions on agency fees from all GPE partners currently charging them to GPE grants and report back at the next face-to-face meeting of the Board on progress;

iii. calls on GPE partners to support requests for reductions in fees where feasible;

iv. approves a maximum agency fee of 7% of the entire grant amount (including agency fees charged within the grant by sub-contractors) for newly eligible Supervising or Managing Entities that may be approved by the Board of Directors under the Supervising and Managing Entity Eligibility Expansion Plan;

v. requests the Secretariat to analyze further the roles of Supervising and Managing Entities and provide a clear definition on each and/or develop alternate terminology to better reflect the broader spectrum of roles, and report back to the relevant committee at its next face-to-face meeting;

vi. requests the Secretariat to:

   a. prepare guidance on management and administrative costs that may be charged to GPE grants which includes a discouragement of including contingency line items; and

   b. strengthen the Quality Assurance Review process in relation to review of management and administrative costs; and

c. report back to the relevant committee at its next face-to-face meeting.

vii. requests that the Secretariat continue to monitor and analyze supervision, agency, and direct management and administrative costs on an ongoing basis and provide this information in the annual portfolio review report.

Background

3.2 At its face-to face meeting in November 2012, the Board 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 (decision BOD/2012/11-10).

3.3 In order to undertake the analysis, the Secretariat circulated a questionnaire to current Supervising and Managing Entities, requesting information related to costs covered by supervision allocations, agency fees and direct administrative costs for Managing Entities. The Secretariat also carried out some analysis on the portfolio of grants to seek to identify any important trends and patterns. In addition to the information requested from Supervising and Managing Entities, and the Secretariat's own analysis, the Secretariat compared the Global Partnership's approach on these issues and costs involved with that of two comparator organizations in other sectors, The Global Fund to Fight AIDS, Tuberculosis and Malaria (the "Global Fund"), and the Global Environment Facility (the "GEF").

3.4 The full analysis is outlined in **Annex 7**, and the recommended guidance on supervision allocations is outlined in **Annex 8**.

Supervision Allocations

3.5 The FAC welcomed the analysis and noted that there was a need to provide a more flexible approach to supervision allocations to recognize that the current "one size fits all" approach was not appropriate in all situations. The FAC were broadly supportive of the flexible approach proposed by the Secretariat but were concerned that costs might increase without sufficient justification. One FAC member did not agree with an element of the approach related to delegating authority to the Secretariat to approve supplementary supervision allocations of up to US$200,000 (Ref Annex 7 Para 1.45 and Annex 8 Para 1.5) and believed this authority should rest with at committee level.

3.6 Members of the FAC emphasized that the responsibility for review of these types of costs needs to start first at the LEG when the proposal is being developed, but that a role also exists in the headquarters of Supervising Entities and Managing Entities (where costs are charged to the grant) to ensure that costs are not excessive.

3.7 The FAC therefore recommends that a description of the costs be provided as part of the application documents going forward so that the justification of costs, and balance between the costs of monitoring compliance with grant agreements and Board decisions as well as any capacity building and support provided by the Supervising Entity to the developing country partner can be understood prior to approval. The FAC suggestion has now been incorporated into the Secretariat's recommended guidance in **Annex 8**.

3.8 The FAC also acknowledged the discrepancy between supervision allocations for Supervising Entities that are additional to the grant, and the costs of Managing Entities that are charged to the grant, noting the Secretariat's analysis that the distinction between the two roles is not always clear and that there are in reality a range of implementation arrangements. The FAC support the proposal to further analyze and clarify the roles and terminology around Supervising and Managing Entities.

Agency Fees

3.9 The FAC noted that agency fees charged to GPE grants were in line with the respective organizations own policies and procedures, and that costs charged to GPE were no higher than those charged to comparator organizations.

3.10 Nevertheless, the FAC noted that some of the bilateral donor partners acting in the role of Supervising Entity do not charge agency fees, which was appreciated. The FAC support the approach to request GPE partners currently charging agency fees to consider an exemption or a reduction in agency fees. FAC members were also interested to know in further detail what specific services if any are provided from the agency fees of Supervising and Managing Entities. Some members expressed the view that the Secretariat might consider developing a memorandum of understanding to clarify the support provided citing the example of the Global Fund's arrangements with UNDP.

3.11 FAC members noted that the proposal to limit agency fees for agencies that would become eligible under the Supervising and Managing Entity Expansion Plan (if approved by the Board) to 7% (of the grant amount – including amounts charged within the grant by sub-

contractors) was not consistent with the current practice to allow agency fees based on the policies of Supervising and/or Managing Entities' own policies. FAC members requested clarification on why the Secretariat recommended a limit of 7%.

3.12 The Secretariat clarified that the rates are consistent with a similar policy developed by the Global Fund that applied to international non-governmental organizations. The Secretariat also noted that some of these organizations may have agency fees that are significantly higher than those charged by current Supervising and Managing Entities and that these types of costs are often also charged by sub-contractors to the Supervising or Managing Entities for the grant. Without a cap on the amount of agency fees for newly eligible organizations, this practice could result in significant administrative costs being charged to GPE.

3.13 Considering the explanation provided, the majority of FAC members supported the proposal to limit these types of costs acknowledging that any newly eligible entity would be aware of the maximum agency fee before it decided whether to accept a nomination as Supervising or Managing Entity.

Program Management and Administration Costs

3.14 FAC members noted that costs will vary considerably based on the implementation arrangements and that opportunities to reduce costs charged to GPE may be achievable when GPE funding forms part of a larger program (especially using a pooled funding mechanism) rather than through a standalone GPE project. It was noted that the average costs of supervision, agency, and program management and administration costs amounts to 11% but has varied between 1.5% and 30.5% depending on the grant and close attention should be paid to the appropriateness of these costs during proposal development. It was also clarified that some administrative costs perhaps should be costed as direct implementation rather than administrative costs, thus actual % for "overheads" is perhaps lower. The proposal that the Secretariat develop guidelines on management/administrative costs will assist in addressing this concern.

3.15 In addition, large contingency budget lines have been included in many proposals and it was noted that funds set aside for contingencies should either be reprogrammed for implementation activities or not requested in the first place and therefore available to support other programs. In the event that there are unanticipated costs that arise over the course of a

grant, then efficiencies should be sought, and failing this, prioritization of activities would need to be made instead.

3.16 The FAC noted that sufficient emphasis should be placed on program management and administration costs charged within grants to ensure that they are reasonable based on the specific needs of the grant. The FAC supported the proposal of the Secretariat to work with SE/MEs to develop guidance on program management and administration costs for those developing proposals, strengthen the focus of the Quality Assurance Review (QAR) to look at these issues during proposal development, address the issue of high contingencies being included in some proposals, and continue to monitor these costs through the portfolio review.

4. SUPERVISING AND MANAGING ENTITY ELIGIBILITY EXPANSION PLAN

Recommended Decisions

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

BOD/2013/11-XX – <u>Supervising and Managing Entity Eligibility Expansion Plan</u>: The Board of Directors approves

a. the Supervising and Managing Entity Eligibility Expansion Plan as set out in Annex 9 of the Report of the Financial Advisory Committee (BOD/2013/11 DOC 06A), including the required modifications to the GPE Fund Governance Document.

b. a provision of US$150,000 in the 2014 Secretariat budget for the purpose of conducting Institutional Capacity Assessments.

c. Guidelines for assessment of newly eligible supervising and managing entities as set out in Annex 10 of the Report of the Financial Advisory Committee (BOD/2013/11 DOC 06A)

Background

4.2 At its meeting in Brussels in May 2013, the Board requested that the Secretariat deliver to the FAC by its next face-to-face meeting the "ME Eligibility Expansion Plan" described in the FAC Report (BOD/2013/05 DOC 07), for recommendation by the FAC and approval by the Board at its next face-to-face meeting.

4.3 The Supervising and Managing Entity Eligibility Expansion Plan (which applies to both Supervising and Managing Entities) needed to consider a number of items

- What type of organizations would be considered for eligibility?
- What would the scope of the expansion be?
- How would the selection and assessment process be conducted?
- Who would carry out the assessments?
- What would the implications be for governance documents, and donor contribution agreements?
- What would be the timeline?

4.4 The details of the proposed plan and related timeframes are disclosed in **Annex 9**. In addition proposed guidelines for the assessment of newly eligible Supervising and Managing Entities are outlined in **Annex 10**. It is envisaged that the implementation of the proposed guidelines will provide greater assurance to Board members that newly eligible Supervising and Managing Entities have sound financial and other fiduciary policies and procedures in place, and have the capacity to effectively supervise and manage GPE grants.

Expansion Plan and Guidelines for Assessing Newly Eligible Supervising and Managing Entities

4.5 The FAC noted that there are obvious risks to the financial positionand reputation of GPE in undertaking this expansion if the GPE engages with inappropriate partners that a) cannot deliver results, b) cannot provide reasonable assurance as to the appropriate use of funds or c) misuse the GPE funds. The FAC noted that the plan and guidelines seek to mitigate these risks and that the institutional capacity assessments and grant level assessments endorsed by the Board in May 2013 need to be applied before any funds are approved, in addition to the proposed guidelines (**Annex 10**), and reviewed regularly.

4.6 The FAC further noted that the selection criteria sets the bar high in terms of the organizations that can be involved by limiting the expansion to not for profit organizations with demonstrated experience in:

- operating in a fragile country context where applicable[3];
- the education sector;

[3] If the organization would take on an SE or ME role in such a context.it would need to have relevant experience

- managing bilateral or multilateral donor-funded projects in excess of US$10 million in a country and across more than one country; and
- working with national authorities to strengthen local capacity to implement basic social services.

4.7 The FAC also noted the comments from the Trustee that ultimately it is the Board's responsibility to decide on the organizations that become eligible. The expansion does not change the existing allocation of responsibilities among the GPE key actors, and that the accredited entities would be directly accountable to the Board for the use of GPE funds and activities carried out therewith in the same manner as the other SEs/MEs. Direct accountability is premised on the fact that the accredited entities satisfy the standards outlined in the guidelines for assessment of newly eligible SEs and MEs (Annex 10) as approved by the Board. As is currently the case, upon the transfer of GPE funds to an accredited entity, the Trustee will have no responsibility for the use of GPE funds transferred and Activities carried out therewith. The accredited entities will enter into a Financial Procedures Agreement with the Trustee, which set out the processes of commitments and transfer of funds and reporting requirements, including annual financial statements.

4.8 The FAC noted that the proposed change in eligibility will require a change to the GPE Fund Governance Document. In addition it will require a similar change to the "Standard Provisions Applicable to the Global Partnership for Education Fund". These provisions are an integral part of every contribution agreement that individual donors to the GPE Fund sign with the Trustee. The FAC emphasize the importance of all donors agreeing to these changes as they can only take effect if all donors agree.

4.9 While FAC members were broadly supportive of the Secretariat's proposal, FAC members provided a number of suggestions to improve the plan and the guidelines for the assessment of newly eligible Supervising and Managing Entities. In addition FAC members requested clarification from the Secretariat on a number of items as explained below.

4.10 Suggestions from the FAC related to ensuring that audits were performed on an annual basis to international auditing standards have been incorporated, along with an emphasis on the importance of obtaining value for money in procurement activities. In addition, assessments will typically be repeated every four years instead of three to reduce

transaction costs, however they can be performed more frequently in higher risk situations if needed.

4.11 FAC members also requested assurance that appropriate audit arrangements for sub-recipients of GPE funding would also be in place, and the Trustee who had been consulted on the plan suggested that newly eligible Supervising and Managing Entities should have appropriate standards for environmental and social safeguard assessments where needed.

4.12 The Secretariat provided assurance thataudit arrangements for the entire program (including at sub-recipient levels) would be examined as part of any detailed grant level assessments, and the issue of environmental and social safeguard assessments would also be addressed in the grant level assessments where necessary.

4.13 One FAC member expressed concern that the expansion opened up the possibility of organizations that are not part of Board constituencies becoming eligible to act as Supervising or Managing Entities, while another FAC member queried why the expansion was not greater and open to private companies as opposed to just not for profit organizations.Some FAC members also requested assurance that country ownership is respected and queried whether it would be better to wait for Local Education Groups (LEGs) to nominate organizations for a specific grant rather than establishing an initial pool of entities as envisaged in the plan.

4.14 The Secretariat clarified that the principle of country ownership is respected in that it is the LEG that must nominate the Supervising or Managing Entity for a country level grant, and that, provided an organization meets the strict eligibility criteria with respect to experience in the education sector and in managing donor funded programs, then it was not necessary that eligibility be restricted only to members of GPE Board constituencies in order to give the respective LEGs more choices.

4.15 In relation to private companies acting as Supervising or Managing Entity on a for profit basis, the Secretariat was not proposing this at this stage, noting the costs involved. However it was noted that private foundations could be eligible for the role, and that private companies would of course continue to compete for specific contracts funded from within grants where appropriate.

4.16 The Secretariat further explained that the rationale behind establishing an initial pool of eligible entities in 2014 is to provide greater flexibility and assurance to LEGs in emergency situations that an organization could act quickly (i.e. is pre-screened and therefore does not

need for a further assessment for amounts less than US$5million) and to reduce the risk that an organization nominated by the LEG for a program implementation grant fails the capacity assessment and disrupts the development of the program. It was further clarified that only Board constituencies or LEGs could nominate organizations to be considered for assessment in 2014.

5. ANNUAL PORTFOLIO REVIEW REPORT

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

BOD/2013/11-XX – <u>Portfolio Review Recommendations</u>: The Board of Directors requests the Secretariat, working with interested Supervising and Managing Entities to develop:

a. a proposal on standardized reporting of basic programmatic and financial information for GPE grants to be used for reporting to inform the GPE Board and Committees;

b. options that may include a potential revision to the "Policy on Timeframes for Grant Agreement Signing and Implementation and Procedures for Proposed Revisions to Implementation Grant Programs" to increase the focus on implementation readiness of program implementation grant applications; and

c. provide the options to the relevant committee, and for such committee to present its recommendation to the Board at its first face-to-face meeting in 2014.

5.2 FAC members welcomed the report noting the significant improvement on prior reports. The FAC acknowledged the substantial efforts made by the Secretariat to prepare the report and to incorporate FAC inputs from the draft report deliveredin September 2013.

5.3 The FAC's discussion of the report (**Attachment 1**) focused on the key issues and recommendations raised, including the need for:

- greater focus on implementation readiness
- progress on using the most aligned modalities
- improvements in the ability to report results and better analyze performance
- examination of the role of SE and ME to better reflect the implementation arrangements and their roles and responsibilities
- greater clarity provided to the LEGs on FAC comments on the program implementation grants and their follow-up.

5.4 Some members of the FAC noted what they believed to be some discrepancies in the information and also requested further information on results noting that information was limited to inputs.

5.5 The Secretariat clarified that the report focuses primarily on the active GPE grants and therefore on progress rather than on results and impact. It was noted that the ***Results for Learning*** Report focuses on overall progress in the education sector in GPE developing country members, which is the principal concern of the Global Partnership. The Monitoring and Evaluation team is also preparing a ***Grant Performance Report*** addressing results from closed grants, due to be published in 2014.

5.6 The FAC noted the challenges that the Secretariat reported in analyzing the available information noting that there is no standardized reporting format. This contributed to the significant resources the Secretariat was required to deploy in order to prepare the report and that this is also a factor in increasing the risk of discrepancies with data.

5.7 The FAC was therefore in support of introducing standardized reporting for financial and programmatic information in order to ensure greater accuracy and consistency in how information is presented. The FAC welcomed the assurances provided by the Secretariat that they would work with relevant SEs and MEs on the development of reporting requirements and that these would be simple and should not generate significant additional costs on behalf of SEs and MEs. It was also clarified that standardized reporting does not mean that the Secretariat will develop guidance on indicators to be included in the results framework as the results framework will continue to be developed in line with country priorities.

Implementation Readiness

5.8 The FAC noted that there continues to be a significant gap between the date of Board approval and when implementation actually commences. It is recommended that close attention to implementation readiness during the program approval stage is required and that this area should be addressed more strongly as part of the Quality Assurance Review (QAR) and FAC review stage. The FAC noted that the current "timeframes policy"[4] focuses on grant signing timeframes but not on when implementation actually commences. One FAC

[4]http://www.globalpartnership.org/media/docs/publications/timeframes-and-revisions-may-2012.pdf

member noted that consideration could be given to having a scorecard with timeframes and targets to address this issue.

5.9 The FAC supported the approach for the Secretariat to develop options for how to better address issues of implementation readiness in program implementation grant applications.

Implementation Arrangements

5.10 The FAC noted that there is little evidence of progression towards increased use of the most aligned modalities, with the majority of the portfolio using a Project modality and within these, only a small number fully using national systems.

5.11 It is proposed that any revision to the funding model for the next replenishment period include analysis of the options and implications of built-in incentives for optimal aid effectiveness, capacity building and the use of country systems. The FAC noted that this issue is linked to the options for the redesign of the funding model discussed as part of the annual review of indicative allocations (See Section 2)

5.12 The FAC also emphasized the importance of QAR Phase 1 in terms of ensuring that the initial design of the program is appropriate.

Distinction between Supervising and Managing Entity

5.13 As discussed in Section 3.8, the FAC agreed that the terminology around grant supervision should be reviewed, since the distinction between Supervising Entities (SE) and Managing Entities (ME) is not always clear and both use a range of implementation arrangements. At present, SEs are entitled to supervision allocations that are additional to the grant amount, while MEs cover their costs from within the grant amount. Both SEs and MEs may usegovernment systems, and within both categories there are grants implemented in project mode, while the level of capacity development support also differs quite considerably.

FAC Comments to the LEG

5.14 While the FAC provides comments to the LEG with each proposal that the Board approves, there is evidence that some of these comments may not be clear to the LEG or may

be counterproductive considering the context. As a result, the follow-up of FAC comments has not been consistent across the portfolio.

5.15 The FAC agreed to take steps to immediately address these concerns commencing with the current round of program implementation grant applications, where comments will now be clearly categorized into those that are conditions, those that require the LEG to report back on action taken (which the Secretariat will monitor), and those comments that are observations to the LEG for their own consideration.

PART 2 – ITEMS FOR INFORMATION

6. FINANCIAL FORECAST

6.1 The Financial Forecast included as **Attachment 2** to this report has been modified from the version submitted to the FAC as a result of FAC recommendations on Program Implementation Grant applications reviewed by the FAC over the course of 16-18 October. The change in the forecast does not affect the overall funding difference reported in the forecast, but it does positively impact the forecasted levels of uncommitted assets in 2013 and 2014 as any future commitments for program implementation grants for Nigeria and Uzbekistan (that are not recommended for funding at this time) would be delayed until such time as their applications are approved.

6.2 The FAC notes that the Financial Forecast is interlinked with the annual review of indicative allocations in that the forecast as now presented is based on the Board approving the FAC recommendation on indicative allocations for 2014 (See Section 2).

6.3 The FAC also noted that two scenarios (Conservative and Best Estimate) are included in the forecast to reflect the fact that with the replenishment conference scheduled for June 2014, it has become very difficult to accurately project at this stage contributions for those donors who have not already signed contribution agreements or pledged resources for 2014. The Secretariat informed the FAC that many donors are holding back on disclosing their 2014 contributions until the June replenishment conference. Therefore the scenario analysis is designed to address the increased uncertainty in projections.

6.4 It should also be noted that only two scenarios are presented in the forecast, Conservative and Best Estimate. The financial forecast would look significantly different if an additional scenario was included based on the targeted replenishment outcome (BOD/2013/11 DOC 04). However this scenario was not modeled as any such target for the replenishment outcome still has to be determined by the Board of Directors.

6.5 As mentioned in paragraph 2.8, the FAC expressed its concern that the financial forecast presented by the Secretariat showed a continuing deterioration in projected donor contributions through the end of 2014 and that this would result in an increasing funding difference of between US$491 million and US$585 million based on the Secretariat's

recommended option for 2014 indicative allocations under two different funding scenarios (Best Estimate and Conservative)

6.6 The FAC noted however that based on the criteria outlined in the Comprehensive Funding Guidelines, sufficient funds are available for the Board to approve all of the recommended program implementation grant allocations for Round 2 of 2013 under both scenarios.

6.7 The FAC agreed with the Secretariat recommendation to develop options for a new funding model for the next replenishment period whereby minimum indicative allocations will be established and communicated only by taking into consideration donor pledges and signed contribution agreements, but that a mechanism would be available to access a higher amount should there be additional resources available. This approach is designed to balance the need to provide developing country partners with predictability of funding in a situation where the supply of funds to the Global Partnership for Education Fund is not always predictable, while at the same time ensuring that there is a flexible mechanism to avoid being overly conservative and therefore inefficient in the use of donor contributions by holding large unallocated cash balances. (See **Annex 6** for details)

7. RESULTS-BASED FINANCING PILOT

7.1 The Secretariat presented its progress on the Results-Based Financing ("RBF") pilot and sought the input of the FAC in relation to three issues:

- Should the RBF pilot be tied to a GPE Grant application or be a separate process?
- Should eligibility to participate in the pilot be extended to those countries applying in Round 2 of 2013 (as originally intended) or only to future applications commencing in 2014?
- Should the payouts be made on a partial basis once an objective is achieved or should only be made at the end of the program?

7.2 The FAC provided input that the RBF pilot should preferably be linked to a full application and should not be a separate process, therefore in practical terms, this means it would only apply to future applications. There was no clear preference on the issue of full or partial payouts, with some FAC members noting that it depended on the design and that there was no need to be too prescriptive at this stage.

7.3 The FAC noted that the Secretariat will be finalizing a paper for FAC review and consideration at an audio-conference before the end of 2013. Members of the FAC noted that the issue of the RBF pilot needs to be considered in the context of the design of options for the new funding model (Section 2) and also considering that some current grant applications have already proposed disbursement linked indicators (DLIs).

8. NEXT STEPS

8.1 The FAC notes that many of its proposed decisions require the development of papers by the Secretariat in the near future for delivery to either the FAC or its "successor", depending on the Board's consideration of the recommendations of the Governance Working Group on a revised committee structure (see BOD/2013/11 DOC 03).

8.2 The FAC notes that under its current terms of reference, the terms of the FAC Chair and members expire at the end of 2013 and a new nomination process needs to commence immediately, whether it be to fulfill the existing FAC terms of reference, or for the new committees. Board members considering their nominations should consider both the need for some continuity in membership, so as not to lose the institutional knowledge and experience of current FAC members in GPE processes, as well as the need for some rotation in membership in order to provide room for those constituencies who are not currently FAC members or have been sharing FAC membership seats.

ANNEX 1



GLOBAL PARTNERSHIP for EDUCATION

FAC /2013/10 —DOC 01
Meeting of the Financial Advisory Committee
Washington D.C., U.S.A.
15-18 October 2013

Agenda
Tuesday, 15 October 2013

Time	Session		Presenter Document
08:00-09:00 (1 hour)	**Breakfast 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)	**Financial Forecast** Semi-Annual Financial Forecast *(Linked to Next Topic on Indicative Allocations)*	**Information**	Secretariat DOC 02
10:15-10:30 (15 mins)	**Coffee Break**		
10:30-11.30 (1 hour)	**Annual Review of Indicative Allocations** Indicative Allocations Options for 2014 Analysis of Risks related to Funding model *(Linked to Previous Topic on Financial Forecast)*	**Recommendation**	Secretariat DOC 03
11:30-12:30 (1 hour)	**Supervision, Agency and Admin Cost Analysis** Results of Analysis Options and Recommendations	**Recommendation**	Secretariat DOC 04

12:30-14:00	**Lunch (***Short update/discussion on Governance Working Group***)**		
14:00-15:00 (1 hour)	**ME Eligibility Expansion Plan**	**Recommendation**	Secretariat DOC 05
15:00-15:45 (45 mins)	**Results Based Financing Pilot** Guidelines	**Input**	Secretariat (Presentation)
15:45-16:00 (15 mins)	**Coffee Break**		
16:00-17:00 (1 hour)	**Portfolio Review** Discussion of Report and Finalization of Issues and Recommendations to be presented to Board	**Recommendation**	Secretariat (Portfolio Review Report)
17:00 – 17:15 (15 mins)	**Day 1 wrap up**		

Wednesday, 16 October 2013

08:00-09:00 (1 hour)	**Breakfast**		
09:00-10:00 (1 hour)	**Uganda Program Implementation Grant**	**Recommendation**	Secretariat
10:00-11:00 (1 hour)	**Eritrea Program Implementation Grant**	**Recommendation**	Secretariat
11:00-11:15	**Coffee**		
11:15-12:15 (1 hour)	**Cambodia Program Implementation Grant**	**Recommendation**	Secretariat
12:15-13:45 (1h 30 min)	**Lunch**		
13:45-14:45 (1 hour)	**Tanzania Program Implementation Grant**	**Recommendation**	Secretariat
14:45-15:45 (1 hour)	**Ethiopia Program Implementation Grant**	**Recommendation**	Secretariat
15:45-16:00 (15 min)	**Coffee**		
16:00-17:00 (1 hour)	**Niger Program Implementation Grant**	**Recommendation**	Secretariat
17:00-17:15 (15 min)	**Day 2 wrap up**		

Thursday, 17 October 2013

08:00-09:00 (1 hour)	**Breakfast**		
09:00-10:00 (1 hour)	**Nigeria Program Implementation Grant**	**Recommendation**	Secretariat
10:00-11:00 (1 hour)	**Cameroon Program Implementation Grant**	**Recommendation**	Secretariat
11:00-11:15	**Coffee**		
11:15-12:15 (1 hour)	**Sao Tome & Principe Program Implementation Grant**	**Recommendation**	Secretariat
12:15-13:45 (1h 30 min)	**Lunch**		
13:45-14:45 (1 hour)	**Somalia Program Implementation Grant** **Central South Zone**	**Recommendation**	Secretariat
14.45-15.45 (1 hour)	**Djibouti Program Implementation Grant**	**Recommendation**	Secretariat
15:45-16:00 (15 min)	**Coffee**		
16:00-17:00 (1 hour)	**Uzbekistan Program Implementation Grant**	**Recommendation**	Secretariat
17:00-17:15 (15 min)	**Day 3 wrap up**		

Friday, 18 October 2013

08:00-09:00 (1 hour)	**Breakfast**		
09:00-10:00 (1 hour)	**Gambia Program Implementation Grant**	**Recommendation**	Secretariat
10:00-11:00 (1 hour)	**Sierra Leone Program Implementation Grant**	**Recommendation**	Secretariat
11:00-11:15	**Coffee**		
11:15-12:15 (1 hour)	**Kyrgyz Republic Program Implementation Grant**	**Recommendation**	Secretariat
12:15-13:45	**Lunch**		
13:45-14:45 (1 hour)	**Central African Republic Accelerated Funding Request**	**Recommendation**	Secretariat
14:45-15.30 (45 mins)	**Finalization of Recommendations for Program Implementation Grant Applications and Identification of Trends**	**Recommendation**	Secretariat
15:30-15:45 (15 min)	**Coffee**		
15:45-16:00 (15 mins)	**Review of 2013 FAC Workplan, AOB and Wrap Up**	**Information**	Chair

ANNEX 2: MEETING OF THE FINANCIAL ADVISORY COMMITTEE 15-18 OCTOBER 2013, WASHINGTON D.C., U.S.A.

ATTENDANCE LIST

Chair:

Camilla Helgø Fossberg (NORAD)

Committee Members[5]:

Charles Y. Aheto-Tsegah (Africa 3)
Hamoud Al-Seyani (Eastern Europe, Middle East and Central Asia)
David Atchoarena and Jonathan Cauldwell (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)
Fanny Gazagne (Donor 5)
Ronald Siebes (Donor 1)
Margaret Koziol (in place of Artem Stepanenko) (Donor 6)
Aleesha Taylor (Private Sector/Private Foundations and CSO 3 (Teaching Profession))
Dan Thakur (Donor 3)
Minister Alim Hadidja Youssouf (Africa 2)
Daniel Nkaada (Africa 1)

Interim Chair of the Board of Directors:

Geeta Rao Gupta (October 15 only)

Secretariat:

Alice Albright (CEO)
Paul Coustère (Country Support Team (CST) Lead)
Douglas Lehman (CST Lead for Niger)
Hugues Moussy (CST Lead for Nigeria and Cameroon)
Margarita Focas Licht (CST Lead for Ethiopia and Tanzania)
Joris Van Bommel (CST Lead for Somalia and Djibouti)
Blandine Ledoux (CST Lead for Central African Republic and Sao Tome & Principe)
Prema Clarke (CST Lead for Gambia and Sierra Leone
Jeffrey Ramin (CST Lead for Uzbekistan and Cambodia)
Alice Yang (CST Lead for Kyrgyz Republic)
Tara O'Connell (CST Lead for Eritrea and Uganda)
Padraig Power (Sr. Financial Officer and FAC Liaison)
Charles Tapp (Sr. Replenishment Advisor)
Jean-Marc Bernard (M&E Lead)
Aglaia Zafeirakou (Sr. Education Specialist)
Tal Sagorsky (Consultant, Governance)
Gustavo Arcia (Consultant, Results Based Financing)

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)
Francois Levebvre (World Bank, Trustee)

Annex 3: 2014 Indicative Allocations List

[5]Asia and the Pacific Constituency currently do not have a representative on the FAC

List of Eligible Countries[6] *All Figures in USD Millions*	Proposed (Valid for Round 1 and Round 2 2014)
Bangladesh	100
Central African Republic	15.5[7]
Congo, Republic	10.7
Guinea	37.8
Guyana	1.7
Haiti	24.1
Kenya	88.4
Kiribati	0.3
Lao, PDR	16.8
Micronesia	0.4
Myanmar	32.2
Nigeria	100
Pakistan	100
Solomon Islands	1.7
St Vincent & the Grenadines	0.3
St. Lucia	0.6
Togo	27.8
Tonga	0.3
Tuvalu	0.1
Uzbekistan	49.9
Vanuatu	0.6
Total	609.2

Annex 4 – Annual Review of Indicative Allocations

[6] Assumes the Board will continue the exception to eligibility criteria for Nigeria and Uzbekistan (IDA III countries for more than two years)

[7] Indicative Allocation of US$19.2m less US$3.7m expected to be approved in November 2013 under accelerated support in emergency and early recovery situations guidelines

FUNDS AVAILABILITY

1.1. As establishing indicative allocations in 2014 and subsequently approving funding will have an impact on the funds available in the next replenishment period, it is necessary to consider the funding position to the end of 2018. The challenge in forecasting such a funding position is that the outcome of the next replenishment conference is unknown.

1.2. Therefore two funding scenarios have been developed, "Conservative" and "Best Estimate".Further details on the funding scenarios are outlined in the Financial Forecast (FAC/2013/10 –DOC 02)

1.3. The primary differences between the conservative scenario and the best estimate scenario are based on an assumption that projected donor contributions under the conservative scenario will be US$50 million less by the end of 2014 and that allocations of program implementation grants will be close to US$44 million more due to a number of countries that were not expected to apply until 2015 potentially applying in 2014. This US$94 million difference is the explanation of the difference in the funding difference for both scenarios (US$585m Conservative and US$491 million Best Estimate). The funding difference being defined as the difference between the value of allocations expected to be made in the current replenishment period with the value of resources expected to be contributed over the same period

1.4. For the next replenishment period (2015-2018), the conservative scenario projects contributions of approximately US$2 billion while the best estimate scenario is close to US$2.4 billion. When the funding difference is taken into account along with provisions for a continuation of funding for education plan and program development grants, the Civil Society Education Fund, and the operating expenses of the Secretariat (including the Chair) and the Trustee, the expected funds available for new program implementation grant allocations under the conservative scenario would be approximately US$1.3 billion and for the best estimate scenario, approximately US$1.8 billion.

1.5. It is important to recognize that these forecasts are subject to significant change when the outcome of the next replenishment conference to be held in June 2014 is known. Therefore it is not advisable to begin making predictions of resources for individual counties for the next replenishment period until then.

1.6. As a high level comparison, that does not take into account any potential changes to the NPF formula, actual changes in country data that is used in the NPF or eligibility criteria,

the average adjustment for a country's indicative allocation compared to their current indicative allocation would be a reduction of 10% under the best estimate scenario and 35% under the conservative scenario. It should be noted that the effect would be less for countries that are limited to the US$100 million cap, and more for countries that don't reach the cap.

1.7. The funding scenarios assume that the FAC will recommend and the Board will approve the Secretariat recommended option for the 2014 indicative allocations. Any variation on this option will have an effect on the financial forecast and this is explained in further details under each of those options in Annex 5.

DEMAND FOR PROGRAM IMPLEMENTATION GRANTS

1.8. The indicative allocations approved by the Board in November 2012 considered demand for program implementation grants through Round 1 of 2014 as determined by two main factors: country eligibility for program implementation grants, and the readiness of eligible countries to apply for program implementation grants by 2014 Round 1. The actual individual allocation for each country is based on an assessment of funds that will be available and the NPF.

1.9. ***Eligibility for Program Implementation Grants***: Countries are considered to be eligible to receive program implementation grants if they were eligible for International Development Association ("IDA") financing **and** they met one of the two following criteria: (i) categorized in IDA income categories i or ii in the preceding two years, or (ii) IDA category iii but classified as a small island economy or a fragile state. IDA publishes its country list and categories changes every year on 1 July. A country may change category from one year to the next based on its gross national income in the previous year.

1.10. In November 2012, the Board granted an exception for Nigeria, Uzbekistan, and Djibouti who were IDA category iii for more than two years for the current indicative allocation list and requested the Secretariat to review the eligibility criteria.

1.11. A permanent change to the eligibility criteria to allow all IDA category iii countries to become eligible would result in an increased demand on resources. There are obvious benefits to changing the eligibility in terms of increasing the number of children that could benefit from GPE programs, however this needs to be balanced against the effects of a dilution in funding across all countries should GPE resources not be increased.

1.12. As the funding outlook for the 2015-2018 period is uncertain at this stage, it is the view of the Secretariat that no changes to the eligibility criteria should be made for 2014. The

Secretariat believes that this issue should be re-examined in the context of a review of the funding model with a final decision to be made in 2014 when a clearer picture of the financial resources expected to be available will be known.

1.13. ***Country Readiness to receive an additional program implementation allocation:*** While a country might meet the eligibility criteria for an indicative allocation, it may not be considered ready to receive funding in the period in which the indicative allocations are valid. For the existing list of indicative allocations, the basic principle applied was to not provide an allocation for any country that was expected to have existing GPE funding beyond 30 June 2014.

1.14. While this criteria was straightforward to apply to countries that had recently been approved for program implementation grants in 2011 and 2012, it was less clear for countries who had been approved for funding before that date but whose disbursement rates were low at the time of establishing the indicative allocations. In these cases, the Secretariat made an assessment of readiness.

1.15. An issue raised by the Board in May 2013 was how to deal with issues of overlapping funds where a new allocation is approved prior to the completion of an existing grant. The Secretariat's recommendation is that when establishing indicative allocations, if there is a serious doubt as to whether an existing grant will be completed prior to the approval of a new allocation, then the country will normally not be recommended to receive an indicative allocation. It is expected that this approach will significantly reduce the potential for overlapping funds. However in the event that after receiving an indicative allocation, completion of an existing grant is subsequently delayed, the Secretariat will disclose these issues as part of the QAR Phase III process so that the FAC may consider the appropriateness of recommending a new allocation at that time to the Board.

Projection of Demand for Program Implementation Grants for approval starting in Round 1 of 2014

1.16. The Secretariat recommends that all countries that have either applied for funding in Round 2 of 2013 or have been approved for funding since December 2011, or prior to that but with an expected grant closing date beyond 31 December 2014 are automatically excluded from the recommended list of indicative allocations in 2014[8]. If any country applying for

[8]An exception is Haiti where the GPE Grant is part of a larger program that runs until 2015 and therefore its official grant closing date is after December 31 2014. However the GPE funded element of this grant is expected to be fully utilized in 2014.

funding in Round 2 of 2013 is rejected for funding, it is recommended they would remain on the indicative allocation list in 2014.

1.17. **Changes in Eligibility for Program Implementation Grants:** Based on the current eligibility criteria described in paragraph 5.2, the following countries have been added to the list of countries eligible to receive program implementation grants in 2014:

- Bosnia and Herzegovina - IDA iii / Fragile
- Cape Verde - IDA iii – Small Island Developing State
- Grenada – IDA iii – Small Island Developing State
- Kosovo – IDA iii / Fragile.

It is not expected however that these countries would be ready to apply for a program implementation grant in 2014.

1.18. The following countries that are either existing applicants, recipients, or currently included in the indicative allocation list are also no longer eligible for funding from 2014 due to IDA category iii classification, unless the Board grants an exception or makes a change to the eligibility criteria: Angola, Djibouti, Ghana, Moldova, Mongolia, Nigeria, Uzbekistan, and Vietnam. With the exception of Angola, the other countries have either recently received or have applied in the current round of funding for a program implementation grant, and therefore would have been excluded from having an indicative allocation in 2014 on that basis. Angola, although eligible in the current list of indicative allocations was not expected to apply in 2014.

1.19. **Changes in readiness to apply for program implementation grants:** Eligible countries that are expected to have resources available

Eligible countries currently with a zero indicative allocation, but for which an allocation could be provided: The following countries which received a zero allocation previously based on low disbursement rates on existing program implementation grants – either because of implementation delays, or in the case of Rwanda because the programs were approved in late 2010 – can now be considered for inclusion in the list of countries to receive an allocation: Nepal, Rwanda, and Malawi

(i) Rwanda is currently scheduled to complete its program implementation grant in September 2014, and as of July 2013,

100% of the grant funds (US$70 million) have been transferred to the Supervising Entity and are therefore fully expected to be utilized on schedule.

(ii) Nepal is scheduled to complete its current program implementation grant by December 2014. Currently 94% of the US$ 120 million grant amount has been disbursed.

(iii) Malawi is scheduled to complete its current program implementation grant by December 2014. It has currently disbursed 80% of its grant amount following a recent disbursement and is therefore back on track to finish on schedule

Eligible countries currently with a zero indicative allocation for which a zero allocation is recommended to be retained. The following eligible countries are currently scheduled to have grants ending before 31 December 2014 but are currently expected to have undisbursed funds by the end of 2014.

(iv) Papua New Guinea: allocation of US$ 19.2 million approved in 2010 of which 27% was disbursed as of August 2013. The grant closing date is currently June 2014 but is expected to be extended into 2015.

(v) Lesotho: allocation of US$ 20 million approved in 2009 of which 40% was disbursed as of August 2013. While recent progress has been made, it is expected that significant funds would still be undisbursed by the end of 2014.

(vi) Mozambique: allocation of US$ 90 million was approved in 2010, of which 52% was disbursed as of August 2013, with the entire amount of US$ 46.7 million disbursed since July 2012 after an initial one year delay. The grant closing date is currently in July 2014, however it is expected that Mozambique will seek an extension into 2015.

Eligible countries currently with an indicative allocation for which implementation is delayed - Togo

(i) Togo currently has an indicative allocation of US$27.8 million and is expected to apply for a new program implementation grant in 2014. However as of August 2013, the disbursement rate on its existing US$ 45 million grant was at 53% with 80% of the grant period elapsed. Even with an extension to 31 December 2014, the disbursement rate would be 53% disbursed with 66% of the period elapsed. Therefore while it is possible that performance would accelerate, this has not been demonstrated to date.

(ii) While the FAC could consider reducing the indicative allocation to zero in light of performance to date, the Secretariat would recommend that Togo continue to receive an indicative allocation based on the latest mission to the country that indicates a clear plan for addressing the bottlenecks. It should be noted that Togo is preparing an application for Round 1 of 2014 and therefore removing the allocation would be a major disappointment and a disruption to country planning.

(iii) In the event that there is not a significant acceleration in implementation, its application for a new program implementation grant would not be accepted.

ANNEX 5 – INDICATIVE ALLOCATIONS - SUMMARY OF OPTIONS AND FORECASTED FINANCIAL IMPACT

Issue	OPTION 1 (Least Conservative)		OPTION 2 (Secretariat Recommended)		OPTION 3 (More Conservative)	
	Action	Financial Impact	Action	Financial Impact	Action	Financial Impact
Angola – IDA category iii and no longer Fragile	Allow Angola an exception similar to Nigeria, Djibouti, Uzbekistan to remain on the list for 2014 only	Add US$37.1 million to funding difference in Conservative Scenario / No Change to Best Estimate as unlikely to apply in 2014	Remove from indicative allocations list with immediate effect	No change (Angola were not expected to apply in 2014)	Remove from indicative allocations list with immediate effect	No change (Angola were not expected to apply in 2014)
Bosnia, Cape Verde, Kosovo – Eligible due to fragile states or small island classification	Provide an indicative allocation at a level commensurate with other countries on the list	Add US$10 million to funding difference in Conservative Scenario / No Change to Best Estimate as unlikely to apply in 2014	Consider as eligible but with zero indicative allocation	No change	Consider as eligible but with zero indicative allocation	No change
Assessment of readiness for countries with zero indicative allocation – Rwanda, Nepal, Malawi	Provide an indicative allocation at a level commensurate with other countries on the list	Add US$190 million to both Conservative and Best Estimate Scenarios	Retain at zero for 2014 until outcome of next replenishment conference establishes indicative allocations for 2015	No change	Retain at zero for 2014 until outcome of next replenishment conference establishes allocations for 2015	No change
Assessment of readiness for delayed implementation – Togo	Retain the indicative allocation but do not accept application for review if disbursements do not significantly accelerate by application	No change	Retain the indicative allocation but do not accept application for review if disbursements do not significantly accelerate by application deadline	No change	Reduce indicative allocation to zero until outcome of next replenishment conference establishes indicative allocations for 2015 onwards	Reduce funding difference by US$27.8 million in both scenarios

	deadline					
All Other Eligible Countries for 2014	Retain existing indicative allocations	No change	Retain existing indicative allocations	No Change	Reduce all indicative allocations in 2014 by 25%	Reduce funding difference by US$108 million in Conservative Scenario, and US$97 million in Best Case Scenario.

PROJECTED FINANCIAL IMPACT OF OPTIONS

Option	Projected Funding Difference (Best Estimate / Conservative Scenario)	Percentage of Projected Contributions in 2015-2018 (Best Estimate / Conservative)	Projected Funds for New Allocations in next Replenishment (Best Estimate / Conservative)[9]	Impact on Uncommitted Assets
Option 1 (Least Conservative)	US$681 million to US$822 million	29% to 41%	US$1.6 billion to US$1.0 billion	Uncommitted Assets would be under further pressure in Semester 1 of 2014, but again would be manageable under the Best estimate scenario and provided forecasted contributions materialized. However under the conservative scenario there would be significant challenges and the provisions of the Comprehensive Funding Guidelines with respect to both approvals and prioritization of commitments would likely be enacted.
Option 2 (Secretariat Recommended)	US$491 million to US$585 million	20% to 29%	US$1.8 billion to US$1.3 billion	Uncommitted Assets would be extremely low through Semester 1 of 2014, but are expected to be manageable with minimal application of the provisions of the Comprehensive Funding Guidelines unless there was a further significant reduction in forecasted contributions.
Option 3 (More Conservative)	US$366 million to US$449 million	15% to 22%	US$1.9 billion to US$1.4 billion	This scenario would improve the levels of uncommitted assets in a way that is unlikely to require the use of provisions in the Comprehensive Funding Guidelines, unless there was a further significant reduction in projected contributions.

[9]This does not factor in any scenario where a funding difference would be carried forward into a Post 2018 replenishment period

Annex 6: RISK ANALYSIS OF THE CURRENT INDICATIVE ALLOCATION MODEL

The current indicative allocation model approved initially by the Board in January 2012 had a number of strengths and some significant risks.

Strengths of the Model

- Providing indicative allocations in advance to countries is enormously helpful for country planning in that predictability of funding is often extremely challenging.
- Without the indicative allocation model, it is highly unlikely that demand for program implementation grants would be so strong, and therefore the amount of funding allocated to education would be significantly less today without the indicative allocation approach.
- The use of a formula, in this case, the NPF eliminates the subjectivity involved in establishing how much each country should be entitled to apply for. Although questions can always be raised on the formula itself, the principle of having a formula to begin with is sound.

Risks of the Model

- The indicative allocations as initially approved in January 2012 factored in projected funding over the course of the replenishment period, but failed to account for the readiness of a significant number of countries that had existing funding that would end before the replenishment period was completed and would therefore require new funds.
- The indicative allocations were also made based on a projection of resources that includes a significant amount of funds that had at that point not yet been pledged by donors. This introduced an increased level of uncertainty as to whether funds would be

available when required, and this issue is still being addressed with sizeable projections included in the forecast.

- The model as initially established failed to consider the timing of contributions with the timing of demand for grants resulting in significant pressures on the level of uncommitted assets. This particular issue was managed by the Board in November 2012 with the move to annual commitments which has the effect of spreading the liability over the lifetime of the grant rather than up front at the time of Board approval.

- At the recommendation of the Board, that estimated that the allocations would not be fully utilized, an over programming assumption of 25% was applied to the indicative allocations that had the effect of artificially inflating them.

- The current indicative allocation approach also creates an impression of entitlement to the full allocation. To date, all applications have been for the maximum or very close to maximum amount. This entitlement expectation then increases the pressure to provide full funding and also makes the impact of any downward adjustment to an indicative allocation more damaging from a reputational point of view.

- While the model has an element of financial risk, the Board can manage this risk effectively through the use of annual commitments (approved in November 2012), and the Comprehensive Funding Guidelines (approved in May 2013) and ensuring that there is no projected on-going shortfall in uncommitted assets.

- The largest risk with the indicative allocation model is the reputational risk created for the partnership by establishing indicative allocations that provide maximum predictability for the country and create a very high expectation, but are based on an unpredictable supply of funding (use of projected contributions)

and combined with a failure to adequately estimate demand (25% over programming and country readiness issues). The impact is that the Board can feel compelled to meet the expectation it has created as long as the reputational risk of not doing so outweighs the financial risk of allocating more resources than are currently pledged to be available.

Risks of maintaining the model in 2014

The risk of maintaining the current indicative allocation model in 2014 has been discussed in more detail in Annex 5. The principal risk being that significant funding will be required from contributions from donors that have not yet pledged and therefore there is a risk that increasing resources from the next replenishment period will need to be set aside to meet obligations for funding based on allocations made in the current replenishment period.

In considering whether the GPE should be less conservative (option 1) with its indicative allocations or more conservative (option 3), the FAC, and eventually the Board will need to take into account the reputational risks of not being able to meet expectations of funding from eligible countries in 2014 versus the financial implications of either of these options.

As outlined in the Financial Forecast and Annex5 of this paper, the Secretariat believes that Option 2 represents the best balance between reputational risk and financial risk. This option reduces the reputational risk as it does not involve adjusting indicative allocations for those countries who have already been notified of them and whose existing funding is likely to be utilized before any new allocation is awarded, while the funding difference is expected to be manageable in terms of the ability to make commitment of funds in a timely manner.

The Secretariat recommends some significant changes to the indicative allocation model for the next replenishment period to reduce the risks created by the current model.

Principles for the next Replenishment Period (2015-2018)

It is important that for the next replenishment period that the risks associated with the current system be managed in a way that does not place GPE in a position where it is

creating an expectation of funding that it doesn't have strong assurance of being able to meet. Equally, it is important to maintain the strengths of the current model, and ensure that GPE does not become overly conservative in a way that would lead to an inefficient use of valuable contributions through an accumulation of a significant uncommitted cash balance in the GPE Fund.

The Secretariat recommends continuing an approach of providing predictability of funding, and therefore continuing the practice of have indicative allocations established in advance of a country applying for funding.

However, to ensure that the GPE does not over promise, the minimum indicative allocations should be calculated based on firm donor pledges rather than incorporating projections from the Secretariat of what additional contributions are expected to be received from donors not in a position to pledge. This approach will allow a certain level of funding to be predictable for developing country partners and for the Board to have strong assurance that the funding will be available to meet these obligations.

As additional resources will typically become available during the replenishment period, it is important for the GPE to have a mechanism in place to allocate these resources in a timely manner. This will be essential for both generating the resources and ensuring that the resources are used in an efficient and effective manner. Therefore the funding model will have to be developed in a way that allows eligible countries access to funding above the minimum allocation.

A range could be communicated to countries where the minimum point is based on a level of funding that is assured through donor pledges with the upper end of the range based on a forecast that includes projections of Secretariat resources. For example – If it is forecasted that US$1,500m was pledged and US$500m was projected (situation in January 2012) then the indicative allocation for Country X of US$20 million under the current system would be changed to an allocation of between US$15 million (based on pledged resources) and US$20 million (when projections are included).

The mechanism for how a country can move from the bottom point to the top point of the range would have to be determined. The simplest way would be a mechanical financial calculation that increases the minimum allocation as Secretariat projections are converted to pledges.

The Secretariat however, would prefer to explore the development of a mechanism to provide incentives for eligible countries that is focused on development effectiveness, value for money and results considerations. These issues formed a core element of the Strategic Plan 2012-2015 in relation to how GPE needs to strengthen how it works in order to achieve its objectives. Such a mechanism to allow access to funding above the minimum indicative allocation, could be based on the ability to show progress on issues such as domestic financing, harmonization and alignment of funding, improvements in monitoring and evaluation in order to show results, appropriate implementation modality, inclusiveness of the LEG with respect to CSO participation, issues of sustainability, and systems strengthening among others.

The ability to integrate such considerations into GPE funding by providing incentives for countries could be a potential way to address some of the current challenges in the education sector. Any such criteria would obviously have to consider the country context, and respect country ownership.

Irrespective of whether incentives are introduced to allow movement between the lower and upper end of the indicative allocation range for a country, or whether the indicative allocation is adjusted purely on availability of GPE resources, it would be appropriate to consider options for a revision of both eligibility criteria and the needs and performance framework methodology to ensure that as we move into the next replenishment they are optimal when considering GPE objectives.

Annex 7– Analysis of Supervision, Agency, and Management and Administration Costs

EXISTING GPE PRACTICE

1.1. The Global Partnership currently permits the payment of supervision and management costs of program implementation grants in a number of ways, as explained in the table below.

Method	Description and Purpose
Supervision Allocation (*Supervising Entities Only*)	• Supervising Entities are eligible to receive an amount up to US$100,000 a year for the period of the program, plus an extra year to cover 6 months prior to the start of grant implementation and 6 months following the close of implementation. • Supervising Entities in fragile and/or conflict-affected states (as defined by the World Bank) are eligible to receive up to US$200,000 per annum 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 grant application package. • Supervision Allocations are identified in the application separately from the allocation to the country. A supervision allocation can be used flexibly by the Supervising Entity to fulfill its roles and responsibilities related to supervision of an approved allocation[10].
Agency Fees *(Supervising and Managing Entities)*	• Agency fees required by the Supervising and Managing Entity to manage the funds are determined by the agency's own internal regulations. Agency fees are identified in the application separately from the allocation to the country. Agency fees are typically used to assist in the defrayment of administrative and other costs incurred in connection with the management and administration of grant funds. • Agency fees are typically expressed as a percent of the amount of the grant allocated to the country. While there are currently no limits on these costs, they have ranged so far from 0% to 7[11]%.
Direct Administrative Costs *(Managing Entities only)*	• The direct administrative costs of managing a grant (e.g. the salary of a program manager etc.) are charged to the grant itself (i.e. payable from the country's allocation) provided they are not included as part of the agency fee and therefore are **not additional** to the approved allocation. • These costs are typically included in the proposal application and there are currently no limits on the percentage or dollar value of the grant that these costs may incur. • In the case of a Supervising Entity arrangement, administrative costs of the government or other implementing partners would also have been typically included in the application budget.

[10] Note that this paper and analysis refers to program implementation grants only. The supervision allocation for the Civil Society Education Fund was based on submission of a costed supervision plan that was approved by the Financial Advisory Committee under delegation from the Board.

[11] UNICEF have indicated that for grant allocations approved after 1 October 2013, the rate will increase to 8%, however further discussions within UNICEF are taking place to determine if this will still apply to GPE.

Overview of GPE Grant Costs

1.2. Since the creation of the GPE Fund in 2011, there have been 30 program implementation grants approved in 27 countries[12] with seven different Supervising or Managing Entities. The total value of these grant allocations is US$1,096 million. Agency fees of US$23 million and supervision allocations of US$10 million bring the total allocation to US$1,129 million.

1.3. Within the grant amounts, close to US$8 million has been budgeted for the direct management and administration costs of Managing Entities, while a further US$64 million has been budgeted for the management and administration costs of implementing partners. In some cases, it has not been possible to distinguish management and administrative costs from capacity building and monitoring and evaluation costs due to the structure of the budget, therefore these figures might be slightly lower or higher in individual applications.

Summary Analysis of Information Provided by Supervising and Managing Entities

1.4. A summary of the key themes from the information provided by Supervising and Managing Entities is outlined below. It is apparent that there are some similarities in how these organizations see the role, but also a number of differences. There is also confusion over the distinction between Supervising and Managing Entity (a theme also echoed in the Portfolio Review). From the information provided, the overall message is that costs are unique and depend on the individual context of the grant. It is clear that there is not a "one-size-fits all" approach, and that the FAC and Board may want to consider a more flexible way of moving forward.

1.5. *Distinction between Supervising and Managing Entities*: It is apparent that some agencies view the distinction between Supervising and Managing Entities to be arbitrary and confusing. At least one agency said that even when it is operating in an ME role for a GPE grant, that its approach is actually closer to other agencies' SE approaches. Other agencies would not take on an ME role, as their approaches are always to work through country-led development efforts. This raises an important question concerning the validity of having MEs charge their costs from the country's allocation, while SE costs are in addition to the grant amount.

1.6. *Importance of the project preparation phase*. A corollary to the finding above is that more emphasis could be placed on the preparation phase of GPE-funded programs. Some agencies feel that the most important time to get involved in a project is during project

[12]Yemen had funds approved under both an ME and SE arrangement. Two separate grants were approved for Somalia (Puntland and Somaliand), and two grants were approved for Chad (one with UNICEF as ME, and one with UNESCO as ME)

preparation, rather than project implementation, and therefore that more emphasis should be placed on Program Development Grants. The World Bank said: "The GPE term "supervising entity" has been somewhat misleading from the start. The supervising entities' (SE) most important role is to ensure that the proposed financing is designed so that it will likely achieve its objectives. This is mostly done during preparation. During implementation the role is mainly to ensure that obligations are adhered to, help build additional capacity, and facilitate changes in the interventions if that proves to be necessary in order to achieve the intended objectives." This is also a theme raised in the portfolio review in relation to the need to place emphasis on the design phase to ensure it is appropriate and therefore avoid delays at future points and increased costs related to clearing bottlenecks to implementation caused by poor design.

1.7. *Impact of fragile vs. non-fragile contexts and grant size on the Supervision Allocation* Respondents generally made the case that neither the impact of fragile vs. non-fragile contexts for grants nor the size of the grants are necessarily the best predictors of actual Supervision Allocation requirements. Most said that needs were case specific, and depended on changes to assumptions from those used during project preparation, including changes in implementer capacity, complexity in relations with other donors, unexpected project expenses and other unforeseen events. The GPE Secretariat's own analysis does show that costs can vary considerably by grant irrespective of size, but that overall, there is a difference in costs in percentage terms based on the size of the grant as economies of scale need to be factored in. In addition costs charged to grants in fragile contexts tend to be higher than in non-fragile contexts.

1.8. *Appraisal of Implementers* All agencies appear to have robust systems in place for appraisal of the capacity of implementers, and those systems are embedded in agency policies and procedures. These systems include appraisal of fiduciary capacity, adherence to budget requirements, procurement, program implementation, reporting, responding to fraud and misuse of funds, and other social and environmental impacts.

1.9. *Cost and Activities Included in Supervision Allocations* It is very difficult for agencies to precisely account for activities and costs included in supervision allocations. Not enough information was gathered on this question to form concrete conclusions, particularly because some agencies are not able to break out all costs for activities that might be covered by the supervision allocation, as described above. Supervision allocations have been used to date for varying activities. UNICEF and DFID have used supervision allocations to recruit dedicated staff to support the grants, while the World Bank has used the costs for various activities such as mission travel, consultant costs and staff time. However, it is not possible to distinguish whether

the costs related primarily to oversight of compliance with grant agreements or provision of technical assistance and capacity building to developing country partners.

Key Findings of Secretariat Analysis

1.10. Based on the 30 most recent program implementation grants approved, the value of supervision, agency fees, and direct management and administration costs accounts for **11%** of the total allocation approved by the Board.

1.11. There is significant variation in costs across grants and agencies acting as Supervising and Managing Entities with the percentage dropping as low as 1.5% in one country and reaching as high as 30.5% in another.

1.12. For the moment, there does not appear to be any strong link between the amount of funds spent on management and administration costs and the performance of the grant, however it is probably too soon to tell.

1.13. The percentage of supervision, agency, and management/admin costs for grants with a value of less than US$10 million is 16.5% compared to an average of 9.3% for grants with a value above US$10 million. This indicates that there is some evidence of economies of scale in larger allocations, although there are still variations in individual grants in both categories.

1.14. 18 of the 30 grants approved are now operating in countries classified as fragile states. The costs in fragile states amount to 13.4% (15.9% for MEs and 10.8% for SEs) versus 7.5% in non-fragile states (SE only). Therefore it does appear that costs are considerably higher in these contexts, however the fact that agency fees for UN agencies who take on this role are higher than World Bank and bilateral funding agencies is an important factor in explaining the difference.

1.15. In a number of cases, the costs charged to the grant are quite low as the GPE grant formed part of a larger program of support and therefore management and administration costs were either shared, or were not allocated to the GPE portion of the program. In Burkina Faso, it is not possible to distinguish the costs charged within the grant to management and administration as the modality is sector budget support and the GPE funds were classified as fungible. Consideration therefore should be given to the costs associated with standalone GPE project funding versus grants where GPE resources are contributing to a larger program that can share the management and administration costs.

1.16. Agency fees differ from organization to organization, but are based on the organizations own policies and procedures and therefore **have not been set** at a higher rate for GPE grants.

- *The World Bank has a standard 1.75% agency fee for allocations from the GPE Fund*
- *UNICEF to date has charged 1% for SE arrangements in Afghanistan and Yemen, 6% as ME in Chad and 7% in all other ME situations*[13].
- *UNESCO has charged 7%*
- *Belgium Technical Cooperation 1.75% which is lower than their standard 4% rate*
- *AFD has charged 2.1%*[14] *for Burkina Faso.*
- *DFID and SIDA charge no agency fees, while the Netherlands when acting as SE in Zambia under the Catalytic Funds also did not charge an agency fee.*

1.17. It is not possible to establish whether agency fees truly reflect the costs involved in managing a GPE grant as agency fees are typically used to support the organizations unfunded indirect costs involved with administering multiple grants from many funding sources. The organizations have mechanisms that review these costs to ensure that their overall cost recovery rates are appropriate, however it is likely that for organizations that charge an agency fee, some will inevitably be overcompensated and some will be undercompensated based on the level of effort dedicated to managing these grants from the organization.

1.18. An external review commissioned by the GEF[15] also came to the conclusion that it was not possible to directly link the agency fee costs to GEF grants, and from the Global Fund experience, they too have not been able to establish a direct link. In fact, the whole point of including a percentage based charge is that it would be extremely cumbersome for a large multilateral to work out what percentage of its corporate operations are dedicated to specific grants. Therefore these organizations tend to look at the overall cost of providing support and calculate a uniform percentage that will allow them to recover the costs that are not covered from their core budgets.

[13]The 6% charged in the case of Chad was due to a lower rate applying to allocations in excess of US$40 million. UNICEF has recently adopted a new policy and Agency Fees for GPE may increase to 8% from October 1 2013.

[14]AFD fees are customized to reflect the expected costs involved in taking on the role.

[15] GEF Administrative Expenses - Fees and Project Management Costs: External Review (GEF/C.41/07), November 2011.

COMPARISON WITH OTHER ORGANIZATIONS:

THE GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS, AND MALARIA, AND THE GLOBAL ENVIRONMENT FACILITY

1.19. It is important to note when comparing GPE to other organizations, we are not passing judgment on the efficiency of these organizations as their models and related costs will be different. However the Global Fund and the GEF have similar governance structures, the same Trustee, and a model of allocating funds to others to implement rather than through direct implementation. Therefore, there are some similarities which may be useful for understanding how GPE costs are positioned. Information used to compile this analysis is based on publically available information

1.20. Founded in 2002, the Global Fund has approved US$27 billion in grants. As of the date of this report, information on the Global Fund website shows that there are active grants spread across 112 countries and 11 multi-country groups. GEF was founded in 1991, and has allocated US$11.5 billion to date across 165 countries, while GPE founded in 2002, has allocated US$3.1 billion to date across 50 countries.

Approach to Supervision

1.21. While GPE supervision allocations are used by the Supervising Entity in some cases for oversight of the program, including confirming compliance with the terms of a grant agreement, in other cases, they are also used to provide technical assistance and support to the developing country partner to assist with implementation.

1.22. For GEF, the supervision costs to assist the implementers are rolled up into an agency fee for GEF implementing agencies. The model is similar to the GPE Supervising Entities with large multilateral organizations such as the World Bank and UNDP acting as the GEF implementing agency for the majority of grants.

1.23. In the Global Fund's case, funds are transferred to organizations known as Principal Recipients (PRs). The Principal Recipient is similar to GPE Supervising or Managing Entities, however there is greater diversity with multilaterals, developing country government, civil society organizations and private sector organizations all eligible to take on the role. The Global Fund commissions independent organizations known as Local Fund Agents (LFAs) to conduct oversight and verification work. LFA budgets are negotiated and agreed with the Secretariat for each country on a yearly basis based on the expected tasks and deliverables for each LFA.

1.24. The total LFA budget in 2013 is US$65 million and this would translate into an average cost of close to US$150,000 per year per active grant or over US$500,000 per country/regional group per year dedicated just to oversight. However as costs are based on the level of activity and associated risks, they vary significantly from country to country. For example, in one fragile state, the Global Fund has allocated US$1.8 million to its LFA for oversight while GPE has allocated US$200,000 for supervision, despite the value of the grants under management being of relatively equal size. In a sample of other grants in the Africa region, the LFA fees range from US$0.4 million to US$1 million per year, while GPE takes a "one size fits all" approach of US$100,000 per grant per year or up to US$200,000 in a fragile state. As GEF supervision costs are incorporated in the agency fee, it is not possible to accurately analyse.

Costs of the Secretariat

1.25. The operating costs of each organization will vary for a number of reasons. Location being important, Geneva where the Global Fund is based has significantly higher operating costs than Washington D.C when the value of the Swiss Franc is taken into consideration. Therefore it would not be appropriate to compare the respective budgets of the GPE Secretariat with that of Global Fund.

1.26. However one measure to look at Secretariat costs is to examine the value of grant disbursements per staff member. The Global Fund in 2013 expects to disburse in the region of US$3 billion with 623 staff positions giving an expected ratio of US$4.8 million in disbursements per staff member. In the case of GEF, transfers for projects and project preparation amounted to US$610 million between 1 April 2012 and 31 March 2013. With a staffing complement of 95, the disbursements per staff member would be $6.4 million. This is the same as GPE which expects disbursements of US$400 million in 2013 with 63 staff positions giving a projected ratio of US$6.4 million in disbursements per staff member.

1.27. With the significant increase in disbursements in 2014-2016 expected, the ratio for GPE will increase and is likely to climb above US$7.5 million per staff member in 2014.

Approach to Agency Fees

1.28. Unlike GPE, where agency fees are additional to the grant amount, the Global Fund model deducts agency fees from the grant amount. Therefore there is a significant incentive for the country to select organizations that have lower agency fees where possible as it increases the amount of funds available for implementation activities. GPE does not have this option due to the very low number of organizations that are eligible to act in this role. It would be

recommended to consider this approach as part of the revision of the funding model proposed in the indicative allocations paper (FAC/2013/10 DOC03).

1.29. When dealing with multilaterals (primarily UNDP but also UNICEF) the Global Fund will attempt to negotiate a rate, but the practice to date has been to accept the organizations standard rates. UNICEF charges 7% on its existing portfolio which is the same rate applied to GPE grants by UNICEF when it acts in the role of Managing Entity. In the case of UNDP however, which is the main UN partner of Global Fund acting as principal recipient in dozens of countries, the agency fees help to finance a dedicated team based in UNDP headquarters who liaise with the Secretariat and who can arrange for support to be provided to individual country offices responsible for Global Fund funding. This allows problems at the country level to be escalated to headquarters quickly and actions to be taken.

1.30. GEF agency fees are established at higher rates than what GPE currently pays. The rates typically charged are 10% of the grant amount, but it should be noted that there is no separate supervision allocation provided and these fees are designed to cover costs associated with creating project proposals and for managing GEF projects. The GEF agencies play a key role in managing GEF projects on the ground; more specifically, GEF agencies assist eligible governments and non-governmental organizations in the development, implementation, and management of GEF projects.

Program Management and Administrative Costs

1.31. All three organizations allow management and administration costs to be charged to the grant.

1.32. The Global Fund does not have limits on costs or specific guidance as to how much funding can be spent on program management and administration. Detailed line item budgets are initially submitted with the proposal and scrutinized by the Technical Review Panel (who perform a similar role as FAC but are fully independent of Board constituencies) who often makes decisions to reduce certain activities or request savings to be identified. Following Board approval, the LFA conducts another detailed budget review as part of the grant negotiation process. The findings are submitted to the Secretariat where there is a dedicated Program Finance Team who will review the reports and engage in grant negotiation with the Principal Recipient.

1.33. While this is a heavy process and may change as Global Fund adopts a new funding model, it has in the past been very effective in identifying savings (typically 10-15% of the proposal budget), which the Global Fund in the past has relied upon to be able to fully finance

all the proposals it has approved. When there is less pressure on funding, the savings are typically reprogrammed into higher value-added activities to increase program targets, and to pay for any identified capacity building measures.

1.34. GEF has guidance that program management costs should typically not exceed 10% of the grant amount for grants valued at less than US$2 million and 5% for grants above US$2 million. However this is not a limit and extra costs can be requested in the proposal, and are scrutinized by the GEF Secretariat.

1.35. The GPE also does not have limits on costs, and relies on the SEs and MEs that have been involved in preparing the proposals to ensure that the amounts requested are reasonable and that management and administration costs are necessary. The Quality Assurance Review Phase 2 does consider the appropriateness and reasonableness of the budget in order for the SE or ME to take this into consideration in the final program document. Finally the FAC may also raise questions on elements of the budget.

1.36. Based on evidence from a sample of GEF grants[16], the Global Fund's Enhanced Financial Reporting system (that tracks grant expenditure by cost category and service delivery area in a uniform way), and a review of the most recent 30 GPE program implementation grants, the management and administration costs included in grant budgets average 6.5% for GPE, 10.5% for Global Fund (although Agency Fees are included here as they are charged to the grant), and 5.7% for GEF.

Comparison Summary

Agency	Agency/Supervision and Management and Admin Costs as % of Total Allocation	Grant Disbursements per Staff Position
GPE	11.0%	US$6.4 million
GEF	14.1%	US$6.4 million
Global Fund	12.7%	US$4.8 million
While the above comparison, does not mean the GPE is more efficient than GEF or the Global Fund, it does give an indication that costs in similar global financing mechanisms are relatively		

[16]Based on the 10 most recent GEF grants approved in 2013 in countries that are also GPE eligible.

comparable, and that GPE is at the lower end of the scale. However, the roles and responsibilities of the Secretariat differ considerably between the organizations, with Global Fund tending to be very "hands on" and prescriptive in terms of requirements and GPE tending to be more "hands off", relying more on the Supervising and Managing Entities to ensure successful implementation and efficient and effective use of funds.

Options for Potential Changes to the Supervision Allocation

1.37. In its collection of information, the Secretariat posited three options for potential changes to the supervision allocation, and also asked respondents to provide any alternative approaches or suggestions.

1. **Retain the standard allocation approach of US$100,000 per year with an option to increase to US$200,000 for fragile contexts upon satisfactory review of a written justification and costed supervision plan.**

Summary of responses: Most of the responding SEs think that the standard allocation approach is not flexible enough, with some projects needing more than the allocation, and some less, with fragile context not being the only predictor of higher costs.

Pros: The benefits of retaining the current policy include ease of application, agency familiarity with the policy and differentiation between fragile and non-fragile state applications.

Cons: The disadvantages of retaining the current policy include lack of flexibility if project conditions change, the assumption that costs will be the same for all projects regardless of size or complexity and the assumption that fragile context is the strongest predictor of higher costs.

2. **Adopt a tiered approach where the standard indicative allocation is linked to the grant size and/or fragility.**

Summary of responses: Some of the responding SEs think that this approach may be useful. Others think that the grant size does not correlate directly to supervision allocation needs, and that more flexibility is required.

Pros: The advantages of a tiered approach to the allocation that is based on grant size/and or fragility include linking the size of the allocation to a measurable indicator and simplicity of application.

Cons: The disadvantages to a tiered approach include lack of flexibility if project conditions change, and the assumptions that grant size and fragile context are the strongest predictors of higher costs.

3. **Remove the standard allocation and allow Supervising Entities to request what they believe to be the appropriate amount through provision of a costed supervision plan, and have this request reviewed for reasonableness**.

Summary of responses: Most of the responding SEs think that the standard allocation approach is not flexible enough, with some projects needing more than the allocation, and some less, with fragile context not being the only predictor of higher costs. Some SEs support this option, and some do not, fearing that costs might escalate precipitously.

Pros: The advantages of this option include the ability of Supervising Entities to request allocation amounts that more accurately reflect their actual costs, and would remove arbitrary allocations based on standard amounts, which, although simpler to administer, is less reflective of reality.

Cons: The disadvantages of this option are that it would be more difficult to administer as the FAC would be required to review requests for reasonableness, and that it could lead to higher grant administration costs overall.

4. **Other approaches and suggestions.**

Summary of responses: One SE suggests raising the standard amount to US$150,000, then allowing flexibility for increasing it, if necessary. One SE suggests that the FAC should scrutinize fees more closely. One SE suggests calculating eligible costs incurred by the organization responsible for the implementation of the action, and providing a unique allocation based on that calculation.

1.38. Considering the varying degrees of costs across GPE grants, the information provided by SEs and MEs, and the practices of other organizations, it would appear that a move to a more flexible approach is warranted. The challenge is to ensure that any flexibility provided is not abused.

1.39. GPE's own analysis of comparators shows that fragility and grant size does affect the proportion of costs involved in management and supervision despite some of the feedback from the questionnaires. This is supported by Global Fund's practice of dedicating significantly more resources to oversight in high risk/high impact countries versus lower risk situations. In addition, GEF policy clearly differentiates costs based on grant size (Program Management Costs for grants less than US$2 million can typically be up to 10% and over US$2 million are 5%).

1.40. There will always be some costs involved for oversight/compliance with grant agreements that are not dependent on the size of the grant. There are also other costs involved that cannot be predicted in advance, when problems arise, and the SE needs to send in more resources to address the issue.

1.41. However for remaining costs related to capacity building and support, the Secretariat believes that the best approach is the principle that larger grants and fragile contexts represent a higher level of risk to the partnership and therefore justify a higher level of resources. Obviously as costs need to be kept under control, there may be a need to reduce the level of support provided in lower value, lower risk investments. An obvious example of the discrepancy with the "one size fits all" approach can be found in the current grant applications where the World Bank as SE has requested US$600,000 for a supervision allocation for a grant of US$1.1 million (54.5%), and the same supervision allocation for a separate grant of US$100 million (0.6%).

1.42. Considering the above issues and the varying preferences and concerns of the SEs and MEs, the following approach is proposed for consideration:

Tiered Approach with Flexibility for Supervision Allocations

Grant Size	**NON-FRAGILE**	**FRAGILE**
Up to US$5 million	US$200,000 (50,000 per year)	US$300,000 (75,000 per year)
US$5 million – US$10 million	US$300,000 (75,000 per year)	US$450,000 (112,500 per year)
US$10 million – US$25 million	US$400,000 (100,000 per year)	US$600,000 (150,000 per year)
US$25 million – US$50 million	US$500,000 (125,000 per year)	US$750,000 (187,500 per year)
US$50 million+	US$600,000 (150,000 per year)	US$900,000 (225,000 per year)

1.43. In all cases, the allocations proposed for SE arrangements in fragile contexts are 50% higher than non-fragile. This correlates with the Secretariat's analysis that the costs in SE arrangements in fragile states are approximately 50% higher than non-fragile. However the supervision allocation for grants less than US$10 million would be lower than the current level, and this will help offset costs of providing a larger supervision allocation to higher-value grants.

1.44. The amounts in the table, based on various ranges, should be considered indicative and SEs could request a higher amount up front if they felt it was absolutely necessary and provided that appropriate justification was provided. The Secretariat would be expected to review the costs and seek to identify potential savings. The justification provided by the SE would have to include specific deliverables of the Supervising Entity rather than generic descriptions, and a report on supervision activities would need to be provided to the Secretariat on an annual basis for allocations approved at an amount higher than the standard.

1.45. In the event that issues arose during implementation that required the SEs to dedicate additional resources, it is recommended that they be allowed request a top up of the supervision allocation provided there was a clear rationale, expenditure report on what was spent to date with the existing allocation, and clear deliverables for the additional cost. The Secretariat would be delegated the authority to approve the additional supervision allocations of up to US$200,000 per grant and would disclose any such cases as part of the portfolio review.

1.46. Finally, where supervision costs are not required, SEs should be encouraged not to request the full supervision allocation outlined in the table. SE headquarters would be expected to quality control their country staff applications to make sure that allocations were not requested simply because the funds were available, but rather because they are actually required.

1.47. The provision of a flexible mechanism to request a top up in costs after implementation based on need would hopefully reduce the need for SEs to seek higher amounts up front.

Recommended Guidance on Agency Fees

1.48. As agency fees are based on the organization's own policies and procedures, which are approved by their relevant boards, there is typically very little flexibility on these costs. From the analysis, GPE is not being charged higher rates than other partnerships.

1.49. GPE can make a formal request for an exception to the agency fees or request a lower amount considering that all of the SEs and MEs charging agency fees are GPE partners and therefore foregoing some of these costs could be considered as a contribution to the partnership. However, unless GPE is prepared to stop working with some of these partners due to their costs, there is very little bargaining power from the GPE side. Therefore, advocacy efforts from key Board constituencies may be more effective in obtaining an exemption or a reduction in costs.

1.50. An additional approach would be to accept the agency fees but to negotiate clear Memorandums of Understanding with SEs and MEs charging these fees in relation to the services that they will provide from their headquarters. This could include commitments to

provide support to their country offices on GPE grants that are encountering challenges, and agreeing on issues related to reporting (for example – if some standardization is required, or specific information needed to be developed to support the partnership). This is similar to the approach of Global Fund with UNDP, its main UN partner.

1.51. For newly eligible SEs and MEs, assuming the FAC recommends and Board approves the eligibility expansion plan (FAC/2013/10 DOC05), agency fees could be capped up front. The Global Fund has a policy on indirect cost recovery (another name for agency fees) that outlines its approach for dealing with international NGOs, who are expected to be the main type of new Managing Entity under the eligibility expansion plan. In this policy a maximum rate of 7% is allowed. As these organizations typically have more flexibility with what they charge than large multilaterals, it would not be unreasonable to expect them to comply with a GPE policy, and especially one that is already the practice of Global Fund.

Recommended Guidance on Program Management and Administrative Costs

1.52. As a guide to Managing Entities (primarily in fragile states), the table on supervision allocations for fragile states would be a useful reference point for assessing the reasonableness of costs of MEs included in the budget.

1.53. Based on the average costs of 11% of the overall allocation being dedicated to supervision, agency, and direct management and administrative costs, the GPE could provide guidance that costs are expected to be lower unless there is compelling justification. Where costs in applications are higher, additional scrutiny of the budget during the Quality Assurance Review process with the aim of seeking to identify efficiencies with the Managing Entities would be warranted.

1.54. In all cases, where program management and administration costs are included in the budget, it would be recommended that the costs are detailed and supported with appropriate assumptions.

Contingency Costs

1.55. In addition, it is recommended that "contingency" line items no longer be accepted in applications, given the current funding-constrained environment. Analysis of the most recent 30 program implementation grants has identified that contingency costs were included in 10 proposals valued at close to US$20 million. Funds set aside for contingencies should either be reprogrammed for implementation activities or not requested in the first place and therefore

available to support other programs. In the event that there are unanticipated costs that arise over the course of a grant, then efficiencies should be sought, and failing this, prioritization of activities would need to be made.

1.56. In the longer term, the issues of design of the programs represent the greatest potential for savings in management and administrative costs. Where GPE funding can be combined with other funding in the sector through the same implementation arrangements, then costs can be shared. Standalone GPE projects with dedicated program implementation units may be necessary in many cases, however the costs involved will typically be higher.

1.57. Given the need to further analyze the distinction between SE and ME, and the proposed options to redesign the indicative allocation funding model, no recommendation is being made at this point with respect to whether supervision allocations and agency fees should be funded from the overall indicative allocation or should be additional to it. However this issue will be addressed as part of the work on the revision of the funding model.

Details of GPE Supervision, Agency, and Direct Management and Administration Costs (*Grants Approved From December 2011 to May 2013***)**

Entity and Country	Total Allocation (Grant, Agency, Supervision)	Agency, Supervision and Direct Management and Admin Costs as a % of Total Allocation
AFD	**80,139,854**	**2.42%**
Burkina Faso	80,139,854	2.42%
Belgium Technical Cooperation	**54,525,750**	**13.80%**
Burundi	54,525,750	13.80%
DFID	**35,600,000**	**3.37%**
Zambia	35,600,000	3.37%
Swedish International Development Agency	**5,600,000**	**7.95%**
Zanzibar	5,600,000	7.95%
UNESCO	**7,554,200**	**17.93%**
Chad	7,554,200	17.93%
UNICEF	**272,213,400**	**14.50%**
Afghanistan	56,257,000	14.20%
Chad	42,548,400	7.52%
Comoros	4,922,000	6.54%
Guinea-Bissau	12,840,000	15.89%
Somalia: Puntland	2,247,000	30.53%
Somalia: Somaliland	4,494,000	25.77%
South Sudan	38,627,000	13.98%
Yemen	85,026,000	6.05%
Zimbabwe	25,252,000	18.51%
World Bank	**673,468,750**	**9.32%**
Benin	43,020,250	10.04%
Congo DR	102,438,000	8.92%
Cote D'Ivoire	42,524,500	11.04%
Ghana	77,221,250	8.16%
Madagascar	87,294,500	7.10%
Mali	42,829,750	12.21%
Mauritania	13,017,000	10.89%
Moldova	4,800,000	14.58%
Mongolia	10,400,000	5.87%
Nicaragua	17,100,000	2.34%
Senegal	47,420,750	1.52%
Sudan	78,838,750	11.85%
Tajikistan	16,883,500	11.16%
Timor Leste	3,200,000	12.50%
Vietnam	86,480,500	11.69%
Grand Total	**1,129,101,954**	**11.01%**

Type of Implementation	Total Allocation (Grant, Agency, Supervision)	Agency, Supervision and Direct Management and Admin Costs as a % of Total Allocation
Managing Entity	149,184,600	15.91%
Supervising Entity	979,917,354	8.91%
Grand Total	**1,129,101,954**	**11.01%**

Fragility	Total Allocation (Grant, Agency, Supervision)	Agency, Supervision and Direct Management and Admin Costs as a % of Total Allocation
Fragile		**13.35%**
ME	149,184,600	15.91%
SE	542,234,250	10.80%
Non-Fragile		**7.5%**
SE	437,683,104	7.50%
Grand Total	**1,129,101,954**	**11.01%**

Annex 8 – Guidelines on Supervision Allocations for GPE Grants

1.1. Details of the proposed supervision costs should be included as part of the proposal package that has been developed in conjunction with the LEG. The details should include a breakdown of the expected costs, and a description of the activities to be financed from the supervision allocation including those related to compliance and those related to provision of support to the developing country partner.

1.2. The table below provides an indication of the range of supervision costs that would be generally acceptable to GPE. Requests for amounts that are higher than those outlined in the table will need to be appropriately justified and reviewed by the Secretariat prior to submission of the proposal package to the relevant committee.

1.3. Supervising Entities are encouraged to request lower amounts where other sources of finance are available or the full amount is not expected to be required, noting that flexibility to request a higher amount during implementation is available.

Grant Size	**NON-FRAGILE**	**FRAGILE**
Up to US$5 million	US$200,000 (50,000 per year)	US$300,000 (75,000 per year)
US$5 million – US$10 million	US$300,000 (75,000 per year)	US$450,000 (112,500 per year)
US$10 million – US$25 million	US$400,000 (100,000 per year)	US$600,000 (150,000 per year)
US$25 million – US$50 million	US$500,000 (125,000 per year)	US$750,000 (187,500 per year)
US$50 million+	US$600,000 (150,000 per year)	US$900,000 (225,000 per year)

1.4. In the event that the supervision allocation is insufficient after implementation has commenced, the Supervising Entity may request an increase in the supervision allocation. Any request for an increase in the supervision allocation should be supported by a clear

justification, an expenditure report on what was spent to date with the existing allocation, and clear deliverables for the additional cost.

1.5. The Secretariat is delegated the authority to approve additional supervision allocations of up to US$200,000 per grant and will disclose any such cases as part of the portfolio review.

1.6. Any amounts in excess would require the approval of the Board following a review by the relevant committee of the Board.

Annex 9 – Eligibility Expansion Plan

Eligibility Expansion Plan

Type of Organizations

1.1. Obvious risks in undertaking this expansion is that the GPE would engage with inappropriate partners a) that cannot deliver results, b) that cannot provide reasonable assurance as to the appropriate use of funds or c) that misuse the GPE funds. The risks to the finances and the reputation of the Partnership could be significant. In order to mitigate these risks, the institutional capacity assessments and grant level assessments endorsed by the Board in May 2013 need to be applied before any funds are approved, in addition to the Guidelines for Assessment of Supervising and Managing Entities (See Annex 10), and reviewed regularly. However before any assessments of organizations start, it is important to determine the initial criteria that should be considered in order for organizations to be recommended for assessment.

1.2. The Secretariat therefore recommends that only non-profit organizations that have a proven track record of grant implementation in fragile contexts, that have demonstrated experience in the education sector, and have managed substantial amounts of funds on behalf of bilateral or multilateral donors in more than one country should be eligible for consideration as an ME or SE. In addition the ability of these organizations to support capacity building of developing country partners is important to reduce the risk that over-reliance on these arrangements might undermine country ownership and system strengthening. Therefore the following criteria are recommended for adoption:

- ***Demonstrated experience operating in a fragile country context where applicable[17].***
- ***Demonstrated experience in the education sector.***
- ***Demonstrated experience managing bilateral or multilateral donor-funded projects in excess of US$10 million in a country and across more than one country.***

[17] If the organization was to take on the role of SE or ME in a fragile context, it would require this experience

- ***Demonstrated experience working with national authorities to strengthen local capacity to implement basic social services***

1.3. Setting the bar at this level will obviously reduce the potential pool of organizations that come forward for assessment. On the other hand, having a smaller pool of credible organizations will reduce the costs of assessment and related Secretariat costs in managing the relationships. It will also reduce the risk that an organization would fail a subsequent assessment and therefore waste the relevant LEG's time and GPE resources. It is also not expected that there will be a large number of non-governmental organizations nominated to be Managing Entities and therefore maintaining a large pool of eligible entities may not necessarily add much value compared to having a smaller pool of stronger organizations.

1.4. The recommended criteria would also open the door for eligibility to any not for profit organization that could meet the eligibility criteria.

Scope of the Expansion

1.5. The main purpose behind the expansion is to address the need identified in the Strategic Plan to expand the number of entities that can take on the role of managing a program implementation grant in a fragile context. However, the expansion will also provide greater options to LEGs, improve possibilities for co-financing with existing operations, and would provide a greater pool of alternative organizations in the event that an existing SE or ME needs to be replaced in a specific country.

1.6. Therefore under the expanded eligibility, new organizations would be eligible to be MEs for program implementation grants or SEs. At this point, we do not envisage having many, if any NGOs act as SE to developing country partners, however we would not want to exclude the possibility if a LEG so determined.

1.7. GPE also provides two other types of grants – an Education Plan Development Grant (EPDG) to assist with the cost of developing or revising an education sector plan, and a Program Development Grant (PDG) to assist with the costs of developing an application for a program implementation grant and preparation work for successful implementation of any such grant. It is recommended as these grants are very much linked to an eventual program implementation grant, that newly eligible entities would also be able to access these grants.

1.8. Given that any newly eligible organizations would have to meet the criteria described in paragraph 1.2 in addition to passing an institutional capacity assessment described in the FAC report (BOD/2013/05 DOC 7). It is recommended that these organizations would also be eligible to act as a ME or SE for the Civil Society Education Fund (CESF) and any replacement grant facility to the Global and Regional Activities (GRA) program.

1.9. The expansion does not change the existing allocation of responsibilities among the GPE key actors, and that the accredited entities would be directly accountable to the Board for the use of GPE funds and activities carried out therewith in the same manner as the other SEs/MEs. Direct accountability is premised on the fact that the accredited entities satisfy the standards outlined in the guidelines for assessment of newly eligible SEs and MEs (BOD/2013/11 DOC06A Annex 10) as approved by the Board. As is currently the case, upon the transfer of GPE funds to an accredited entity, the Trustee will have no responsibility for the use of GPE funds transferred and Activities carried out therewith. The accredited entities will enter into a Financial Procedures Agreement with the Trustee, which set out the processes of commitments and transfer of funds and reporting requirements, including annual financial statements.

Nomination and Selection Process

1.10. Country ownership is a fundamental principle of GPE, and therefore newly eligible entities must be nominated by the LEG through the Coordinating Agency to access a program implementation grant, education plan development grant, or program development grant.

1.11. However, before the LEG would nominate an entity to take on the role as ME or SE, it is recommended that a pool of eligible entities be first created in order to provide the LEG with greater assurance that any nominated entity would be acceptable to GPE.

1.12. The Secretariat proposes that to establish this initial pool of organizations, GPE Board constituencies and LEGs may nominate suitable organizations, with the nominated organization's agreement during a three month window following the November 2013 Board meeting.

1.13. Outside of this initial window, a LEG may nominate a suitable entity only if it is the intention of the LEG to nominate this organization as a SE or ME for the next available program implementation grant in that country.

1.14. Nominated Entities would have to demonstrate how they believe they meet the minimum criteria established in Paragraph 4.2 and how they believe they meet the minimum fiduciary standards (see Section 5 and Annex 1) that are acceptable to GPE.

1.15. The Secretariat would then review the submissions and make a recommendation to the FAC on the organizations that should go forward to complete an institutional capacity assessment clearly documenting the rationale for any organizations that are not recommended.

Assessment Phase

1.16. Based on FAC endorsement of the recommendations, the Secretariat would commission an institutional capacity assessment along the lines endorsed by the Board in May 2013 which is designed to verify that the Entity in question does indeed meet GPE's guidelines for assessment of newly eligible SEs and MEs (See Section 2 and Annex 10).

1.17. The Entity would complete a questionnaire (based on the program management capacity assessment tool presented to the FAC in April 2013) provided by the Secretariat. A consultancy firm hired by the Secretariat will then review the self-assessments and accompanying documentation and, using assessment tools provided by the Secretariat, will prepare a summary assessment report for submission to the Secretariat.

1.18. In line with established good practice, the consultancy firm would debrief the organization on their main findings and allow the organization to respond and provide any necessary clarifications. However the assessment report itself would only be made available to the GPE Secretariat and on a confidential basis to FAC or Board members as appropriate. This would protect the integrity of the assessment by ensuring that those completing the assessment could be confident of disclosing any sensitive information that came to their attention during the assessment. These issues can often be sensitive where they relate to the capacity of individuals, issues of conflict of interest, or suspicions of corruption in the entity being assessed.

1.19. The Secretariat would ensure that the assessment reports were fully completed and of an acceptable quality. The Secretariat would then prepare recommendations for consideration by the FAC based on the findings of the assessments. The possible recommendations would be:

- ***Where there are significant weaknesses or concerns, the entity would not be recommended to become eligible and would be notified of the reasons.***

- ***Where there are minor weaknesses or concerns, the entity could be recommended at a later date when evidence was provided that the issues of concern had been addressed.***

- ***Where the entity fully meets the criteria, they would be recommended to the Board as eligible to act in the role of SE or ME for the following grants:***

Education Plan Development Grant – Maximum of US$250,000
Program Development Grant – Maximum of US$400,000
Program Implementation Grants - with a value not exceeding US$5 million. This would also enable access to accelerated support in emergency and early recovery situations which is subject to a maximum of 20% of the indicative allocation provided that this amount was capped at US$5 million.
*Program Implementation Grants - with a value exceeding US$5 million would be subject to an additional **grant level assessment** before the entity could take on the role.*
Funding under the CSEF or through any replacement mechanism for the GRA provided the grant amount did not exceed US$5 million. In the event that the grant amount exceeded US$5 million, a grant level assessment would need to be carried out before the entity could take on the role.

1.20. The assessment would be updated for these organizations every four years to ensure that the entity in question was maintaining its capacity at a level that met GPE's guidelines for assessment of newly eligible SEs and MEs (See Section 2 and Annex 10).

1.21. Where a detailed grant level assessment was required, it would be arranged by the Secretariat during the QAR process for program implementation grants. Weaknesses identified in the grant level assessment would be addressed to the extent possible prior to submission of the grant application. Dependent on the extent of any issues identified and recommended remedial actions required, the FAC would consider whether to recommend a grant for approval with the nominated entity, or whether to include conditions on the approval, or transfer of funds in its recommendation to the Board.

Assessment Arrangements

1.22. While it is not known how many entities would be nominated by Board constituencies to seek to become eligible, the numbers involved are not expected to be high given the criteria described in Paragraph 1.2 and the low numbers of grants that could be eventually expected to have ME arrangements where a newly eligible entity would be nominated.

1.23. For planning and budgeting purposes, it would be expected that a maximum of 10 organizations would be assessed in 2014 following the process described above. If more are nominated, then the Secretariat would propose to rank the organizations based on the criteria described in Paragraph 1.2 to limit costs. Of those organizations that ultimately are assessed as eligible, it would be unlikely that more than three would be nominated per year to be SE or ME for a program implementation grant in excess of US$5 million and therefore triggering the detailed grant level assessment. If more organizations were nominated, the Secretariat would seek to manage the additional costs from within the overall Secretariat budget.

1.24. The institutional capacity assessment would be estimated to cost an average of US$15,000 per assessment based on 10-15 working days plus travel and administrative costs for a reputable consultancy firm. Where available information from recent assessments performed by other entities or desk review could be conducted, the costs would be lower, however if international travel was involved, the costs would increase. It would therefore be

recommended that a provision of US$150,000 (10 assessments X US$15,000) be made in the 2014 budget to conduct these assessments.

1.25. For the detailed grant level assessments, the costs will be higher as the assessments could involve a multi-disciplinary team, would require a visit to the country office that would be supervising or managing the grant and the assessment work itself would be more intensive. The costs would be expected to be in the region of US$25,000 – US$50,000 with the variation principally determined by the type of expertise required (e.g if environmental and social safeguard assessments were needed in addition to finance and procurement) and whether local or international consultants (requiring travel) would be required.

1.26. Based on the overall timelines envisaged for the Eligibility Expansion Plan, it would be 2015 before the first grant level assessments would be performed, and with an estimate of a maximum of three assessments per year, the impact on the Secretariat budget would be expected to be in the region of US$100,000 per year.

1.27. To select the firm(s) that will carry out the assessments, the Secretariat will issue a Request For Proposal (RFP) for international firms with global reach to undertake the assessments of the Entities recommended for assessment by the FAC, and for any additional grant level assessments that are required. The Secretariat will utilize existing World Bank procurement procedures to identify and hire the firm. Under World Bank procurement policies and procedures, firms will be invited to compete for the assessment contract, and one firm (or more, if necessary) will be selected on the basis of both quality of the response and on price, ensuring that GPE will be getting value for money. The successful firm should have the financial and fiduciary expertise to undertake the assessment, and have global presence such that it can undertake assessments in any market required by GPE.

1.28. As indicated above, it is estimated that the maximum cost in 2014 would be US$150,000 to complete up to ten institutional capacity assessments, with an additional US$100,000 per year from 2015 to complete up to three grant level assessments per year.

Changes to Governance Documents

1.29. The change in eligibility would not require any specific modifications to the Charter of the Global Partnership for Education as there is no reference in the Charter to the types of organizations that can take on the role of Supervising or Managing Entity.

1.30. The change in eligibility would require a change in the following definitions outlined in the GPE Fund Governance Document that could only be made by Board decision (Text in Red indicates a change):

- *"Implementer[18]" means any Multilateral Agency Partner or any Donor Country Partner, or any other Eligible Organization designated to receive Transferred Funds and implement Activities as approved by the Board in consultation with the Trustee;*

- *"Supervising Entity" means any Multilateral Agency Partner or any Donor Country Partner, or any other Eligible Organization designated to receive Transferred Funds and supervise an Activity, as approved by the Board, in consultation with the Trustee;*

- *"Eligible Organization" means any organization other than a Multilateral Agency Partner or Donor Country Partner, that has been approved by the Board as eligible to perform the role of "Supervising Entity" or "Implementer" following an assessment confirming that the organization satisfies eligibility criteria and minimum standards established by the Board, in consultation with the Trustee.*

1.31. GPE's other guidance documents would also have to be amended to reflect the changes, although no specific Board decision is required for these.

1.32. The minimum standards as outlined in the guidelines for assessment of newly eligible SEs and MEs (Annex 10) may be reviewed and amended by the Board, in consultation with the Trustee.

Changes to Donor Contribution Agreements

1.33. The proposed change in eligibility will require a change to the "Standard Provisions Applicable to the Global Partnership for Education Fund". These provisions are an integral part of every contribution agreement that individual donors to the GPE Fund sign with the Trustee.

[18]The Term "Implementer" refers to a "Managing Entity"

1.34. The standard provisions outline the arrangements for the transfer of funds to Supervising Entities and Implementers, and therefore the definitions of Supervising Entities and Implementers must be amended in the same way as the amendments described in Paragraph 1.30 related to the Fund Governance Document.

1.35. In the event that individual donors do not agree with the change, then an alternative solution will be to create for these donors, single donor trust funds, similar to the current GPE 2 Trust Fund between the EC and the World Bank that specifies that only the World Bank may act in the role of Supervising Entity or Implementer. If this is not acceptable, a cancellation of the contributions from these donors would be required, or the Board may need to consider abandoning the expansion plan.

1.36. In order to minimize the transaction costs of the Trustee and individual donors, it is proposed that any changes to the contribution agreements would be made in the weeks and months following the June 2014 replenishment conference when it is expected that the majority of donors will be making amendments to their contribution amounts on current contribution agreements. If an opportunity arises at an earlier date, then the changes would be made then but would not take effect until all donors had agreed on the change.

EXPANSION PLAN TIMEFRAMES

Timeframe	Task	Description
October 2013	FAC Review of Expansion Plan	The FAC will review and make recommendations on the proposed Expansion Plan, including the proposed Minimum Fiduciary Standards
November 2013	Board Decision on Expansion Plan (including adoption of Minimum Fiduciary Standards)	The Board will review the proposed Expansion Plan, including the Minimum Fiduciary Standards
December 2013 – February 2014	Nominations	Board Constituencies and Interested LEGs may nominate Eligible Entities with their permission. Nominated Entities will outline how they meet the criteria established by the Board and the minimum fiduciary standards.
March 2014	Screening of nominated entities	The Secretariat will review the nominations and make a recommendation to FAC on the Entities that should be assessed
April 2014	FAC Review of nominated entities	The Secretariat forwards the screened list of nominated entities to the FAC for review and endorsement
May – June 2014	RFP for Capacity Assessments	The Secretariat issues an RFP for, and contracts with a firm (with global reach) to conduct capacity assessments of the nominated entities.
June – September 2014	Amendments to Donor Contribution Agreements	The change in the eligibility criteria will require a change to the standard provisions of the Contribution Agreements donors sign with the Trustee. As Contribution Agreements are expected to be updated following the replenishment conference, this timeframe will avoid duplication of effort in making the amendments.
July - September 2014	Capacity Assessments	The contracted firm carries out the Institutional Capacity Assessments (maximum of 10 expected) which then go through the Secretariat for quality control.
October 2014	Approval of Assessments by the FAC	The FAC would review the assessments and make recommendations to the Board as to the Entities that should become eligible to be nominated as SEs or MEs
November 2014	Board Decision and Communication to relevant Entities and LEGs	The Board would decide on the FAC recommendation, and presuming the assessment was positive, the Entities and LEGs would be informed of the Board Decision.

November 2014 (Onwards)	Nomination by LEGs for Country Level Grants or Applications for any available Global Level funding mechanisms	LEG's can then nominate any of these Entities to be SE or ME for a specific grant. Where a newly eligible Entity is nominated for a Program Implementation Grant in excess of US$5 million, the Secretariat will commission a detailed grant level assessment as part of the QAR process. Trustee will need to sign Financial Procedures Agreement with each nominated Entity
2015 Ongoing	Grant Level Assessments	If necessary, Grant Level Assessments will be carried out in relation to newly eligible entities nominated/applying for funding in excess of US$5 million

Annex 10 – Guidelines for assessment of newly eligible supervising and managing entities

Core Principles

1 All Global Partnership for Education Supervising Entities (SEs) and Managing Entities (MEs) should have sound financial management practices and procedures. Internationally recognized fiduciary standards should be utilized and met, where possible (such as International Accounting Standards). In addition, Supervising Entities should conduct appropriate due diligence of the financial and procurement systems of a developing country partner government or other entity receiving funds under a Grant Agreement as per the Proposal approved by the Board

2 Practices and procedures are measurable and transparent. Policies and procedures are written and well understood by staff.

3 Fiduciary review functions (such as internal audit and investigation units) are appropriately independent and objective in the execution of their respective duties.

4 Procedures are in place that establish periodic monitoring and ensure that issues raised in reviews are dealt with effectively.

5 Procedures focus, as appropriate, on ensuring that value for money, for the resources expended, has been obtained from goods and services acquired or provided.

Standards

I. Financial Management

1. Financial Management and Accounting Systems

Required capability: Robust financial management and accounting systems ensure accuracy of financial management and reporting. The entity has adequate systems, including systems for cash management and production of budgets, and for the production of reliable financial statements prepared in accordance with internationally-recognized accounting standards.

Illustrative means of verification:

The entity produces reliable charts of accounts, which are prepared in accordance with recognized accounting standards, and provide the necessary level of detail to monitor expenditure.

Robust and reliable accounting systems are integrated with other Financial Management systems, in order to facilitate reconciliation with budget, and reporting requirements.

Budgeting procedures are robust, and provide donors with assurances related to appropriate expenditure.

Banking arrangements provide for effective cash management.

Based on available information, the entity's credit risk is acceptable.

2. External Financial Audit

Required capability: The external financial audit function ensures an independent (if possible, as defined by the International Federation of Accountants (IFAC)) review of financial statements and internal controls. An independent auditor audits the entity's financial statements according to internationally recognized auditing standards on an annual basis.

Illustrative means of verification:

The entity has appointed an independent external audit firm or organization.

The work of the external audit firm or organization is consistent with recognized international auditing standards.

There is a transparent and competitive process for the selection of a suitable external auditor.

3. Control Frameworks

Required capability: An internal control framework (if possible, as defined by internationally recognized frameworks such as COSO, Cadbury and CoCo) is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of financial management objectives. The entity's control frameworks are in place, documented, and have clearly defined roles for management, internal auditors, the governing body and other personnel.

Illustrative means of verification:

The entity's accounting and finance organizational structure of is clearly defined, with documented roles and responsibilities and sufficient segregation of duties, including for implementing any Global Partnership for Education grants.

The entity has adequate policies and procedures in place for risk assessment and management.

There are adequate policies and procedures in place to guide activities and ensure staff accountability.

4. Internal Audit

Required capability: Internal auditing is an independent, objective activity designed to add value and improve an organization's operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The entity demonstrates capability for functionally independent internal auditing in accordance with internationally recognized standards (such as International Standards on Auditing (ISA).)

Illustrative means of verification:

The entity has an internal audit mechanism in place and its activities are subject to review by an internal audit unit.

The internal audit function is independent and objective, has a risk based methodology for preparing its annual plan, and its findings are disseminated to management, who follow up on recommendations.

II. Institutional Capacity

1. Legal Status

Required capability: The entity must have the appropriate legal status and legal authority to enter into contractual arrangements with GPE and other third parties, and must have the legal authority to receive funds.

Illustrative means of verification:

The entity is a legally registered organization.

The entity has the authority to enter into legal agreements and receive funds.

2. Project Appraisal

Required capability: The entity has the ability to identify, develop and appraise projects. Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities will meet their development goals before funds are disbursed.

Illustrative means of verification:

The entity has a good track record for timely implementation of similar projects, and has a good track record of achieving appropriate programmatic results.

3. Management and Organization

Required capability: The entity's organizational structure and quality of management enables it to competently manage or oversee the execution of funded projects, including through management of sub-recipients.

Illustrative means of verification:

The entity has a board of directors that meets regularly and has statutes or terms of reference for its functions.

The entity has an independent Audit Committee which reviews the integrity of the financial statements, has oversight of internal controls and reviews the effectiveness of internal audit.

The entity has a management structure that is suitable for undertaking funded projects.

The entity is well acquainted with the work of the Global Partnership for Education and the grant work involved

The entity's staff—at all levels--have the requisite skills and experience to undertake funded projects.

The entity's physical assets--including IT systems--are adequate to undertake funded projects.

4. Oversight of Sub-recipients

Required capability: The entity's organizational structure and quality of management enables it to competently manage or oversee the execution of funded projects through management of and program delivery and implementation support to sub-recipients.

Illustrative means of verification:

There are adequate procedures and criteria in place for a transparent selection of sub-recipients.

The entity has adequate plans and resources in place to ensure sub-recipients have the capacity to implement the proposed activities and safeguard grant funds.

The entity has had previous experiences with managing sub-recipients and disbursements of similar magnitude.

The entity has Operational Procedures and plans in place for managing sub-recipients, including for monitoring the program implementation at sub-recipient level, reviewing sub-recipients' financial and program reports for completeness and technical soundness and ensuring the safeguarding of assets held by sub-recipients.

5. Procurement Procedures

Required capability: The entity's procurement procedures, covering both internal/administrative procurement and procurement by recipients of funds, include written standards based on widely recognized processes and an internal control framework to protect against fraud, corruption and waste.

Illustrative means of verification:

Documented procurement processes include the following: (1) A code of conduct to avoid occurrence or perceptions of conflicts of interest; (2) Methods of procurement and when different methods should be applied; (3) Procedures for requests for tenders; (4) Procedures for bid evaluation; (5) Procedures that are transparent and competitive.

Procurement approval systems are in place, with certifying and approving officers; and there are appropriate segregation of duties and levels of delegation.

Procedures are in place to ensure that the goods/services delivered are of an acceptable quality.

6. Monitoring, Evaluation and Project-at-Risk Systems

Required capability: The entity can demonstrate existing capacities for monitoring and independent evaluation of projects and evidence that a process or system, such as project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems.

Illustrative means of verification:

The entity has Operational Procedures and plans in place for monitoring the program implementation at both the entity and sub-recipient levels and reviewing entity and sub-recipients' financial and program reports for completeness and technical soundness.

The entity has systems in place for early identification of problems/capacity gaps at the entity and sub-recipient levels and for initiating effective remedial actions.

III. Transparency, Self-Investigative Powers and Anti-Corruption Measures

1. Misuse of Funds Procedures

Required capability: In accordance with GPE's *Policy on Misuse of Trust Funds*, which requires that he Board only choose agencies with robust policies and procedures for addressing Misuse to act as Supervising Entities or Implementers, the entity can demonstrate competence to deal with financial mis-management and other forms of malpractice.

Illustrative means of verification:

The entity has clear written policies and procedures regarding issues of misuse of funds. There is a system of adequate safeguards to provide reasonable assurance as to the protection of assets, including the Global Partnership for Education grant, from loss, fraud, waste and abuse at every step of the grant life cycle.

The entity has publicly available avenues to confidentially report suspected fraud or misuse of funds.

The entity has the ability to ensure independent and objective investigation of allegations of misuse

The entity has terms and conditions in its agreements with sub-recipients and contractors in relation to the ability to recover funds in cases of misuse.

2. Protection of Whistle-blowers

Required capability: The entity protects individuals from retaliation due to providing information in relation to misuse.

Illustrative means of verification:

The entity has policies and procedures in place in relation to whistle-blowing and the protection of employees or contractors.