REPORT OF THE GOVERNANCE, ETHICS, RISK AND FINANCE COMMITTEE PART 2: OTHER GERF RECOMMENDATIONS AND ITEMS FOR INFORMATION

For Decision and Information

1. PURPOSE

1.1. The purpose of this paper is to summarize the deliberations of the Governance, Ethics, Risks and Finance Committee (GERF) during its second face-to-face meeting, which was held in Dakar, Senegal on May 5 and 6, 2014. This is Part 2 of the GERF report to the Board to be discussed in Brussels, in June 2014. The agenda and attendance record of that meeting are in **Annex 1** and **Annex 2**. The first part of the GERF report to the Board (BOD/2014/06 DOC 02) included a summary of the GERF discussions and recommendations to the Board on the issue of "Available Resources" to be considered during the Board audio call on June 2, 2014.

1.2 This paper contains other GERF recommendations to the Board of Directors and items for information:

For Board Decision

- Section 1: Secretariat Budget (cf. para 2)
- Section 2: Innovative Financing to Leverage Other External Funding (cf. para 3)

GERF Decision

- Section 3: GERF decision on the supervising and managing entity eligibility expansion plan – organizations for assessment (cf. para 4)

For Information

- Section 4: Roles and Responsibilities – country-level issues (cf. para 5)
- Section 5: Interrelation Between Board Committees (cf. para 6)

1.3 This paper has the following annexes:

Annex 1 – Agenda for the GERF face-t0-face meeting on May 5 and 6, 2014
Annex 2 –Attendance List for the GERF face-to-face meeting on May 5 and 6, 2014

1.4 This paper has the following attachment:

Attachment 1 – Innovative Financing to Leverage Other External Funding

2. SECRETARIAT BUDGET

Recommendation

2.1 The GERF recommends that the Board approve the following decision:

BOD/2014/06-XX — Secretariat Budget: As per the GERF committee paper (GERF/2014/05–DOC 07), recognizing the difficulties encountered by the GPE Secretariat in budget planning, monitoring and reporting on a calendar basis as opposed to the Hosting Agency's fiscal year basis (July-June), the Board of Directors:

a. approves that the Secretariat budget revert to July 1–June 30 to align with the Hosting Agency's (World Bank) fiscal year accounting and reporting requirements, policies, procedures and systems, effective 1 July, 2015; and

b. requests the Secretariat to prepare a six-month budget for consideration at the December 2014 Board meeting to cover the period January-June 2015 and thereafter prepare a fiscal year budget (July-June) starting in May/June 2015.

Background

2.2 The Secretariat provided an update to the GERF on CY2014 first quarter Secretariat administrative expenditures and showed how spending was on track at 26 percent including commitments for the three month period of January through March 2014. The Secretariat also took the opportunity to present issues it has encountered with budget planning, monitoring and reporting on a calendar year basis as opposed to the Hosting Agency's (World Bank) fiscal year basis (July-June).

2.3 The GERF reviewed the issues for consideration (GERF/2014/05 DOC 07) and briefly discussed the difficulties encountered by the GPE Secretariat in budget planning, monitoring and reporting on a calendar basis as opposed to the Hosting Agency's fiscal year basis (July-June), including the following issues:

- Two Fiscal Year End Closings: confusion for contracting, expense posting, signature of the Letter of Representation documents by the CEO and Secretariat Managers due to two

Fiscal Year End Closings (one informal closing in December for the Global Partnership and one formal closing at end-June to conform to the Hosting Agency's fiscal year end);

- Expenditure reporting and monitoring: management of the GPE administrative budget reporting in 2 separate parts to accommodate the 2 different fiscal years;
- Work program planning and monitoring : the Secretariat currently has to allocate the annual budget by activities twice, and monitor and report in two separate six-month pieces; and
- Contractual issues: confusion with firms, vendors and consultants as the World Bank end-fiscal year deadlines begin in May, which is only five months into the GPE fiscal year.

2.4 The Secretariat clarified that the Board of Directors had taken the decision at the June 2012 meeting to shift the Secretariat's administrative budget year to a calendar year in order to align it with reporting on overall GPE trust funds and Secretariat implementation of parts of the Strategic Plan. Given the above-mentioned issues, Secretariat Management proposed to revert the administrative budget to align with the hosting agency.

2.5 The GERF recognized the additional administrative burden imposed by the current calendar year approach, and supported the Secretariat's request to revert to a July–June fiscal year.

3. INNOVATIVE FINANCING TO LEVERAGE OTHER EXTERNAL FUNDING

Recommendation

3.1 The GERF recommends that the Board of Directors approves the following:

BOD/2014/06-XX — <u>Innovative Financing to Leverage Other External Funding</u>:

In recognition that the pilot with the Islamic Development Bank (IDB) will take 18 months to 2 years to produce outcomes, and further noting the wide range of potential instruments and partners that can help leverage additional funding for educational outcomes using GPE grants, the Board of Directors approves the following:

a. The Secretariat and the Strategy and Policy Committee (SPC) will consider the development of a broader pilot program that trials a range of leverage funding mechanisms driven by partner country demand;

b. The broader pilot would be open to all GPE eligible countries. The IDB pilot would be open to all GPE eligible countries that are also IDB eligible countries. Countries with Maximum Country Allocations for Program Implementation Grants must use some or all of their allocation for the pilots if they wish to participate. Countries that are not eligible to receive a Program Implementation Grant may apply for funding subject to limits established by the Board; and

c. The Secretariat and the SPC will develop an operational framework for both the broader pilot and the IDB pilot which at a minimum should outline:
   i. the application process;
   ii. how much external financing GPE funds should leverage;
   iii. the link to the new funding model requirements and incentives; and
   iv. the maximum amount of GPE funds that would be available for each eligible country.

Background

3.2 At its face-to-face Board meeting in November 2013, the Board approved the following decision:

BOD/2013/11-19 – <u>Innovative Funding</u>: The Board of Directors notes the background paper on loan buy-down mechanisms to leverage additional financing for basic education as set out in Annex 4 of BOD/2013/11 DOC 04 as an example of innovative funding and requests the Secretariat to:

a. present a more detailed proposal to the Board of Directors at its face-to-face meeting in June 2014 in the context of the reform of the GPE Funding model; and

b. explore more fully a pilot program with the Islamic Development Bank.

3.3 The Board when considering the principles of the new funding model at its special Board meeting approved the following decision BOD/2014/02-06:

a. requests the Secretariat to accelerate consideration of options for innovative finance mechanisms and the Global Partnership's potential role in humanitarian and complex emergency contexts;

b. requests the Secretariat to further analyze the minimum acceptable allocations and the consideration of available resources that should be used for determining the Maximum

Country Allocation, and to present this for review by the Governance, Ethics, Risk, and Finance Committee for recommendation to the Board. The Board further notes that the analysis will include:

i. consideration by end of March of the implications of a potential increase in the level of the cap on overall allocations based on various replenishment scenarios; and
ii. consideration by the June Board meeting of implications of innovative finance mechanisms for eligibility and allocation of resources.

3.4 In response to these decisions, the Secretariat engaged Lion's Head Global Partners to prepare a report on innovative financing options and implications. The GERF considered the information provided on the range of innovative financing approaches presented in the document (GERF/2014/05 DOC 03) and additional information presented by the consultants (Lions Head Global Partners) by audio call during the GERF meeting.

Summary of the discussion

3.5 The GERF noted that further information is required to set the parameters for how the Global Partnership should consider leverage funding approaches, in particular, clarity on the core objectives of what the Global Partnership wants to achieve through leverage funding, consideration of the maximum amounts that each eligible country can access, and the review process for determining how to proceed with a particular initiative taking into consideration the potential benefits. The GERF further noted that clarification on the requirements to access these funds in terms of the linkage with GPE strategic objectives and the requirements and incentives under the new funding model is also required.

3.6 The GERF recommended the establishment of an initial provision of US$125 million to allow the Board to allocate resources for innovative financing to leverage other external funding (nominally US$100 million) and unexpected events or contingencies (e.g., humanitarian or emergency crises). The recommendation for this decision is put forth in the "Available Resources" decision included in Part 1 of the Report from the GERF for deliberation by the Board during the May 28 and June 2, 2014 audio calls.

3.7 The funds for leveraging external funding would be for GPE eligible countries that do not receive Program Implementation Grant funding. The GERF noted that any country eligible for a Maximum Country Allocation could also use some or even all of their allocations for these

initiatives. To get the best results out of the pilot, the GERF recommended opening these initiatives to the largest number of countries interested.

3.8 One GERF committee member emphasized the need to ensure that work performed by the Secretariat is demand driven from interested countries and partners, in order to avoid a situation where the Secretariat has to invest considerable effort in developing the operational details for multiple initiatives for which demand may be limited.

3.9 For the various models of potential innovative financing approaches outlined in the Lion's Head paper, the GERF noted that it is necessary for the Secretariat to develop a matrix indicating the opportunities each of the models offer, a description of the constraints, risks and an outline of the particular roles and responsibilities, and legal arrangements.

3.10 The GERF also discussed the **Loan Buy Down pilot with the Islamic Development Bank (IDB)**. The GERF noted that additional information on the specific roles and responsibilities, and legal implications still need to be defined. The GERF suggested that the IDB should consult and identify which countries are interested first, and at that point, then engage with the Secretariat to work out the detailed arrangements. This would avoid the Secretariat having to invest significant and limited resources in a pilot where demand is uncertain.

3.11 The GERF further recommended that all countries that are both GPE-eligible and IDB-eligible countries should be considered for the pilot, but that countries that will be eligible for a Program Implementation Grant should not be able to access additional funds but can use a portion of their allocation for this initiative. Countries that are not eligible for a Program Implementation Grant can apply for funding but as noted above, a determination will need to be made on how much funds an individual country can have access to.

3.12 The details of the IDB pilot and initial proposals regarding leverage funding are disclosed in **Attachment 1.**

4. GERF DECISION ON THE SUPERVISING AND MANAGING ENTITY ELIGIBILITY EXPANSION PLAN – ORGANIZATIONS FOR ASSESSMENT

GERF Decision

4.1 During its face-to-face meeting in Dakar, on May 5 and 6, 2014 the GERF approved the following decision in line with its delegated authority from the Board:

GERF/2014/05-01 —Supervising and Managing Entity Eligibility Expansion plan – Organizations for Assessment: The GERF, in line with the delegated authority provided by the Board at its face-to-face Board meeting in November 2013 (BOD/2013/11-09), authorizes the Secretariat to arrange the assessments of the organizations listed in GERF/2014/05/DOC 04 against the minimum standards set forth in Annex 2 of GERF/2014/05/DOC 04 and previously approved by the Board. The GERF is not making any substantive judgment at this point on the capacity of those organizations.

Background

4.2 The purpose of the Secretariat paper (GERF/2014/05 DOC 04) was to request a decision from the GERF, in line with their delegated authority, to authorize the Secretariat to assess the nominees presented as potentially eligible Managing and/or Supervising Entities under the Managing and Supervising Entity Eligibility Expansion Plan approved by the Board at its face-to-face meeting in November 2013 (BOD/2013/11-09).

4.3 The Secretariat informed the GERF that based on the information provided to them, each of the four nominated organizations (Save the Children US, Save the Children UK, Concern Worldwide, and Global Campaign for Education) appear to meet the eligibility criteria established by the Board and recommended authorization to arrange the independent assessments of these organizations against the minimum standards approved by the Board.

Summary of the Discussion

4.4 The GERF requested clarification on the potential future role of Global Campaign for Education and were informed that this organization is not seeking to be considered as eligible to be a Supervising (SE) or Managing Entity (ME) for a country-level grant (e.g., Program Implementation Grant) but was only seeking to become eligible for any Global or Regional Activities that may be created (e.g., Civil Society Education Fund).

4.5 The GERF noted that it's not making any substantive judgment at this point on the capacity of those organizations but is only authorizing the Secretariat to proceed with arranging the independent assessments of these entities against the minimum standards approved by the Board. The findings of the assessments will be shared with the GERF later in the year for its review and potential recommendation to the Board on eligibility of these **entities to act as a SE or ME.**

5. ROLES AND RESPONSIBILITIES: COUNTRY-LEVEL ISSUES

Background

5.1 As requested by the GERF at its first face-to-face meeting in February 2014, the Secretariat provided an analysis of the current roles and responsibilities of the various actors involved in country level processes related to GPE grants, the associated issues, and options for how to address these issues going forward (GERF/2014/05 DOC 06).

5.2 In addition, it was noted that the Board of Directors since its meeting in November 2013 has passed a number of similar decisions focused on the terminology, roles, and responsibilities of Supervising and Managing Entities resulting from issues identified in the 2013 Annual Portfolio Review (BOD/2013/11 DOC06 Attachment 1), issues identified in the negotiation of a Financial Procedures Agreement with UNICEF acting as Managing Entity in February 2014, and the Board's decision related to the new funding model at the same meeting.

5.3 The GERF considered the information provided on the current roles and responsibilities of the various actors involved in country-level processes presented in the document and provided input to the Secretariat.

Summary of the discussion:

5.4 The Secretariat briefly summarized the main issues and options and noted that due to the necessity to prioritize the operational framework for the new funding model and the work on available resources, it had limited time to develop the paper and did not have the opportunity to engage with existing Supervising and Managing Entities to seek their input. As such, the GERF were not being asked to make any recommendations at this stage but to provide general comments and input to the Secretariat for their ongoing work

5.5 The GERF recognizing the time constraints and limits on consultation noted that the paper was a good first start in identifying a number of important issues that will need to be

addressed. GERF members made general comments and gave guidance to the Secretariat to further develop the document outlined below.

- The issues of **roles and responsibilities of other actors** (LEG, Developing Country Partners, CSOs, and Coordinating Agencies) need to be further developed in the next version of the paper.
- **SE/ME terminology**: The GERF noted the issues raised and had no objection to the direction proposed to replace the terminology of SEs/MEs with a single term "Partner Agency" as suggested in the GERF paper.
- **Role and visibility of the Global Partnership** The need to develop further the role of the Global Partnership, GPE Secretariat versus the SE/MEs. One committee member noted that in many countries the GPE resources are only seen as SE/ME resources.
- **Role of the LEG**: The need to better define the accountability at the local level and how to better engage/empower the LEG.
- **Supervision/Management**: There needs to be an examination of whether there is always a need to engage an SE/ME to supervise or manage implementation of the Program Implementation Grant, and if Global Partnership should be providing funding directly to developing country partners where capacity is strong.
- **Role of the Secretariat**: Should the Secretariat be involved earlier during the Quality Assurance Review (QAR) and strengthening of the Final Readiness Review on issues of risk management.
- **Accountabilities**: The need to define where accountabilities should rely on the systems of the SE/ME and where the Secretariat needs to develop some common standards (i.e., standard reporting system) for all SE/MEs to use. Clarification on reporting relationships of SE/MEs to LEG and the Global Partnership?
- **Audit policy**: It may be difficult to create a separate GPE audit policy, especially for the UN agencies which have a single audit principle. The Secretariat noted that the Global Partnership is not interested in asking SE/MEs to change their own audit procedures for when they retain the funds, but is interested in ensuring that there are appropriate audit mechanisms in place for the use of funds by third party implementers such as NGOs and Developing Country Governments.

Next steps:

5.6 GERF members agreed that this is a strategic issue which needs more time for consideration. The Secretariat should take into account the comments made by the Committee, provide a broader analysis of accountability issues at country level, and engage in a consultation process with all parties (including SE/MEs, LEGs, and government). This issue will be discussed again by the GERF at its October 2014 meeting.

6. INTERRELATION BETWEEN BOARD COMMITTEES: REVIEW OF TERMS OF REFERENCE AND WORKPLANS

Background

6.1 At its first face-to-face meeting in February 2014, the GERF requested that the Secretariat clarify which topics should be addressed by each Committee and how Committees should coordinate in the case where two Committees have been mandated to work on similar topics by the Board. To help clarify relative roles and minimize risk of duplication, the Secretariat prepared a document (GERF/2014/05 DOC 05) comparing the work plans and terms of reference of the three technical Committees and identifying any potential conflicts.

Summary of the discussion

6.2 The Chair invited the GERF members to briefly provide general comments on this document. A detailed review of terms of reference and work plans will be held later on this year.

6.3 The GERF members thought that the paper was useful. They stressed that the role of the Coordinating Committee (CC) is not explicit enough and should have been included in the GERF paper. Some of the GERF members noted that the CC should be reviewing all the recommendations coming from the different technical committees and that a regular CC meeting should be organized after the other committee meetings meet in preparation for the Board meeting. Some GERF members emphasized that the CC should facilitate interactions between the committees and the Board including structuring meetings in a way that identifies synergies across the recommendations of the committees.

7. NEXT STEPS

7.1 The Chair of the GERF stressed the need to prioritize issues for consideration for the rest of the year post-replenishment. The GERF agreed that it will focus its efforts on clarifying the roles and responsibilities at both the country level and the global level, and on finalizing the Risk

Management Matrix for presentation to Board at its face-to face meeting in December 2014. The GERF noted that after the details of the new Funding Model have been approved in June 2014, it will be easier for them to review further the risks identified in the draft Risk Management since many of them will be mitigated by various aspects of the Funding Model. They also noted that the Risk Management Framework will not be completed until the Global Partnership has agreed on the roles and responsibilities of partners at both the country level and the global level. The GERF requested the Secretariat to start developing risk mitigation measures for the different risks identified in the Risk Management Matrix for discussion by the GERF through audio calls and then a face-to-face meeting on October 21-22, 2014, provisionally set for Paris, France.

7.2 Christina Buchan announced her upcoming resignation due to her new assignment. The Chair of the GERF extended his deep appreciation for the quality of her interventions in the GERF meetings.

8. OTHER

8.1 The Secretariat informed the GERF that the main Catalytic Fund which preceded the creation of the GPE Fund is due to close at the end of December 2016 and there is a risk that not all grants will have completed implementation by this stage.

8.2 Given the challenges in extending the closing date of the fund (requiring all donors to agree), the Secretariat proposes that in the event any grants are not completed by that date, the remaining undisbursed amounts will be cancelled to allow for the Catalytic Fund to be closed on schedule and the Board will need to reapprove the same amount from the GPE Fund so as not to penalize the affected countries.

8.3 Any unspent funds in the Catalytic Fund upon closing will be returned to the contributors and they will be requested to consider transferring them to the GPE Fund.

8.4 The GERF noted the information and raised no objections to this proposal noting that no formal decision will be required until 2016 and the expectation is that all affected countries will strive to ensure that the funds are utilized prior to the closing date of the Catalytic Fund.

ANNEX 1: AGENDA

GERF /2014/05—DOC 01 REV.1
Meeting of the Governance, Ethics, Risk, and Finance Committee
Dakar, Senegal
May 5–6, 2014

Agenda

May 5

Time			Presenter/Document
09:00-09:15	**Welcome and Introductions**		
09:15-10:30	**Available Resources** Review of various proposals prepared by the Secretariat: o minimum and maximum allocations in light of potential replenishment scenarios; o replenishment scenarios considering pledges and projections; o impact of innovative financing/cap, the risk management and financing implications of the funding model); o the impact of the pipeline of contributions and grants on overall resources; o delegation for approval of Education Plan Development Grants and Program Development Grants	Discussio	Secretariat DOC 02
10:30-10:45	**Coffee Break**		
10:45-12:30	**Available Resources** (Continued) o Draft GERF recommendations on Maximum country Allocation based on replenishment outcomes	Discussion/ recommendation	Secretariat
12:30-13:30	**Lunch**		

13:30-14:00	**SE/ME Entity Eligibility Expansion Plan** o GERF reviews the nominated organizations to be formally assessed	Discussion/ decision	Secretariat DOC 04
14:00-15:00	**Interrelation between Board Committees** o Review of the document prepared by the Secretariat	Discussion	Secretariat DOC 05
15:00-15:15	**Coffee Break**		
15:15-16:15	**Innovative Financing** o Review of the document prepared by the Secretariat (focus on Eligibility, Debt Buy Downs/Guarantees, and how it will be financed) o GERF recommendations	Recommendation	Secretariat DOC O3

May 6

Time			Presenter/Document
09:00-11:00	**Available Resources** o Review and adoption of the GERF final recommendations	Recommendatio	Secretariat
11:00-11:15	**Coffee Break**		
11:15-12:30	**Available Resources** (continued)	Recommendatio	Secretariat
12:30-14:00	**Lunch**		
14:00-14:30	**First quarter Secretariat administrative expenditures**	Discussion	Secretariat DOC 07
14:30-15:30	**Roles and Responsibilities - country level issues** o GERF Paper and update on outcome from the CGP meeting	Discussion	Secretariat DOC 06
15:30-16:00	**AOB/Conclusion** o Policy on misuse of Funds ineligibility criteria o Review of the GERF work plan o Next meeting	Discussion	Chair/Secretariat

ANNEX 2: PARTICIPANT LIST

Committee Members	Title and Organization	Constituency
Minister Serigne Mbaye Thiam – Chair	Minister of Education, Senegal	Africa 2
Charles Y. Aheto-Tsegah	Deputy Director-General (Quality and Access), Ghana Education Service	Africa 3
Chris Tinning	Minister Counselor (Development), Australian Embassy Washington D.C.	Donor 2
Christina Buchan	Director, Health and Education Programming and Institutions Division, CIDA	Donor 3
Cheikh Mbow	National Coordinator, Coalition des Organisations en Synergie pour la Défense de L'Education Publique	Civil Society Organisations
Elizabeth Fordham	Education Program Advisor, UNESCO	UNESCO
Djibril Ndiaye Diouf	Director of Planification and Reform of Education, Ministry of Education, Senegal	Africa 2
José Luis Canelhas	Advisor, Ministry of Education, Timor Leste	Asia and the Pacific
Lisa Gomer	Chief Operating Officer	GPE Secretariat
Padraig Power	Senior Financial Officer	GPE Secretariat
Christine Guétin	Focal Point, Board Operations Officer	GPE Secretariat

ATTACHMENT 1: INNOVATIVE FINANCING TO LEVERAGE OTHER EXTERNAL FUNDING

GLOBAL PARTNERSHIP *for* EDUCATION

Global Partnership for Education

INNOVATIVE FINANCING OPTIONS & IMPLEMENTATION

MAY 2014

Lion's Head Global Partners

LION'S HEAD
global partners

quality education for all children

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Innovative Financing Overview

The last decade has seen a dramatic increase in the range of innovative financing models for development. These new models create opportunities to access new pools of capital and to deploy public finance more effectively. The innovation is underpinned by two principles:

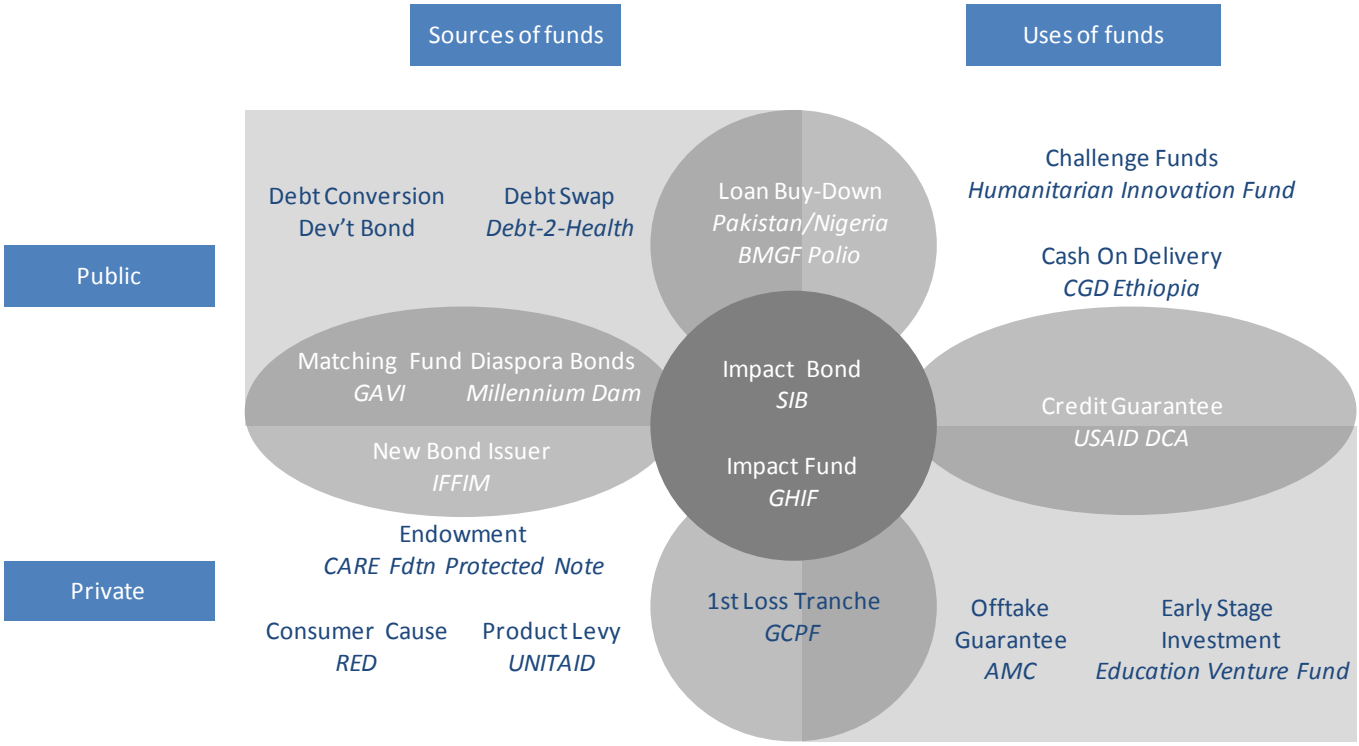
- *There is substantial scope to engage with and leverage private sector expertise and capital;*

Innovative financing models can be characterised by their focus on public versus private sector stakeholders – the left side of the matrix below. A number of prominent innovations have changed how finance for development is raised from donor governments. In many instances, recent innovations have achieved this by creating structures to harness how governments borrow money from multilateral organisations/ the capital markets. Alternatively, as noted above, innovative financing models focus on raising funds from the private sector by creating models for private funding through taxes and new donation structures.

- *Aid is more effective when linked to defined objectives and accountability for how it is used.*

Innovative structures for deploying capital have usually also introduced results-based models – either as results based aid (RBA) to the public sector, or, for, the private sector, results based finance (RBF). This can take the direct form of payments for specific targets or of providing a guaranteed market in the form of an Advanced Market Commitment. Other models are less direct – filtering out programs through selection via challenge funds, for grant finance, and private funds for investment capital. Private interventions also help to improve the risk/return profile of activities that promote social, economic or environmental benefits.

A handful of approaches cross these boundaries – using private capital to finance projects historically tackled by the public sector, crowding in new investors – ranging from foundations to institutional investors - and incentivising private businesses to take on high risk, non-commercial activities.



GPE Strategic Context

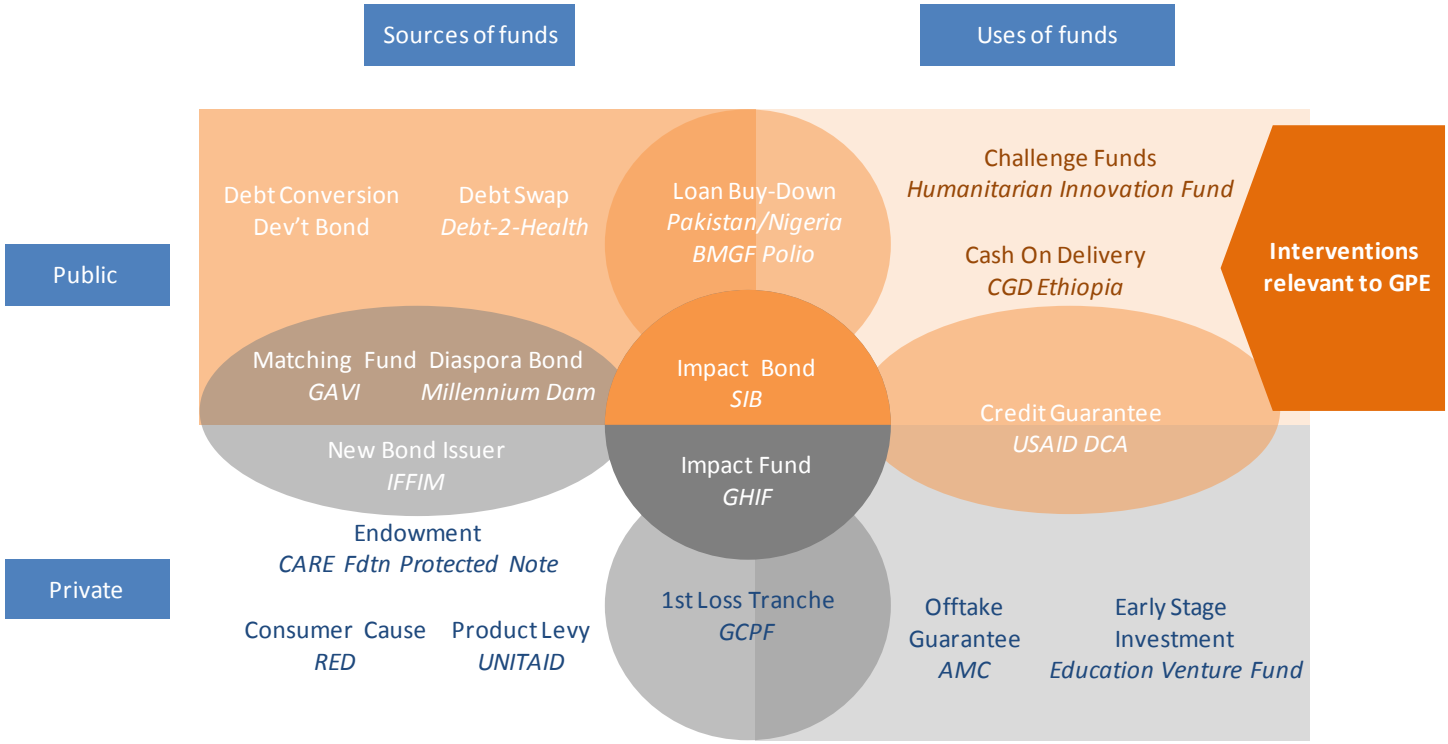
Stakeholders in development can adapt and implement innovative financing models that fit their organisation's basic structure and current strategy. GPE works to expand and improve the capacity of education systems and helps to build robust monitoring and evaluation of education results. GPE has a robust new funding model that that aims to raise an additional $3.5bn between 2015 and 2018. This capital will be channelled into national systems that increase the availability and quality of education for children around the world. There are two key characteristics of GPE's activities:

- GPE's interventions are **not directly linked to cash flows**. In other development finance sectors – renewable energy, infrastructure, carbon finance – there is a direct link between public/private investment today and a change in cash flows in the future for a particular project – e.g. through higher payments for a service. Investments in education generate impressive national/regional economic growth and social development. However, investing in education does not generate returns on that can be ring-fenced (e.g. contracted revenues) or assets that can be traded (e.g. through an AMC). This limits the scope to source funding from private/impact capital and to deploy it via ministries and private sector partners.

- GPE **works with governments** – in particular, designated Local Education Groups. The nature of education as a public good, and GPE's strategy as a whole means that the target counterparty is the local government stakeholders responsible for managing curriculum development, teacher training and capacity building. New financing models will be most efficient and likely to succeed if they complement existing development finance channels

that work with local governments (rather than e.g. international non-governmental organizations). This limits the scope of using innovative investment models as a use of funding.

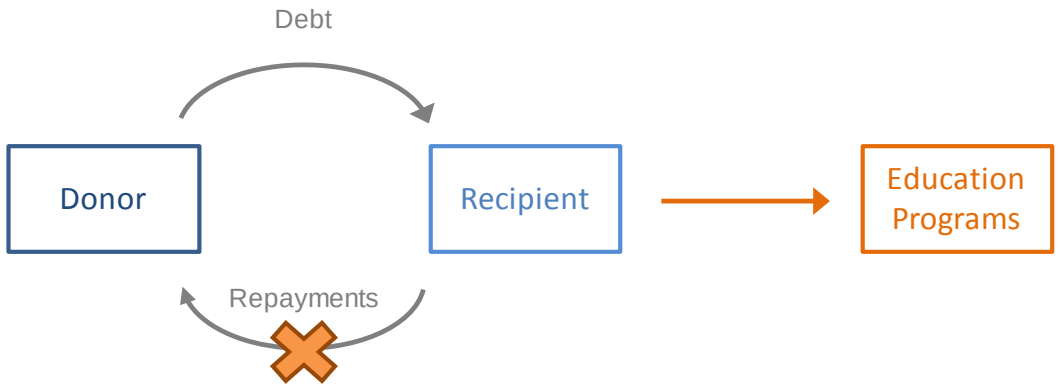
GPE focuses on leveraging additional public sector capital more efficiently and creating a better link between disbursing this capital and achieving defined education objectives. The innovative financing models applicable to GPE are highlighted in the matrix below:



Options for GPE

Debt Swaps

Debt swaps involve the cancellation of certain international loans for a country by a donor if the target country commits to spend the resulting savings on a specific activity. These swaps allow local governments to channel a greater proportion of their own budget into local programming rather than channelling precious capital back to donor governments.



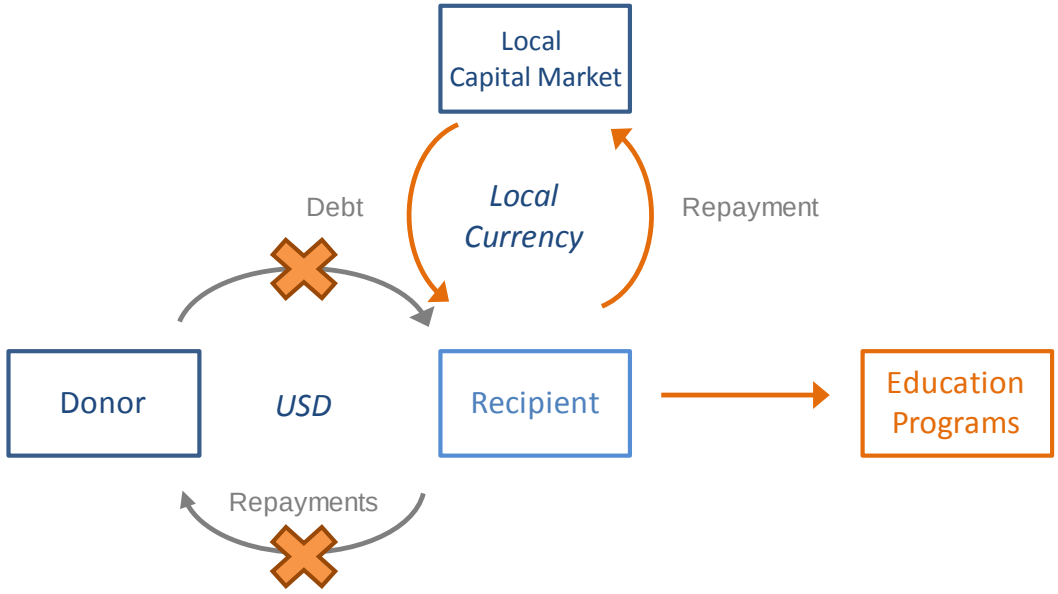
Donor cancels loan on basis that recipient commits to increase domestic expenditure on education with equivalent savings

Debt swaps are not a new phenomenon – they have been actively practised since the 1980s- but there has been a recent surge in new initiatives. The Debt2Health program was initiated by The Global Fund to Fight AIDS, Tuberculosis, and Malaria (GFATM) in 2007. Between 2007 and 2010 they have concluded four swap agreements for approximately USD 236 million in debt reduction with Germany and Australia on the creditor side and Indonesia, Pakistan and Cote d'Ivoire on the recipient side. Recent debt swaps for education have been carried out by Spain and El Salvador for $50m in 2005, and France and Cameroon, raising $90m for education (out of a first tranche swap of $540m under the C2D scheme) between 2007 and 2011, with $45m going towards teacher training and $45m to school construction. Both programmes have been widely viewed as successes.

While debt swaps link flows of capital to development goals in a new way, they do not unlock new capital per se, instead replacing existing bilateral lending arrangements between governments. Debt swaps also lack a results payment component – since they must be implemented to free up the initial capital needed to make long term development investments. However, the programs above were structured to execute the swap in annual increments – leaving some scope for withdrawing/withholding money if the program does not meet expectations.

Debt Conversion Development Bonds

Debt Conversion Development Bonds (DCDBs) are a form of debt relief in which the creditor forgives debt on the condition that the debtor makes available some specified amount of local currency funding to be used for specific development programmes. Under the proposed DCDB model, a country benefiting from such a debt swap would raise a new bond domestically to enable the funding of a specific programme.

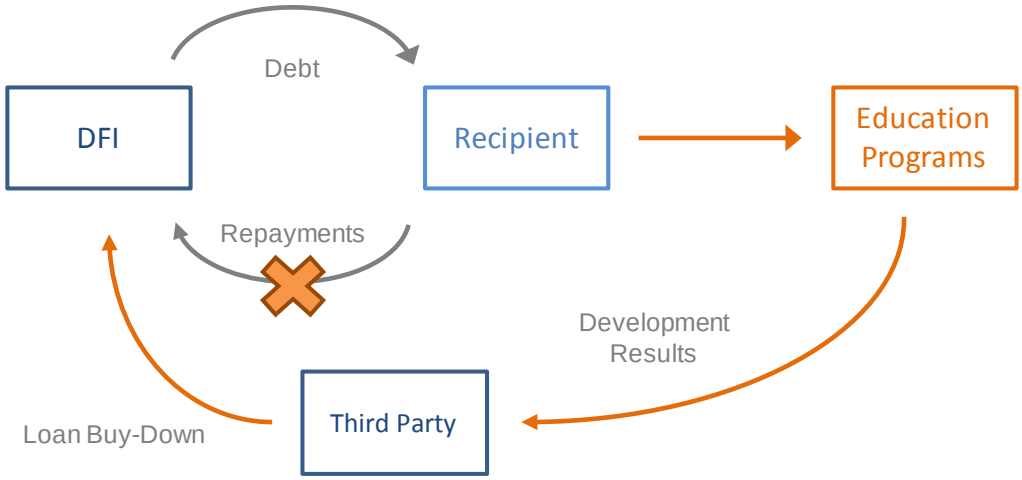


Donor cancels loan on basis that recipient raises equivalent amount in local currency bonds to increase domestic expenditure on education with equivalent savings

Debt Conversion Development Bonds offer a reasonable incentive for governments to prioritise certain activities, but there is a critical challenge – in that local capital markets activities should be driven by those markets rather than by international donors. We would not advise that external parties seek to influence a country on issuance in their own market – this must remain the prerogative of the Ministry of Finance on behalf of that country. In many instances, local currency debt markets are in very early stages of development – there is not necessarily a surplus of demand for new products. Furthermore, local investors need to assess both the resources available to that government and their spending commitments – recent bond issuances in Ghana have shown how quickly lenders are willing to raise interest rates and perceived government spending.

Loan Buy-Downs

A loan buy-down is an extension of the same logic. Instead of writing off or swapping the debt, the donor receives some or all of the loan repayment from a third party, reducing the recipient's debt burden. The underlying debt can be an existing loan or a new arrangement. Where the loan is already in place, the third party plays the role of the donor government in a debt swap – buying down the debt on the basis that the savings will be channelled into specific activities or that certain goals have been achieved. For new loans, the loan issued is usually linked to the developmental activity. The buy-down is triggered when the recipient achieves defined results with that loan.



Third party pays all or some portion (e.g. interest) on a loan to reduce the debt burden on a recipient country.

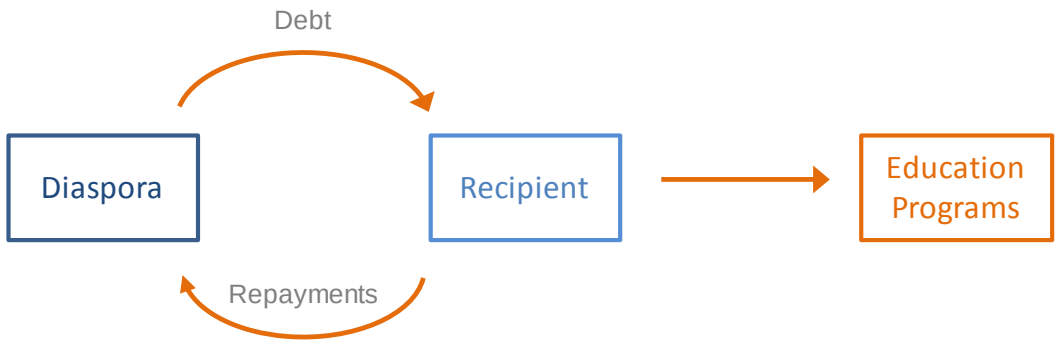
Loan buy-downs have been deployed in a number of instances related to health – driven mainly by the Bill & Melinda Gates Foundation adopting the instrument in an effort to eradicate polio – and more recently in education through a DfID scheme in China. There are two basic structures: for two loans in Nigeria and Pakistan, BMGF paid off the entire value of IDA credits of approximately $140m for each country. The actual amount paid by BMGF was much less than $280m – instead it was the net present value discounted against the term of the credit as well as the risk associated – for example, the total budgeted allocation for Nigeria is $90m. The second model has been deployed by the IBRD/DfID in China for three $100m loans, IBRD/EC in Botswana for $50m, ADB/AusAid for $27m in Samoa, as well as by BMGF/IDB in Pakistan for $230m. These buy-downs were structured such that the Third Party, Donor and Recipient coordinated to reduce the terms of the loan. For example, DfID paid to reduce the interest rate paid by China to IBRD to 2% allowing the country to access lower cost capital for development activities.

Loan buy-downs increase the amount of capital for development in two ways. First, they allow Development Finance Institutions (DFIs) to issue loans that historically would have been non - concessional at concessional rates (from the borrower's perspective). As a result, DFIs are able to use the much larger pool of capital available for non-concessional lending for more developmental activities.

The loans also allow countries to access more capital – since the cost of this financing is lower, they may be able to take on more exposure. The third party leverages a multiple of its own contribution – buying down a defined portion of the loan, or, if writing down the whole loan, the DFIs frequently value the debt for accounting purpose at less than face value – in IDA's case sometimes as little as 50% of the total.

Diaspora Bonds

Diaspora bonds allow governments in developing countries to tap into the investment capital that has been created offshore by members of that country's diaspora community. Bonds are marketed in part on simple financial terms – there is a return component – but equally on non-financial terms. The issuing government may be able to get advantageous terms (i.e. lower interest rates, the so-called "patriotic discount") relative to open market issuances. The diaspora investor base is also more open to bonds targeting projects or activities that may not appeal to international institutional investors – e.g. more developmental activities like health and education, and high risk projects – since family members and communities linked to the investor may stand to benefit. Investors may benefit from opportunities to repatriate capital from abroad.



Diaspora buys bonds to finance general government activities or specific project in country; bonds are typically at a lower interest rate to that available on normal capital markets.

The archetypal diaspora bonds are those that have been issued by Israel targeting both the global Jewish community writ large and any other interested investors. Their success is such that these bonds are a standard tool that the government uses annually. Israeli diaspora bonds have a range of maturities and low minimum investment thresholds to enable individual investors to participate – and focus on direct distribution to investors; there is no secondary market. These bonds have below market interest rates (though this discount has shrunk over time) and many go unredeemed.

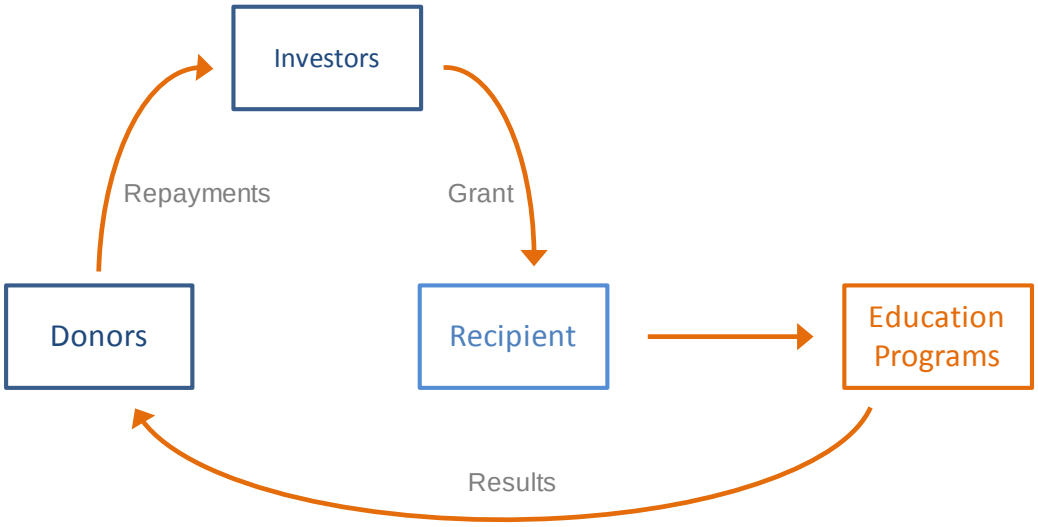
India has also successfully raised a series of diaspora bonds in 1991, 1998, and 2000. These bonds helped to provide additional sources of government finance at a time when India was struggling to raise money on the international capital markets. As an incentive, the bonds had a minimal discount and allowed the Indian diaspora to repatriate savings into local currency without the usual penalties.

More recently, other governments (Ethiopia, Kenya) have looked to capitalise on large diaspora populations with strong incomes, high savings and remittance flows and close ties to their countries of origin to raise money for infrastructure investment.

While diaspora bonds provide governments with a new, developmental and often anti-cyclical source of capital, there is little evidence that a dedicated education bond will be especially attractive to the diaspora. There is also a question in some markets about the added value of a targeted bond, when the diaspora are able to participate in higher liquidity regular bond issuances. Finally, diaspora bonds have no particular accountability: there is little scope to incorporate a performance based payment.

Impact Bonds

Impact bonds are a results-based funding mechanism that catalyses private investment in a particular sector by providing financial payments (from public money) to investors on the condition that certain non-financial outcomes are achieved.



Investors lend to recipients to finance a specified activity with a substantial social (or environmental, or with DIBs, developmental) benefit. The government repays investors when predetermined quantitative results are achieved. .

The first widely publicized Social Investment Bond (SIB) was pioneered in the UK to fund prisoner outreach programmes for Peterborough Prison. Investors provided upfront capital for various programmes that have proved to reduce recidivism rates and the Ministry of Justice repays investors in the event that the recidivism rate is below certain national thresholds. The rationale for the structure is that the returns paid to investors will be less than the long term savings to the UK Government. Eight further bonds have been executed in the UK (6), the US (2), and Australia for between $3m and $15m.

Impact bonds are financially sustainable investments that may attract new private and foundation investment. History shows that impact investors – essentially philanthropic donors with minimal or no return expectations - have provided the capital for the first bonds. The hope is that the structure will replicate the success of microfinance, catalysing capital from a broader range of investors.

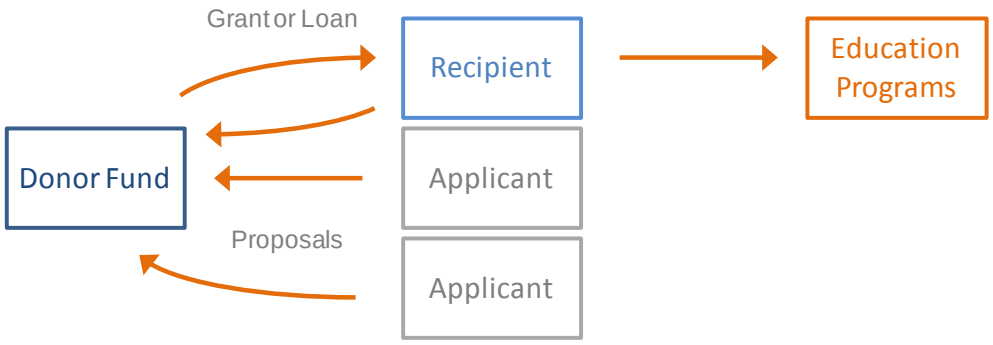
It will need to be determined whether the education sector currently lends itself to the impact bond model because outcomes would need to be easily quantifiable – so results-based payments would be simple to design and easily verifiable. The model is now being applied widely to project design in the developing world – creating so called Development Impact Bonds (DIBs).

Historically, SIBs and DIBs have been reasonably modest in size – since the investor base is still limited and they are in their infancy – and have focused on a narrowly defined geographic area and/or population

to work with. The success of the bond in terms of raising capital is driven in part by the perceived quality of the recipient of the funding. Recipients can range from NGOs to government departments and even private businesses – but are limited to non-profits to date.

Challenge Funds

Challenge funds issue grant funding to applicants on the basis of a competitive screening process. The funds can have rolling applications or operate in defined periods (e.g. for 3 months of the year). A single challenge fund can target one particular intervention or geography. This process can be managed by governments or outsourced to a fund manager. Applications tend to pass through a series of rounds of evaluation.



Donor creates management team to evaluate proposals. Successful applicants use grant funding to develop, pilot and/or implement programmes in a given sector.

Challenge funds are frequently used to support early stage businesses with concessional capital, e.g. via the African Enterprise Challenge Fund, but have also targeted governments, NGOs and universities to develop and implement innovative policies, as well as the science and engineering communities to discover, create or design new drugs, tools and products for development.

The Humanitarian Innovation Fund is an example of a new approach to the design and implementation of development aid policy. The fund has deployed approximately $10m in financing to 37 projects in two increments - up to $20,000 and up to $150,000. Grants run for up to 18 months Applications are evaluated twice a year by a panel of 12 experts on a pro bono basis. Successful recipients include local/donor governments, NGOS, research institutes, corporates, and other international organisations singly and in consortia. Projects include testing and designing new methodologies for different interventions in the humanitarian sector – from innovative applications of technology and telecoms, to new program management strategies and tools. A team in ELRHA is responsible for initial screening, administration of the funding and monitoring and evaluation.

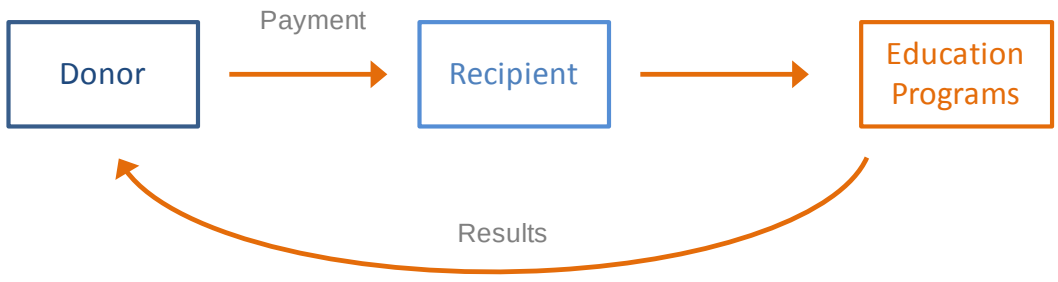
Challenge funds do not leverage additional capital; however, they create a pipeline of investment opportunities for the public and private sector to expand viable projects that have used the Challenge

Fund awards to progress and prototype new ideas. Funding is issued up front, but can be spread over milestones to link to results

Challenge funds in general are exciting opportunities to create and grow new ideas. However, small, early stage projects often become overwhelmed by trying to meet criteria for investment and by trying to meet the ongoing monitoring and evaluation demands – just as managers struggle to implement the funding strategy. It does not help that management is often contracted to consultants with no long term alignment to performance. As a result, challenge funds struggle to scale adequately. In addition, public sector challenge funds typically work best at the global level – to generate the range and number of applications desired.

Cash on Delivery

The Cash on Delivery model entails donor payments to governments once certain non-financial metrics are achieved – on a piecemeal basis (i.e. per teacher trained) and/or threshold basis (once 50 teachers have been trained).



The Donor pays out to a recipient government for achieving a predetermined target, per unit of achievement.

Cash on Delivery is the most straightforward results-based aid model – what is interesting is that it is a reasonably new option for deploying aid finance. Results-based aid pioneers, William Savedoff and Nancy Birdsall, laid out a plan for COD in 2010 with a focus on education. They propose that funders agree to pay for each assessed completer – e.g. per student enrolled in the last year of primary school who takes an approved standardized assessment exam – thereby rewarding governments ex post that find a way to accelerate progress in educating their children.

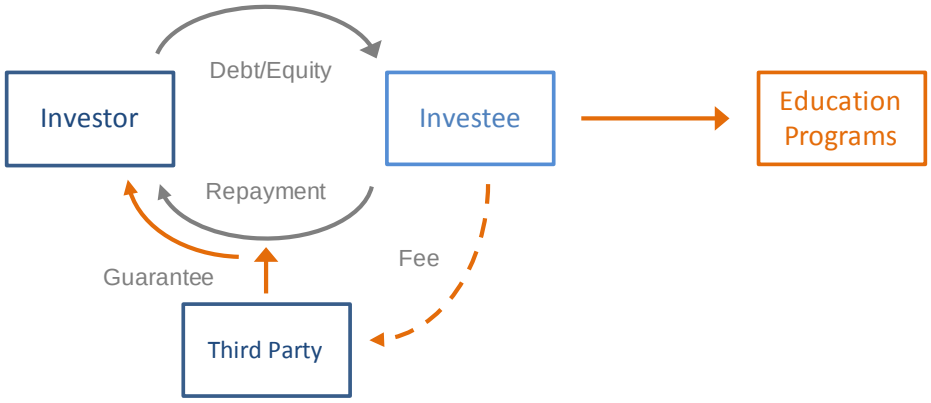
This approach is currently being piloted by DFID and the Government of Ethiopia. DFID will make grant payments for each child that takes the grade 10 examinations above an agreed payment baseline and additional payments for each child that passes the exams. Higher incentives will be paid for students in emerging regions and for girls who sit the exam. Payment will be made to the Ministry of Education once the results have been independently verified. A maximum of £10 million will be disbursed each year from 2012 to 2014, and these funds will be additional to existing support in the education sector.

While COD is focused on a pure results-based approach, it does not currently leverage additional capital for implementation – recipients must source that themselves – nor, currently, does the model seek to leverage new sources of capital to finance the performance payments.

Guarantees

In a guarantee structure, a third party pledges to honour payments to an investor on behalf of the investee. Guarantees reduce investors' exposure to risk of non- or late payment of returns – interest payments, dividends, contract payments or exit returns – with two results:

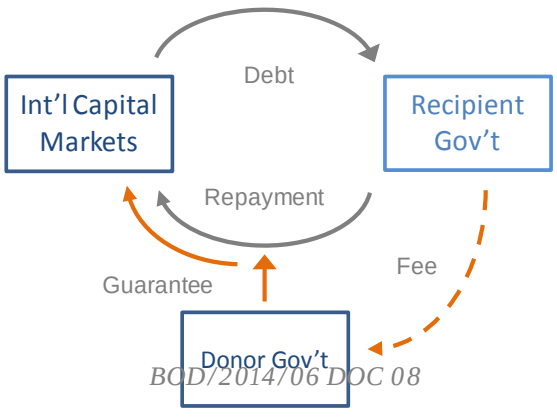
1) Guarantees can align the risk/return profile of investment with market expectations, making investments financially viable *for investors* –increasing the potential sources of investment.
2) Guarantees reduce the cost of capital, improving *the investee's* case for implementing a program, increasing the amount of capital that an investee can raise, and/or creating savings that can be applied elsewhere.



Guarantees have been deployed for government borrowing, in project finance schemes, where there are clearly defined risks and revenue streams, in the financial sector, to catalyse banks and microfinance institutions to expand lending to a target set of borrowers, for sub-national borrowers, e.g. state-owned utilities, and for innovative debt and equity funding vehicles.

Government Guarantees

Guarantees for government bonds are viable, but have not yet been widely deployed. In part, this is because donors see greater impact with grant and loan programs (bilateral or via multilateral organisations) for specific projects or sectors. Sovereign guarantees respond not to a lack of capital for a specific sector, but to a volatile shift in a country's risk profile. USAID has a sovereign guarantee program that has included guaranteeing up to 100% of

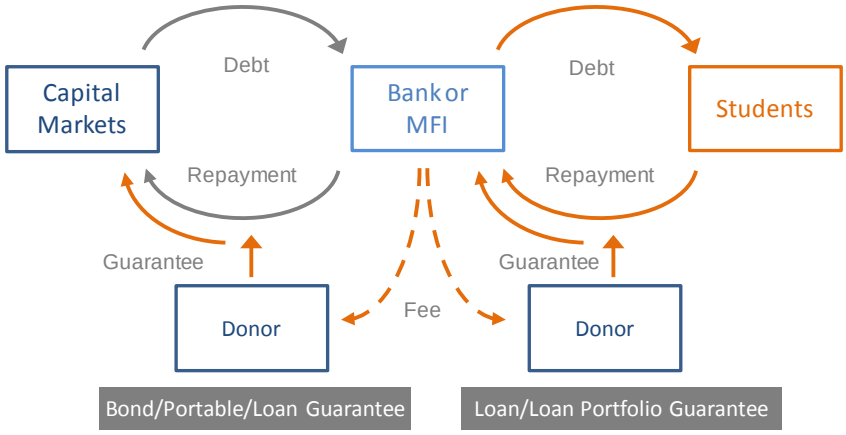


bonds issued by developing countries in political transition (e.g. $400m+ for Tunisia, $1bn for Ukraine), allowing these countries to access finance at reasonable rates despite the underlying change in their risk profile in the capital markets.

An education sovereign bond guarantee could be explored but the process may be more effectively managed through other instruments – especially loan buy-downs that similarly reduce the cost of borrowing and simultaneously incorporate sector specific results triggers.

Financial Services Guarantees

The main area of opportunity for credit guarantees for education is to work with financial service providers. Guarantees can cover student loan issuers, allowing them to raise capital at reasonable rates that they can use to issue loans to students and families to pay for the costs of education. Student loans are most common for higher education and upper secondary education, where students will begin earning an income and paying back their loans relatively soon. Microfinance loans have been designed to pay pre-primary, primary and secondary education fees.



DFID has guaranteed loans to both microfinance institutions under its Microfinance Credit Guarantee Scheme (MCGS) and to SMEs under the Credit Guarantee Scheme (CGS) in Pakistan since 2008 under DFID's Financial Inclusion Programme (FIP). The guarantees, £10 million each, sit in the State of Pakistan's account until there is a call on the guarantee. Both the CGS and the MCGS have proved highly successful. The MCGS has a leverage of 3.5 times, which makes £35 million available. As of the end of March 2012, MCGS's rate of utilisation was around 70%, and was expected to be 100% by the end of 2012. More targeted guarantees have supported sector specific lending – USAID has a number of credit guarantee facilities that provide guarantees for loan portfolios in the SME, agriculture, water and energy sectors across 19 countries.

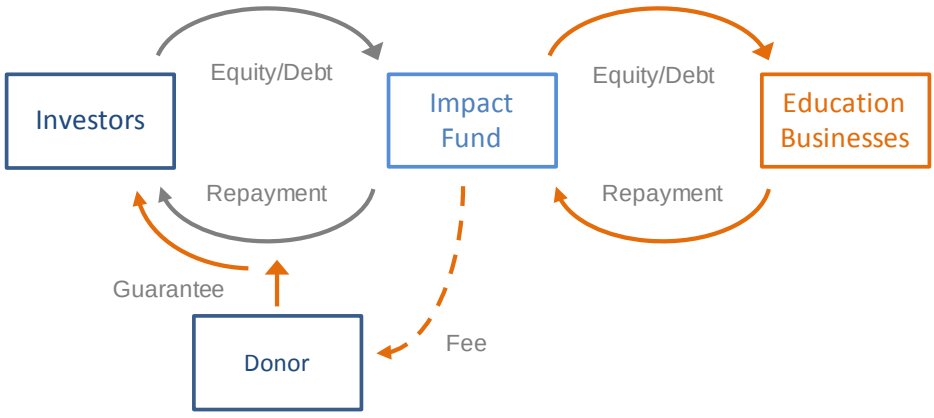
Guarantees are able to leverage substantial amounts of additional capital and the majority of that is from the private sector. For example, USAID has put aside around $12m to mobilize $496m of private lending and generating over $10m in fees – though this is an extreme; guarantees from donors with less liquid

and robust balance sheets will see lower leverage ratios, as they will have to put more capital aside. There are significant limitations to using guarantees in this way, including:

- Donors are wary of increasing personal indebtedness amongst vulnerable communities.
- Education activities are not directly linked to new sources of income, whereas lending to SMEs creates additional revenues that can be used to finance the loan – calling into question the fundamental financial viability of education loans.
- Education loans are vulnerable to macro events; even in developed countries, loan repayment rates have fallen below expectations as fewer borrowers than expected are reaching the salary level to trigger repayment due to the recession's impact on employment.
- There is limited scope for incorporating results payments/accountability.
- There is limited current institutional capacity in banks to develop and implement education lending products lines; while this gap can be addressed through concessional finance, there are few quick wins.

Impact Fund Guarantees

Guarantees have also been applied to new impact fund vehicles. These funds have below market rates of returns relative to their high risk (often venture capital) investment strategies. Guarantees attract capital despite this limitation by protecting investors from losses. For example the Global Health Investment Fund has raised $108m in equity from a range of donors, DFIs, foundations, institutional and individual investors. The GHIF makes low return equity and mezzanine debt investments to commercialise products targeting diseases prevalent in the developing world, and has an expected rate of return of 8%. However, investors are guaranteed at least 60% of their capital will be returned through a joint BMGF and SIDA guarantee product. For GHIF, there is no fee associated with the guarantee.



In this instance, the guarantee helps to attract new investors to finance higher risk, developmental investment strategies. If guarantees of this kind are able to be offered in a financially sustainable manner – i.e. with an associated fee – there is scope to scale up. However, guarantees for investment vehicles are a double-edged sword. Investors are wary of committing to a vehicle that is not financially sound –

and the presence of a low protection guarantee implies to some that the underlying investment thesis is flawed (instead of just higher risk, it is in fact loss making).

Summary

The innovative financing models described above span those that are most applicable to the GPE model. Beyond considering the general structure and viability of each strategy, our analysis focuses on two characteristics:

- the extent to which they are able to raising funding from new sources/expand funding from existing sources; and
- the ability to incorporate results-based payments.

GPE aims to select and pilot a new mechanism to improve education in developing countries. Once the model has been proven, GPE then hopes to scale up activities, simultaneously leveraging and deploying large volumes of capital across a number of countries. The final key consideration, then, is the extent to which each mechanism can operate at scale. This is driven by a combination of:

- the **financial sustainability** of the model; diaspora bonds have unlimited sources of capital; if the terms are right, investors will follow - whereas e.g. debt swaps are limited by a donor's cash in hand;
- the potential **leverage ratio**: models that leverage additional capital can scale up through small additional contributions. Those that don't are limited to 1:1 Loan buy-downs for the total value of the loan can lever up to 2x; loan buy-downs that soften loans can easily leverage 5-10x the amount of donor capital; and
- the potential **size of transactions**: to scale GPE's activity, ideally funds will be deployed in large single transactions to reduce costs and simplify administration, as well as monitoring and evaluation. Impact bonds are an appealing model to follow, but have to date been in small increments. Loan buy-downs are less limited, since they can piggy back on existing lending models – which can extend into the hundreds of millions of dollars.

These innovative finance model characteristics are summarized in the table below:

Innovative Finance Model	Size ($m)	Leverages new funding	Results-Based	Scalable
Debt Swap	10-500	N	N	N
Debt Conversion Dev't Bond	50+	Y	N	N*
Loan Buy-Down	10-200	Y	Y	Y
Diaspora Bonds	50-500	Y	N	Y
Impact Bonds	3-20	Y	Y	N
Challenge Funds	<1	N	N	N
Cash on Delivery	10	N	Y	N
Credit Guarantees	1-500	Y	N	Y

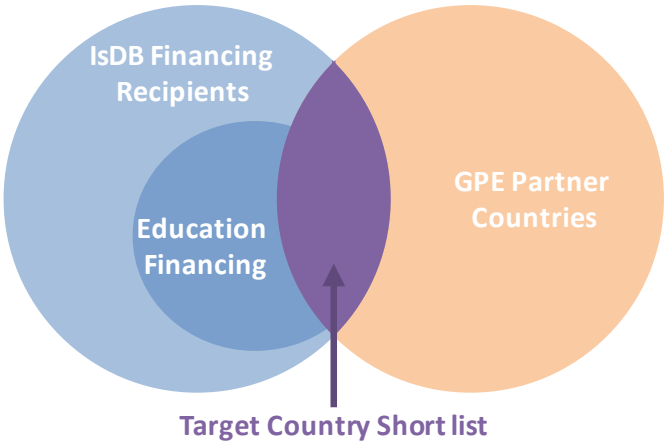
Key Considerations for a Loan Buy-Back Pilot with the IDB

Lion's Head has conducted initial discussions with key stakeholders to identify and begin to work through the key considerations that would apply if GPE were to pilot a loan buy-down mechanism with the Islamic Development Bank (IDB). There are a handful of key structuring questions:

- Where will the pilot be implemented?
- What will be the underlying financing activity?
- What will be the terms of the buy-down pricing?
- What events will trigger the buy-down and how will progress be monitored/evaluated?
- Who will finance the buy-down – GPE internally, or specific donor(s)?
- If the latter, which donor(s) and how will the payment be channeled to the IDB?

Target country

The key first decision for the loan pilot is to determine with which country (ies) GPE and the IDB will work. In general, the hope is to identify a pilot country (ies) that fits the strategic priorities of all of the stakeholders. The first screen is to identify countries that fall within both GPE and the IDB's education funding mandate. This should generate a shortlist of countries, which can then be filtered on the basis of their own willingness to develop and implement the pilot, the potential impact and ability of a pilot to scale up, access to capital and strategic alignment with donors.



For the **IDB**, the key factors driving the selection of partner countries and transactions include:

- **Member countries**: The IDB has 56 member countries and works with a handful of non-member countries on a project-by-project basis (see appendix).
- **Education financing pipeline**: While the IDB is open to working to develop a pilot in any country if the case is sufficiently compelling, a smaller number of these countries are preparing proposals for education financing. In order to speed up implementation and ensure that the pilot is not seen to prematurely encourage countries to transition from grant to loan financing, it is recommended that the pilot works in one of these countries.
- **Concessionality**: The structure of the IDB's financing packages means that the loan buy-down will be geared to payments for the mark up and administration fees associated with a program – essentially allowing the IDB to issue non-concessional financing and the recipient can pay a concessional rate, with the buy-down covering the difference. Countries with established economies and better access to capital – i.e. middle income countries – may not be the most suitable partners for a loan buy-down.
- **Debt profile**: The financing itself will have to meet the IDB's approval process This process considers the recipient government's current exposure to the IDB and other liabilities, to identify which countries are viable targets for further investment. It will also be important to factor in World Bank and IMF policies on country debt limits, which are currently under review.
- **Strength of proposal**: Another key criterion for IDB approval will be the strength and relevance of the underlying activities proposed to be implemented with the financing available. The IDB evaluates proposals on the basis of their need, by establishing the baseline status of the education sector in the recipient country – and relevance – by establishing some benefit to the Islamic community in that country. Finally, the IDB considers the historic performance and future capacity of the recipient country to successfully implement the proposal.

For **GPE** the key factors driving the selection of partner countries and transactions include:

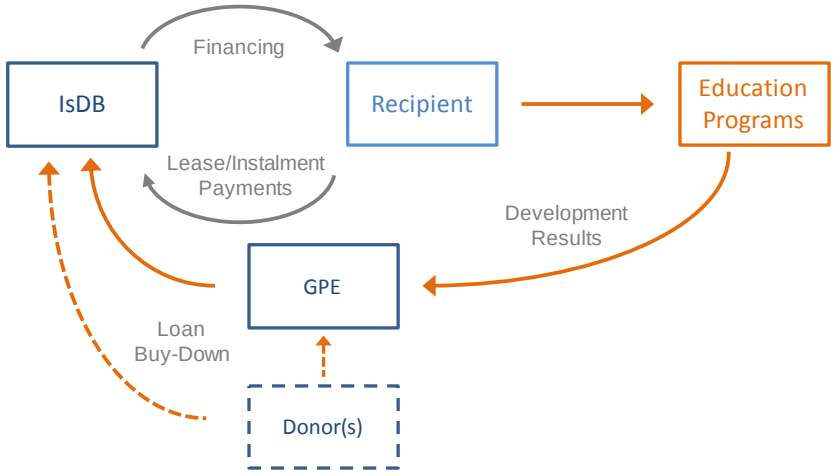
- **Complementarity with existing funding:** The loan buy-down may allow GPE to work with up to 30 countries that are eligible for IDB and GPE funding. Of those 30, four of the countries are not expected to be eligible to access a GPE Program Implementation Grant, but that could greatly benefit from additional resources for education. The relevant countries are outlined in Section 7 of this paper. A key consideration for GPE is whether eligibility for additional funding under this initiative is restricted to the four countries not eligible for GPE Program Implementation Grant funding, or whether the other 26 countries could receive additional support on top of an allocation for a Program Implementation Grant, or to be eligible they must use a portion of their existing allocation (which would reduce the incentive considerably).
- **Education sector impact:** The pilot should also be guided by countries where GPE sees potential for substantial and realizable impact to improve the local education infrastructure and contribute to GPE's performance metrics.
- **Implementation capacity**: GPE partners with organizations to implement country-level programs. The recipient country must have viable implementation partners within local government for both the financial and the education components of the buy-down pilot.
- **Donor engagement:** GPE should aim to work in countries that are aligned with its donor base so that the pilot's activities contribute to the overall fund raising strategy (i.e. the new funding model) that has recently been ratified.
- **Quality Assurance:** Any proposal should be subject to GPE's existing Quality Assurance Review process, with review and recommendation of the proposal by the Country Grants and Performance Committee, and approval by the GPE Board of Directors.

By early July, the expectation is that there we will have a clear shortlist of 3-5 target countries. At this stage, we will begin to consult with counterparties in these countries to make sure that there is sufficient willingness and capacity to implement the loan buy-down pilot.

If applicable, we will also review the potential ODA status of a loan buy-down scheme with OECD during this stage of the process. This is especially important if the expectation is for a donor/donors to finance the buy-down in parallel with GPE funding – since they will be acting as the buyer. If this is the structure envisioned, we will use July-September to identify and finalise which donor(s) would be best positioned and most interested in filing that role for the pilot.

Structure of the Instrument

Once we have determined the country(ies) where GPE and IDB will implement the loan buy-down pilot, we will then finalise the details of the structure of the buy-down itself. On the basis of conversations to date, the basic structure is expected to be as follows:



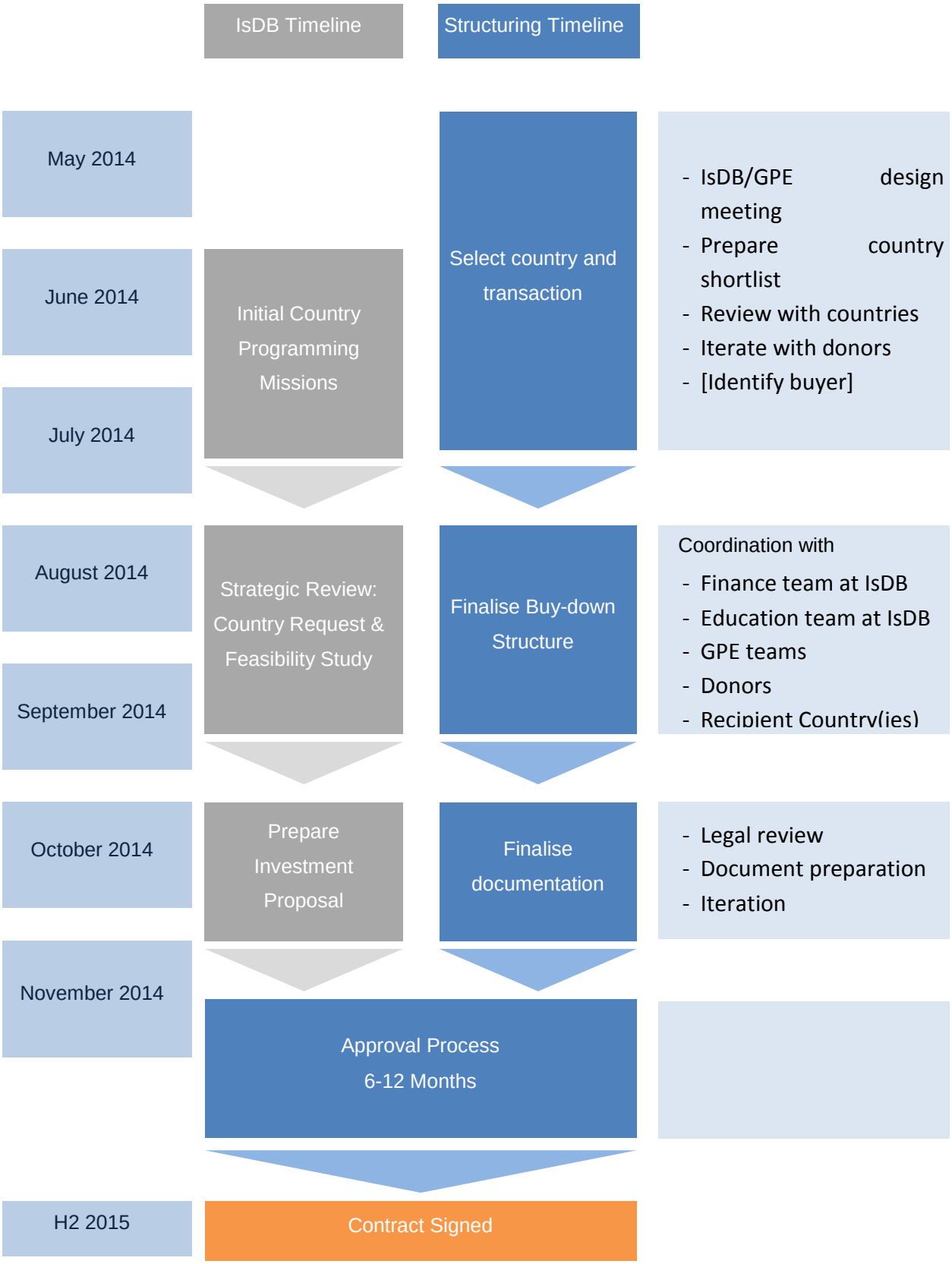
The structuring decisions will focus on:

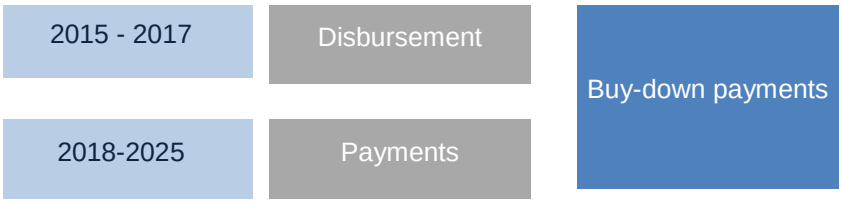
- **Key parties and responsibilities**: the structure of the buy-down needs to define the key parties at the IDB, GPE, and donor governments and, most importantly, the supervising/managing and implementing agencies on the ground. Key responsibilities include coordinating governance between GPE and IDB for the approval process, and managing risks to ensure adequate provisions for changes in interest and exchange rates and in case of payment default, as well as ongoing monitoring and evaluation of how the funding is disbursed.
- **Terms of underlying IDB finance**: the structure will in part derive from the type of Islamic financing that best fits the country's proposed program – but fundamentally, the financing will likely entail a leasing structure, and instalment sale or an Istisna'a transaction (for a review of Islamic Finance Instruments, see the Appendix in Section 0. GPE and IDB, working with the target country, will determine the rate of return, maturity and any guarantees associated with the underlying financing, as well as terms.
- **Terms of buy-down**: GPE and IDB, along with recipient and donor governments, should then review the terms of the buy-down itself, including: the size of mark up, administration fees and the timing of payment(s). For this stage it will be beneficial to coordinate with the team within the IDB who worked with the BMGF on the design and execution of the polio eradication loan buy-down that was recently executed, in order to build on that structure.
- **Triggers for repayment**: The buy-down needs a transparent quantitative output that will trigger the payment(s). This will depend on the country and type of financing activity, but

could include milestone for the completion of any construction/asset purchases as well as performance metrics such as enrolment levels and training delivered. There also needs to be an agreement on the procedure if targets are not met – and therefore the buy-down is not triggered.

- **Monitoring and Evaluation**: There also needs to be a clear process for collecting data (and sharing it with all parties), defining who collects data, the frequency of monitoring and how data is verified.
- **Channel for repayment**: A key issue to be resolved by GPE is where the finance for the buy-down payments will come from and how. It is yet to be determined whether GPE can act as a conduit for the pilot scheme buy-down payment, or will act as an agent, structuring a bilateral deal between a donor government and the IDB.

Estimated Timeline for Implementation




2015 - 2017
Disbursement
Buy-down payments
2018-2025
Payments

Appendix: IDB Member Countries vs. GPE Eligibility

Proposed as Eligible to access a GPE Program Implementation Grant	Proposed as Eligible for GPE Funding other than Program Implementation Grants	Other IDB Member Countries
Afghanistan	Djibouti	Albania
Bangladesh	Palestine (West Bank & Gaza)	Algeria
Benin	Tajikistan	Azerbaijan
Burkina Faso	Uzbekistan	Bahrain
Cameroon		Brunei
Chad		Egypt
Comoros		Gabon
Cote d'Ivoire		Indonesia
Gambia		Iran
Guinea		Iraq
Guinea-Bissau		Jordan
Kyrgyzstan		Kazakhstan
Maldives		Kuwait
Mali		Lebanon
Mauritania		Libya
Mozambique		Malaysia
Niger		Morocco
Nigeria		Oman
Pakistan		Qatar
Senegal		Saudi Arabia
Sierra Leone		Suriname
Somalia		
Sudan		

Togo	Syria
Uganda	Tunisia
Yemen	Turkey
	Turkmenistan
	United Arab Emirates

Appendix: Islamic Finance Instruments

Core Non-Concessional Instruments

Leasing

This is a medium term mode of financing for rental of capital equipments and other fixed assets such as plant, machinery and equipment both for public and private sectors. At the end of the rental period the Bank transfers the ownership of the equipment to the lessee as a gift. The Bank charges a floating percentage rate mark-up depending on whether it is member or non-member country.

Instalment Sale

Instalment Sale financing is similar to Leasing. The major difference is that in Instalment Sale, the ownership of the asset is transferred to the beneficiary on delivery. Under this mode of financing, the Bank purchases the asset i.e. equipment and machinery and sells it to the beneficiary at an agreed value including a mark-up.

Istisna'a

Istisna'a is a mode used for the promotion of trade in capital goods, enhancement of the production capacity and project financing. It is a contract for manufacturing goods or other assets in which the manufacturer agrees to provide the buyer with goods manufactured according to specifications within a certain time and for any agreed price. This mode enables the Bank to finance working capital and thus contribute to the enhancement of production capacity in member countries.

Concessional Instruments

Loans

This mode of financing is used for projects expected to have a significant socio-economic developmental impact, with a long implementation period and which may not be revenue-generating. Loans are given to governments or public institutions mainly in the Least Developed Member Countries (LDMCs) for implementation of social infrastructure projects. The current policy is that the Bank charges a modest service fee, not exceeding 2.5%, to recover part of the administrative costs incurred in project identification, appraisal and supervision. In addition, the loans provided by the Bank include a grace period of 3-7 years and repayment is spread over a period of 15-25 years. These projects are usually given maximum grace and repayment periods.

Other Instruments

Equity Participation

The Bank participates in the equity capital of existing or new companies which are operating in accordance with Shariah in the public and private sectors. The Bank's participation is limited to one-third of the equity capital of the company.

Profit Sharing

Profit sharing a form of partnership in which two or more parties pool funds together to finance a venture. The partners share the profit (or loss) in proportion to their contribution to the capital.