FINANCIAL FORECAST

For Decision

1. STRATEGIC PURPOSE

1.1 The financial forecast is designed to provide the Board with sufficient information on the expected financial position of the Global Partnership in order to facilitate decision making with respect to allocations recommended by the Country Grants and Performance Committee, and indicative allocations for future funding rounds.

2. RECOMMENDATION

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

BOD/2015/05-XX—Approval of Maximum Country Allocations: The Board of Directors:

1. notes the negative impact on the forecast of available assets of a strengthened US Dollar and recognizes that the available options to manage GPE's exposure to adverse foreign exchange movements have been explored and are currently limited.
2. decides that in order to reduce the impact of exchange rate movements on the predictability of grant allocations:
    a. that the minimum allocations expressed in US Dollars per the allocation formula of the funding model shall also be calculated in local currency equivalent as of the date of the replenishment (June 26th 2014);
    b. in the event that at the time of the GERF's report to the Board of Directors recommending the announcement of a Maximum Country Allocation to an eligible country, the US Dollar exchange rate is different than the rate in effect at the time of the replenishment, the US Dollar allocation recommended shall be adjusted to

maintain the same local currency equivalent as calculated at the time of the replenishment.

c. The GERF may recommend an exception to the methodology outlined in b. above based on country context and the rationale for any exception shall be disclosed in the GERF's report.

d. on an exceptional basis, restates the Maximum Country Allocations in Annex 4 of BOD/2015/05 DOC 06 previously announced by the Board of Directors in December 2014 in accordance with the provisions of paragraphs a and b, and with the exception that the date for recalculating the US Dollar exchange rate for comparison with the rate in effect at the time of the replenishment shall be the date of Board approval.

3. requests all partners to continue to work to reduce the projected shortfall in available resources and the impact of foreign exchange volatility including through continued exploration of the following measures:

   a. the World Bank in its capacity as Trustee and Host of the GPE Secretariat to work with the Secretariat and Donors to facilitate the development of a hedging strategy to mitigate the risk of foreign exchange fluctuations and report back to the GERF at its next meeting on progress.

   b. the Secretariat in consultation with the Trustee, SE/MEs, and relevant Donors to develop a proposal for consideration at the next meeting of the GERF outlining the implications of facilitating Euro denominated grants in addition to existing US Dollar denominated grants as a potential solution to limit the current significant mismatch between the high value of non-US Dollar based contributions compared to the value of US Dollar based liabilities.

   c. the Secretariat to engage with SE/MEs, and the CGPC where applicable to consider the scope for efficiency gains to be found in both the existing portfolio and when considering new requests for funding.

4. approves the list of Maximum Country Allocations for Round 2 of 2016 as set out in Annex 3 to BOD/2015/05/DOC 06. The allocation for these countries will remain valid through the final application round of 2018 unless otherwise adjusted by the Board, and will be subject to the requirements of the funding model for the 2015–2018 period.

5. requests the GERF to conduct a review of the forecast of available resources at its next face-to-face meeting in 2015 and to make recommendations for decision by the Board on

the level of available resources for approval of the Maximum Country Allocations for Round 1 and Round 2 of 2017 and potential positive adjustments to the Maximum Country Allocations for eligible countries impacted by the prioritization measures, and the resources available for the general provision.

3. BACKGROUND

3.1 Based on the document (GERF/2015/04 DOC 03), the Secretariat summarized information on the expected financial position of the Global Partnership. The Secretariat stressed that since December 2014 there has been a further significant strengthening of the US dollar which has significantly eroded the projected value of the non-US dollar pledges made at the 2014 replenishment conference expressed in US dollar terms. Since the last forecast, a projected shortfall of US dollar 220 million has emerged because of the impact of exchange rates and this projected shortfall could increase if the value of the US dollar strengthened further. The Secretariat also explained that the options currently available to mitigate the impact of exchange rate fluctuations on available resources are currently limited.

4. DISCUSSION

4.1 The GERF recognized the challenge in mitigating GPE's exposure to foreign currency fluctuations and recommended further exploration of development of a hedging strategy with the World Bank, and consideration of facilitating euro denominated grants, while at the same time stressing the need for efficiency gains to be found where possible.

4.2 In relation to the option to revalue the US dollar value of the Maximum Country Allocation (MCA) to take into account that a strengthened US dollar may also result in an increase in the local currency value of an allocation, the GERF noted that moving to a system where the local currency allocation was revalued in US dollar terms at the time the Board announces the indicative MCA may provide greater predictability to countries who develop their budget in local currency and in an environment where the US dollar was generally strong, it may allow GPE to reduce the projected shortfall of available resources. It was also noted that this approach could provide some protection to countries if the US dollar weakened against their local currency by allowing for an increase in the US dollar MCA to maintain the local currency value.

For example – if the allocation formula for Country X resulted in an expected minimum allocation of US$10 million and this was worth 100 million local currency at the time of the replenishment, then when the indicative MCA is formally announced by the Board, the US dollar equivalent of 100 million local currency would be recalculated based on the timing of the GERF's report to the Board. Therefore if the US dollar strengthened the allocation may be reduced in US dollar terms and if the US dollar weakened, the allocation may be increased in US dollar terms.

4.3 GERF Members agreed that the best option in terms of equity among all countries would be to calculate allocations in local currency equivalent of the amount expressed in US Dollars as of the date of the replenishment (June 26th 2014) and then adjust this amount at the time the GERF reports to the Board with recommendations on announcing the MCA for upcoming funding rounds. The GERF agreed that this approach should also apply to those countries that had a MCA announced by the Board in December 2014 as they were not sufficiently advanced in the planning process for this change to be disruptive.

4.4 It was further noted by the GERF that the US$100 million cap should be maintained but that affected countries would only see a reduction if their non-capped allocation per the funding model formula fell below US$100 million when the recalculation of the local currency equivalent was performed.

4.5 The GERF members agreed with the explanation from the Secretariat that unless there is a significant improvement in the forecasted financial position by the time of the December Board meeting, then significant further prioritization measures will be required to reduce the projected shortfall in available resources, and that the projected shortfall may increase further if the US dollar continues to strengthen over the course of 2015.

4.6 It was also noted that the Secretariat is continuing to explore with new and existing donors the possibility of additional contributions that could improve the financial position, and the GERF recalled that as previously communicated, the financial forecast is a projection of future events and is therefore subject to significant positive or negative changes.

4.7 In relation to any recommendation from the CCPC with respect to approvals of Round 1 2015 Program Implementation Grants, the GERF noted that based on the comprehensive funding guidelines, there is sufficient funds expected to be available for the Board to approve these recommendations (see Annex 5).

5. ANNEXES FOR INFORMATION

Annex 1 – Calculation of the Available Resources for Maximum Country Allocation

Annex 2 – Forecast of Available Resources to the end of 2018

Annex 3 – List of Maximum Country Allocations Proposed from Round 2 of 2016

Annex 4 – Revised List of Maximum Country Allocations from Round 2 of 2015 and Round 1 of 2016

Annex 5 – Forecast for the Purpose of Program Implementation Grant Approvals.

ANNEX 1 – CALCULATION OF THE AVAILABLE RESOURCES FOR MAXIMUM COUNTRY ALLOCATION

Current Projected Shortfall required to fund all GPE eligible countries and activities based on prioritization measures agreed by the Board in December 2014

SCENARIO	**1**
MCA Calculation Amount (2,000 = Minimum)	*2000*
Opening Uncommitted Cash Balance 1 January 2015	435
Balance on Signed Contribution Agreements	163
Donor Pledges (after discounting for uncertainty)	1,449
Projections of Additional Contributions - Secretariat Recommended	234
Projected Carryover from 2015-2018 Approvals (20% of MCA)	303
RESOURCES FOR FORECASTING PURPOSES (A)	**2,584**
Remaining Commitments to be made on Existing Approved Grants (2013+2014)	-1,018
Provisions for other Grants (Plan Development, Program Development, Small Islands, CSEF)	-80
Provisions for other costs (Supervision, Agency, Secretariat, Trustee)	-140
General Provision (Leverage Fund and Contingencies)	0
TOTAL AMOUNT TO BE SET ASIDE (B)	**-1,243**
AVAILABLE FOR IMPLEMENTATION GRANTS (A-B)	**1,341**
CAP	*100*
REQUIRED AMOUNT	1,565
PROJECTED SURPLUS / (SHORTFALL)	**-224**

Country	**Fragile and/or Conflict Affected**	**Economy**	**Projected Earliest Start Date**	**MCA**
Afghanistan	YES	LIC	S2 2016	100.0
Bangladesh		LIC	S2 2015	100.0
Benin		LIC	S2 2017	20.7
Burkina Faso		LIC	S2 2017	40.9
Burundi	YES	LIC	S2 2016	25.8
Cambodia		LIC	S2 2017	20.8
Central African Rep.	YES	LIC	S1 2018	0.0
Chad	YES	LIC	S1 2017	44.8
Comoros	YES	LIC	S2 2016	2.2
Congo, Dem. Rep.	YES	LIC	S1 2017	100.0
Eritrea	YES	LIC	S1 2017	17.2

Ethiopia	YES	LIC	S1 2017	100.0
Gambia, The		LIC	S1 2018	5.0
Guinea		LIC	S1 2018	0.0
Guinea-Bissau	YES	LIC	S2 2016	4.8
Haiti	YES	LIC	S2 2017	20.1
Kenya		LIC	S1 2018	0.0
Kyrgyz Republic		LIC	S2 2017	6.5
Liberia	YES	LIC	S2 2015	11.9
Madagascar	YES	LIC	S2 2017	62.2
Malawi	YES	LIC	S2 2015	44.9
Mali	YES	LIC	S2 2017	43.1
Mozambique		LIC	S2 2015	57.9
Myanmar	YES	LIC	S1 2016	77.7
Nepal	YES	LIC	S2 2015	59.3
Niger	YES	LIC	S1 2018	57.2
Rwanda		LIC	S2 2015	25.2
Sierra Leone	YES	LIC	S2 2017	17.2
Somalia	YES	LIC	S2 2016	33.1
South Sudan	YES	LIC	S2 2016	30.3
Tanzania		LIC	S2 2017	84.9
Togo	YES	LIC	S2 2017	17.0
Uganda	YES	LIC	S2 2017	87.4
Zimbabwe	YES	LIC	S2 2016	29.4
Cameroon		**LMIC**	S1 2018	18.0
Congo, Rep.	YES	**LMIC**	S1 2015	10.7
Cote d'Ivoire	YES	**LMIC**	S2 2016	26.1
Lao PDR		**LMIC**	S1 2018	0.0
Lesotho		**LMIC**	S1 2016	2.3
Mauritania		**LMIC**	S2 2017	3.9
Nicaragua		**LMIC**	S2 2016	4.5
Nigeria	YES	**LMIC**	S2 2018	0.0
Pakistan	YES	**LMIC**	S2 2017	50.0
Papua New Guinea		**LMIC**	S1 2016	7.1
Senegal		**LMIC**	S2 2017	12.6
Sudan	YES	**LMIC**	S2 2017	49.3
Yemen, Rep.	YES	**LMIC**	S2 2017	32.3
Total Potential Allocations				**1,565**

Allocation approved in Round 2 2014
MCA already announced by Board
Eligible LMIC with MCA not yet announced
Eligible LIC with MCA not yet announced

ANNEX 2 - FORECAST OF UNCOMMITTED ASSETS				
All Figures in USD Millions	**2015**	**2016**	**2017**	**2018**
A. Opening Balance Cash and Promissory Notes	792	559	397	345
A1. Total Committed	357	316	312	221
A2. Total Uncommitted/Available for Approval	435	243	85	124
B. Inflows	439	466	481	460
Contribution Agreement	64	27	28	44
Pledges	373	388	402	286
Projections	2	51	51	130
C. Outflows	673	628	533	361
D. New Commitments	631	624	442	280
Commitments (Existing Approved Grants)	502	324	181	11
Projected Commitments (Round 1 2015)	81	81	71	10
Projected Commitments (Round 2 2015 – Round 2 2016) Allocations	0	171	142	209
Other Commitments	48	48	48	50
E. Closing Balance Cash and Promissory Notes (A+B-C)	559	397	345	444
E1. Total Committed (A1-C+D)	316	312	221	140
E2. Total Uncommitted/Available for Approval (A2+B-D)	243	85	124	304
While the forecast shows that there should be sufficient liquidity to manage commitments to meet demand based on expected timing of applications, this forecast does not show the future impact of any allocations made in 2017 or 2018 for Education Sector Program Implementation Grants as the MCAs still need to be determined.				

ANNEX 3: MAXIMUM COUNTRY ALLOCATIONS VALID FROM ROUND 2 OF 2016

List of Eligible Countries *All figures in USD Millions*	Total Per Allocation Formula (Capped)	Updated Amount Fixed (70%)	Updated Amount Variable (30%)	Revised Amount Total	Total Difference	Earliest Application Round
Chad	44.8	24.4	10.5	34.8	(10.0)	R2 2016
Ethiopia	100.0	70.0	30.0	100.0	0.0	R2 2016
Total	**144.8**	**94.4**	**40.5**	**134.8**	(10.0)	

ANNEX 4: REVISED LIST OF MAXIMUM COUNTRY ALLOCATIONS VALID FROM ROUND 2 OF 2015 AND ROUND 1 OF 2016

List of Eligible Countries *All figures in USD Millions*	Total Announced December 2014	Revised Amount Fixed (70%)	Revised Amount Variable (30%)	Revised Amount Total	Total Difference	Earliest Application Round
Myanmar	77.7	51.6	22.1	73.7	(4.0)	R2 2015
Lesotho	2.3	1.5	0.6	2.1	(0.2)	R2 2015
Papua New Guinea	7.1	4.6	2.0	6.6	(0.5)	R2 2015
Afghanistan	100.0	70.0	30.0	100.0	0.0	R1 2016
Burundi	25.8	17.9	7.7	25.6	(0.2)	R1 2016
Comoros	2.2	1.4	0.6	2.0	(0.2)	R1 2016
Congo, Dem. Rep.	100.0	70.0	30.00	100	0.0	R1 2016
Guinea-Bissau	4.8	3.1	1.3	4.4	(0.4)	R1 2016
Somalia	33.1	23.2	9.9	33.1	0.0	R1 2016[1]
South Sudan	30.3	21.2	9.1	30.3	0.0	R1 2016
Tanzania	84.9	57.6	24.7	82.3	(2.6)	R1 2016
Zimbabwe	29.4	20.6	8.8	29.4	0.0	R1 2016
Cote d'Ivoire	26.1	16.9	7.2	24.1	(2.0)	R1 2016
Nicaragua	4.5	3.1	1.3	4.4	(0.1)	R1 2016
Total	**528.2**	**362.7**	**155.3**	**518.0**	**(10.2)**	

List of Eligible Small Island and Landlocked Developing States *All figures in USD Millions*	Total Announced December 2014	Revised Amount (USD)	Total Difference
Timor Leste	3.9	3.9	0.0
Total	**3.9**	**3.9**	**0.0**

[1] While the official exchange rate should result in an adjustment to the allocation, none is recommended due to a context that is likely to involve a significant amount of US dollar based transactions.

ANNEX 5 - FORECAST FOR THE PURPOSE OF PROGRAM IMPLEMENTATION GRANT APPROVALS

The Comprehensive Funding Guidelines approved by the Board of Directors in May 2013 outlines the approach to be taken for the forecast of funds and timelines that should be taken into consideration by the Board when considering approval of new program implementation grants.

The recommended approach has the following key features:

- The forecast is over a shorter period (6 months) to reflect the typical grant signing timeframes. It still considers the overall longer term financial projections as set out in Annex 2 of this paper.

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

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

- As the Board will approve proposals for their full amount requested, consideration needs to be given as to the likelihood that we will be able to also finance the second and any subsequent commitments. This is provided by reviewing the longer-term forecast scenarios (set out in Annex 2) and ensuring that there are no projected future shortfalls in funds available for commitments, and also by prioritizing upcoming (within the next six months) second and subsequent commitments, along with recurrent costs of the Global Partnership prior to financing commitments for newly approved proposals.

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

FORECAST JULY 1, 2015 – DECEMBER 31, 2015	AMOUNT in USD millions
Estimated Available Assets on Hand July 1, 2015 (excluding projected contributions to June 30, 2014)	208
Pledged and Signed Contributions July 1, 2015 – December 31, 2015	389
Total Projected Assets	**597**
Recurrent Costs (Secretariat and Trustee budgets, Plan and Program Development Grants, CSEF etc.) – July 1, 2015 – December 31, 2015	(25)
Projected Commitments for Existing Grants falling due January 1, 2015 – June 30, 2015	(250)
Total Projected Liabilities	**(275)**
Available Assets for First Grant Commitment of Round 1 of 2015 Applications	**322**
First Commitment of Round 1 of 2015 proposals required by December 31, 2015 (including related Supervision and Agency Fees)	(85)
Projected Surplus/(Shortfall)	**237**

The expected available cash along with pledged and signed contributions predicted to be made during the period less known liabilities arising from prior Board approvals or recurrent costs exceeds the amount required to make the first Commitment of Round 1 of 2015 proposals and related supervision and agency costs.

In addition, no shortfall in available assets is predicted over the course of either of the longer-term forecast scenario presented in Annex 3 that would necessitate including a provision for a commitment reserve in this calculation of available funds.

Based on the Comprehensive Funding Guidelines, the Board can therefore approve the maximum proposal value for Round 1 of 2015 program implementation grant applications should it wish to.