INSTITUTIONAL ARRANGEMENTS PRELIMINARY ASSESSMENT

For Decision

Please note: Board papers are deliberative in nature and, in accordance with the GPE Transparency Policy, are not public documents until the Board has considered them at the Board meeting.

1. STRATEGIC PURPOSE

1.1 The purpose of this paper is for the Board to consider the preliminary report requested in Board Decision (BOD/2016/12-18) in relation to GPE's current institutional arrangements and to determine the course of action that the Secretariat should pursue in the next phase.

2. EXECUTIVE SUMMARY

2.1 At its Board meeting in December 2016, and in the context of the ongoing risk of exchange rate volatility, the critical risk of not always being able to find a grant agent suitable to the context, and the ongoing work and potential implications of diversifying and providing greater flexibility for how GPE raises finance and delivers its funding, the Board requested the Secretariat with external expertise and in consultation with the World Bank "*to explore options for and implications of potential modifications to GPE's current institutional arrangements, including its legal status*" and to submit a preliminary report by June 2017.

2.2 The Secretariat with the support of an external expert has commenced the work to explore how its institutional functional capacities could be supplemented to include, the capacity to: (a) hedge significant donor multi-year commitments and pledges to limit risk of significant loss due to adverse foreign currency exchange movement relative to the US$; (b) provide grant funding directly to GPE Developing Partner countries and local NGOs should GPE decide to do so; (c) use financial instruments to leverage or strengthen the impact of GPE grant funding should GPE need this flexibility in the future.

2.3 Since GPE is a hosted partnership without separate legal personality or capacities, it relies on the functions provided by the World Bank. The hosting relationship with the World Bank has been

collaborative and is guided by the World Bank's 2013 Management Framework for Partnership Programs and Financial Intermediary Funds (FIF). GPE wishes to explore whether additional financial instruments and capacities can be implemented via the World Bank under that Management Framework. The Secretariat takes note that some global partnerships, particularly in the health and climate/environmental sectors, have separate legal personality which provides the governance and operational authority to engage in currency hedging, and/or direct grant-making, and the other activities outlined in this paper. However, the Secretariat also recognizes the potential costs and administrative necessities associated with having a separate legal personality and wishes to fully explore the possible options for gaining additional functional capacities within the current World Bank hosting arrangement.

2.4 If a solution cannot be found within the existing arrangements to provide GPE with the flexibility it may need, then the Board can either accept this as a limitation that is outweighed by all the other benefits of GPE's relationship with the World Bank, or alternatively the Board could request a more in-depth review of the options/implications for creating a legal entity for GPE that may have the required flexibility.

2.5 Over the next six months, GPE will work with the World Bank to explore the technical issues in further details with the aim of finding a viable pathway within existing institutional arrangements and will report back to the Board in December 2017. Should the outcome of these efforts not result in a viable solution for GPE, then the Board could request the Secretariat to conduct an in-depth examination of the options/implications for creating a legal entity for GPE. Alternatively, the Board could request this additional work to commence in parallel. As this work would be a more complicated effort than the previous hosting review commissioned in 2011/2012, the results of a substantive examination of the topic would not be available until June 2018.

3. RECOMMENDED DECISION

3.1 The Secretariat requests that the Board of Directors approve the following decision:

BOD/2017/06-XX—<u>Institutional Arrangements: Preliminary Report</u>: The Board of Directors requests the Secretariat in consultation with the World Bank to submit a report to the Finance and Risk Committee for subsequent consideration by the Board in December 2017 on the options and implications available for providing solutions to the issues described in BOD/2017/06/DOC 17 within the existing institutional arrangements with the World Bank.

(Optional additional request)

Further requests the Secretariat to commission a review of the feasibility of creating an entity with legal personality for GPE that could provide the necessary flexibility for providing solutions to the issues described in BOD/2017/06/DOC 17 including an assessment of the costs/benefits of any related changes that would be required to GPE's institutional arrangements with the World Bank, and to submit a report to the Finance and Risk Committee for subsequent consideration by the Board by June 2018.

4. INSTITUTIONAL ARRANGEMENT OPTIONS & PHASES FOR DEVELOPMENT

4.1 **Currency Hedging.** GPE has significant donor multi-year commitments in multiple currencies. GPE's functional currency is US$, but the majority of donors make and pay pledges in national currencies. Hedging instruments could reduce the volatility between the US$ value of pledges made and the actual US$ received when funds are contributed. To illustrate, the difference between the pledged value in US$ (at the time donor pledges were made) and the current value of outstanding pledged contributions, combined with actual contributions, converted to US$ since July 2014, shows that GPE's projection of available financing capacity is down over US$400 million.

4.2 To reduce the risk of erosion to the value of GPE donor funding when the US$ strengthens against other currencies, GPE wishes to explore its options for creating foreign currency ("**FX**") hedging capacity within the World Bank. Currently, the World Bank does not offer such instruments for FIFs. As this is an issue that impacts many other FIFs, the Secretariat has been informed that the World Bank's Treasury is in advanced stages of developing a policy that may provide a solution to this issue in the near future. With this option, the GPE does not have to become or establish a separate legal entity to hedge its foreign currency risks.

4.3 In the event an acceptable solution cannot be found with the World Bank for FX hedging, the Secretariat would explore other options. One option could be to build a larger reserve. Another could be to work with donors to hedge their contributions before they are paid into the GPE Trust Fund. Other options could be explored, for example, drawing on the experience of global partnerships like the Global Fund for HIV/AIDS, TB and Malaria and GAVI, which have implemented their own hedging strategies in which the World Bank is not involved to mitigate against negative FX impacts. Those strategies hedge a portion of future donor commitments and pledges based on experience and a risk appetite developed based on historic relationships with long-standing sovereign donors. This approach allows a partnership to hedge a reasonable portion of multi-year commitments and pledges based on actual interaction with its principal donors and helps to stabilizes budget and funding

assumptions. It may be noted, however, that both the Global Fund and GAVI have separate legal personalities.

4.4 **Grant Funding to Countries and NGOs.** The Secretariat wishes to explore options for providing grant funds directly to GPE developing partner governments or local NGOs. The World Bank, as GPE trustee, has fiduciary obligations to donors, and requires that transfers be made to acceptable Grant Agents (e.g., the World Bank, UNICEF, other GPE funding sovereign donor/agencies, and some International NGOs) that have in place acceptable fiduciary and management policies, procedures and capacity to ensure the use of GPE funds for their intended purposes, which would help protect GPE funds from fraud and corruption risks.

4.5 It may be noted that grant funds can be transferred to GPE developing partner governments via the World Bank, ADB and other GPE Grant Agents with which the Trustee has existing FPAs. Options can be explored that involve transferring resources to local NGOs via international NGOs, like Save the Children and Concern Worldwide, or other agencies, like UNICEF, with which the Trustee has existing FPAs.

4.6 **Innovative Finance Instruments.** The Secretariat envisages the potential for innovative finance programs that align with GPE 2020. While each innovative finance project will have specific requirements, the World Bank's knowledge and experience with innovative finance tools provides strong opportunities for learning and collaboration, which will be explored further in the coming months.

5. CONSIDERATION OF MODIFICATIONS TO GPE'S CURRENT INSTITUTIONAL ARRANGEMENTS

5.1 An ongoing dialogue is underway with the World Bank regarding the various topics described in this paper. A key question for the Board is whether it wants to also in parallel explore options and implications of potential modifications to GPE's current institutional arrangements.

6. IMPLICATIONS FOR SECRETARIAT RESOURCES AND RISK ANALYSIS

6.1 Should the Board determine that solutions that involve looking outside the existing Bank system are required to be explored in parallel with the dialogue that is underway with the Bank, then it will require an increase in the requested Operating Expenses Budget for FY18 of US$100,000 for external support and travel.

7. NEXT STEPS

7.1 The Secretariat will prepare an Institutional Arrangements workplan to complete the exploration of the topics described in this paper, targeting December 2017 for discussion.

8. PLEASE CONTACT

Padraig Power (ppower@globalpartnership.org) for further information.