FINANCING AND FUNDING OF GPE 2025

Please note: Board documents are deliberative in nature and, in accordance with the GPE Transparency Policy, are considered public documents only after their appraisal by the Board. It is understood that constituencies will circulate Board documents among their members prior to Board consideration for consultation purposes.

1. STRATEGIC PURPOSE

1.1 This document seeks the Board's decision on key parameters related to how GPE should raise finance and deploy its grant funding to support implementation of GPE2025. Decisions are required to finalize the Case for Investment and guidance is sought to facilitate further development of technical analysis and options for presentation to the Board in December 2020. **The approach assumes that GPE is fully funded**. In the event of GPE financing for the 2021-2025 period falling substantially short of its target then further decisions on prioritization of resources would be required.

1.2 Please note that Annex 1 is provided for information only. It provides an overview of the current funding framework, potential changes that are currently being considered to support GPE2025, and outlines when these matters will be considered by the Board. Annexes 2-6 provide additional context and information related to the current decisions requested of the Board below. Annex 7 also provides information on domestic financing given GPE's overall approach to financing GPE2025 involves mobilizing domestic finance, external finance, and the GPE Fund.

2. REQUESTED DECISION

BOD/2020/09-XX—Strategic Asset Allocation for GPE 2025: GPE's approach to financing and funding GPE2025 must align with its goals and objectives, the overarching principles as set out in the Charter, and the Effective Partnership Principles. Accordingly, the Board of Directors requests the Secretariat to further develop and present analysis and options to finalize the necessary elements of GPE's approach to finance and funding GPE2025 for review and decision in December 2020 based on the following parameters and guidance:

Eligibility and Allocation (See Annex 2)

1. The majority of GPE grant funds must be allocated to **low income countries**
2. The allocation of resources for GPE's core implementation grants shall continue to be based on a **needs-based formula** that is equitable and provides some predictability to eligible countries on their potential allocation size.

Strengthening resilience and mitigating the systemic impacts of crisis (See Annex 3)

3. GPE funds should support the strengthening of resilient education systems through its operating model to better prepare for, respond to and recover from crises and changing contexts. In actual crisis situations, GPE's role is to sustain support to the government and partners to plan, respond and recover by promoting alignment and coordination, strengthening capacity, sustaining continuity of education services, and building back better in terms of effective, responsive and inclusive education system delivery. This includes promoting the inclusion of refugees and internally displaced populations into national systems. Noting that GPE grant funds play a critical role in supporting governments to prepare for and respond to crisis (e.g. COVID), they shall continue to be deployed through **accelerated financing** approaches for those **countries that are also eligible for core implementation grant funds**.

Incentivizing additional finance to support national priorities (See Annex 4-6)

4. The proportion of GPE grant funds in the 2021-2025 period that can be used to unlock additional financing through the **multiplier and any related approaches** that may be adopted should increase to up to 20% of total grant allocations, and eligibility shall be extended to all **low income countries** to support alignment and harmonization of international funding.
5. Existing Multiplier eligible countries that submit an expression of interest before 31 December 2020, and which is approved by the GPC, may receive a multiplier maximum country allocation to subsequently develop a proposal which can be submitted for approval only in 2021.
6. In light of the challenges of mobilizing finance under the economic impact of COVID and the need to maximize resources to deliver GPE2025, the Board recognizes that limited incentives and greater flexibility regarding targeting may be warranted in certain circumstances where the benefits of such an approach are justified. The Secretariat is therefore requested to:
    a) further develop a technical analysis on the innovative financing proposals set out in Annex 5 noting the potential for mobilizing additional resources in support of GPE2025
    b) in addition to ensuring that gender equality is hardwired into GPE's operating model, explore further the concept of an additional thematic targeting window for girls education as set out in Annex 6;

c) propose any related modifications to the Contributions and Safeguards Policy that may be necessary to facilitate such approaches for decision by the Board in December 2020.
d) Such analysis should cover the value add of these approaches, the fit with GPE's operating model, lessons learned from similar organizations, resource, and risk considerations involved with a review by the Finance and Risk Committee in October, and submission to the Board in December 2020.

3. Background

3.1 GPE's current approach to finance and funding focuses on raising finance for education through three streams – domestic finance, financing for the GPE fund, and external finance. Resources from the GPE Fund are currently deployed through several funding mechanisms (ESPDG, PDG, ESPIG, Multiplier, Accelerated Funding (including COVID 19), KIX, and EOL) which all serve different but complementary purposes. To successfully support implementation of GPE2025, we will need a range of financial and funding tools to address the differentiated needs of countries in support of the transformation of their education systems to ensure they are delivering quality education fit for the 21st century.

3.2 We also need to recognize that the overall financing landscape is going to be challenging given the economic impact of COVID-19, and we will need to ensure that we are doing everything possible to maintain and maximize resources for education, while improving the efficiency and effectiveness of how those resources are used. As part of this effort, re-examining the Contributions and Safeguards Policy which governs how contributions can be made to the GPE Fund in terms of whether additional flexibility is warranted to facilitate contributions from current and prospective donors should be a priority.

3.3 GPE's overall approach to financing and funding must support implementation of the goals and objectives of GPE2025 and be guided by our principles as set out in the Charter, and the Effective Partnership Review. The work to date draws on the decisions of the Board from the December 2019 and June 2020 meetings, the strategic plan consultation process, notably the feedback from developing country partners at two workshops in March and July, surveys, the independent summative evaluation, the Effective Partnership Review and Rollout, experience with implementation of the existing Finance and Funding Framework, and the substantive technical work performed in 2016/2017 by the Strategic Financing Working Group related to the development of that framework.

3.4 While significant technical work and analysis remain to allow detailed design choices to be made by the Board in the coming months on the specifics for each funding mechanism, and financing approach, it is important at this stage to advance as much as possible on the broader parameters of GPE's overall approach to financing and funding to complete the Case for Investment (to be launched in late September 2020) and to focus the remaining technical work.

4. Annexes

Annex 1 – Overview of Potential GPE2025 Funding Mechanisms and Comparison to Current Framework

Annex 2 – Eligibility and Allocation

Annex 3 – Strengthening resilience and mitigating the systemic impacts of crises

Annex 4 – Incentivizing additional finance to support national priorities and transformation

Annex 5 – Innovative Financing

Annex 6 – Accelerating Gender in the GPE 2025 Strategy

Annex 7 – Supporting the domestic financing agenda through GPE 2025

ANNEX 1 – Overview of Potential GPE2025 Funding Mechanisms and Comparison to Current Framework

1.1 While Annexes 2-6 focus on additional detail required to support decisions that are required now to either finalize the case for investment and/or narrow down further technical work in the weeks and months ahead, the table below is provided for information only. It provides a summary overview of the existing funding framework in terms of the purpose of each mechanism, along with eligibility and allocation considerations, and how these may evolve to support GPE2025, along with when the Board will have an opportunity to deliberate on these issues.

Current Mechanism	Purpose (P) / Eligibility (E) / Allocation (A)	New Approach	Purpose (P) / Eligibility (E) / Allocation (A)	Next Steps
Education Sector Plan Development Grant	**P** - Supports sector analysis, plan development, and joint sector reviews (JSR)	**Systems Capacity Grant**	**P** -Will continue to support sector analysis, plan development, and JSRs, but now with expanded flexibility to support in the following areas: gender responsive sector planning, System diagnostics and analyses, Strengthening LEGs, Establishing and operating pooled funding mechanisms, Strengthening budget processes and Ministry of Finance engagement, Reforming public financial management systems, Convening country-level partners, including cross-sectoral partnerships, Data and evidence, Implementation capacity and support, and monitoring, evaluation and learning	***To be further developed as part of Operational Model work in consultation with GPC in October and for Board review in December*** ***Financial Implications to be considered by FRC in October and Board in December as part of Finance and Funding Work***
	E - All LICs, LMICs, and IDA eligible small island/landlocked developing states		**E** - No change proposed	
	A - Allocations of up to US$500k for sector analysis & plan development plus $50k per year for JSRs		**A** - Allocation levels would need to increase and funds could be drawn down on a flexible basis to respond to changing needs over a number of years. Overall resources not expected to account for a significant proportion of GPE Funds.	
	P - Support implementation of education sector plans		P - Aims to unlock system bottlenecks by supporting the implementation of a specific	***To be further developed as part of Operational***

Current Mechanism	Purpose (P) / Eligibility (E) / Allocation (A)	New Approach	Purpose (P) / Eligibility (E) / Allocation (A)	Next Steps
Education Sector Plan Implementation Grant (ESPIG)[1]		**Core Implementation Grant (*Systems Transformation Grant*)**	priority program(s) or reform(s) in the education sector plan or the sector policy framework.	***Model work in consultation with GPC in October and for Board review in December***
	E - All Low Income Countries (LIC), IDA eligible small islands/landlocked developing states, and vulnerable lower middle-income countries		**E** - All Low Income Countries (LIC), IDA eligible small islands/landlocked developing states, and vulnerable lower middle-income countries (*cut off point for eligible LMICs to be explored*)	***To be further developed as part of Financing and Funding Framework work in consultation with FRC in October and for Board review in December***
	A - Needs Based Allocation Formula based on numbers of out of school children at primary and lower secondary, GNI p/c, and fragility produces a maximum country allocation (MCA). Countries can then submit applications up to that value. Grants range from US$2.5 million to US$125 million.		**A** - Needs Based Allocation Formula to be retained - *Variables to be further analyzed and refined* - *Further consideration of floors and ceilings for grant size* - *Shift away from an MCA approach to an indicative allocation with potential to unlock additional funds through incentives*	
Multiplier	**P** - Incentivizes additional external co-financing to support implementation of education sector plans	**Implementation Grant (*System Transformation Grant*) - Multiplier**	**P** - No change proposed to purpose but Multiplier funds in practice will apply same approach as Core Implementation Grant (Systems Transformation Grant)	***To be further developed as part of Operational Model work in consultation with GPC in October and for Board review in December***
	E - Countries that are subject to a cap on allocation size of US$125m, those		**E** - All GPE partner countries that are eligible for financial support	**Decision by Board in September**

[1] Grant Agents selected to develop an ESPIG/Multiplier may also avail of a Program Development Grant typically up to US$200k but capped at a maximum of US$400k in exceptional circumstances to support the costs of developing the program. No changes are envisaged to this mechanism.

Current Mechanism	Purpose (P) / Eligibility (E) / Allocation (A)	New Approach	Purpose (P) / Eligibility (E) / Allocation (A)	Next Steps
	that have an allocation of less than US$10m, and all LMICs			
	A - Allocation is based on school aged population. Countries receive an MCA by demonstrating additional co-financing of at least US$3 to every US$1 of GPE funds. Applications are then submitted and often combined with an ESPIG into a single program. Grants range from US$1 to US$25 million		**A** - No change proposed with the exception of potential refinements to grant ceilings.	**Overall proportion of funds to be decided by Board in September** **Details to be considered by FRC in October and Board in December as part of overall Financing and Funding work**
Accelerated Funding	**P** - Rapid funding for education in emergencies	**Implementation Grant (*Systems Transformation Grant*) - Accelerated Funding)**	**P** - Rapid funding to enable Governments and Partners to respond in a crisis	**Board Decision in September on continuation of mechanism** **Details on modality and allocations to be considered by FRC in October and Board in December as part of overall Financing and Funding work**
	E - All ESPIG eligible countries with an OCHA humanitarian appeal for education		**E** - To be further analyzed and refined	
	A - Grants are 20% of the country MCA up to US$20 million			
Accelerated Funding (COVID-19)	**P** - Provides rapid funding for COVID-19 education response & recovery			
	E - ESPIG eligible countries		**A** - To be further analyzed and refined	
	A - Allocation based on school aged population size with applications on first come first served basis for initial US$125m and then needs based allocation criteria applies for remaining funds			
Not Applicable		**Implementation Grant (*Systems Transformation Grant) - Thematic Top Up***	**P** - Provide additional allocations for particular thematic priorities on top of core allocation (e.g. girls education per Annex 6)	**To be considered by FRC in October and Board in December as part of overall Financing and Funding work**
			E - To be determined based on thematic area of priority	

Current Mechanism	Purpose (P) / Eligibility (E) / Allocation (A)	New Approach	Purpose (P) / Eligibility (E) / Allocation (A)	Next Steps
			A - To be determined based on overall resources required/available. Resources expected to be from targeted contributions	
Knowledge and Innovation Exchange (KIX)	**P** - Address global public good gaps in education through sharing and funding of proven solutions and innovations.	**Knowledge and Innovation Exchange (KIX)**	**P** - No Change proposed for the moment	***Ongoing SIC oversight – no immediate decisions***
	E - CSOs, universities, regional and national think tanks, networks and associations, non-profit organizations and multilateral agencies.		**E** - No Change proposed for the moment	***Ongoing SIC oversight – no immediate decisions***
	A - Over US$70m in total with global grants from **US$1 million to US$2 million** for thematic and cross-thematic areas for up to 3.5 years with Regional grants from **US$0.5 million to US$1.5 million** for up to three years. Allocations approved based on open calls for proposals		**A** - Assume continuation of similar funding levels from core fund with focus on increasing resources by exploring options to facilitate more targeted contributions, particularly from Foundations.	**To be considered by FRC/SIC in October as part of discussions on Contributions and Safeguards Policy**
Education Out Loud	**P** - Funding for advocacy and social accountability	**Education Out Loud**	**P** - No Change proposed for the moment	**Ongoing oversight by SIC – no immediate decisions**
	E - National and International Civil Society Organizations and Networks in GPE countries supporting advocacy and social accountability		**E** - No Change proposed for the moment	**Ongoing oversight by SIC – no immediate decisions**
	A - US$56m over 3 components – 1. Grants of $100k to $300k over 2 years supporting national civil society coalitions in GPE countries. 2. Grants for social accountability to national organizations of $450k -US$1.2m over 3-4 years. 3. Grants to support global, regional or multi-country civil society		**A** - Assume continuation of similar funding levels from core fund with focus on increasing resources by exploring options to facilitate more targeted contributions	**To be considered by FRC/SIC in October as part of discussions on Contributions and Safeguards Policy**

Current Mechanism	Purpose (P) / Eligibility (E) / Allocation (A)	New Approach	Purpose (P) / Eligibility (E) / Allocation (A)	Next Steps
	alliances with grants between US$450k and US$1.2 million for 3 to 4 years			
Not Applicable		**Strategic Capabilities**	**P** - The purpose of strategic capabilities is to facilitate access by country partners to local, regional and global expertise, knowledge and innovation required for transformational change, including through cross-sectoral collaboration. These capabilities may be available to multiple countries with similar needs or brokered to address a requirement in a specific country. GPE funding may be required in some cases, but in others GPE would serve as an intermediator to facilitate access to the capability.	**To be considered by GPC/SIC in October and Board in December**
			E- Entities that can support delivery of GPE2025 (To be determined). Leveraging the capacity of GPE partners would be a priority, but flexibility is needed to work with entities with the capabilities sought by developing country partners.	
			A - To be determined	**To be considered by FRC in October and Board in December as part of Financing and Funding work**

ANNEX 2 – Eligibility and Allocation

2.1 The Board in December 2019 confirmed that GPE's geographic footprint should continue to be Low Income Countries (LIC), Lower Middle Income Countries (LMIC), and IDA eligible Small Island and Landlocked Developing States (SILDS).

2.2 The actual eligibility and allocation decisions related to each GPE funding mechanism that will be in operation for GPE2025 are yet to be determined. However, decisions from the Board on broad parameters are necessary now for inclusion in the Case for Investment and can help narrow down the substantial technical work ahead.

2.3 The first issue is confirmation of the existing practice that the **majority of GPE grant funds should be allocated to Low Income Countries**. There does not seem to be any debate on this issue from the extensive consultations to date. The impact of this decision will feed into the allocation formula design for our core implementation grants to ensure that such countries are prioritized in terms of overall resources.

2.4 The second issue focuses in on how we allocate resources for our core implementation grants. GPE's practice has been to have a needs based formula that determines an indicative allocation that each eligible country can apply for based on its share of overall resources available. The purpose of such a formula is to ensure that the largest amount of resources go to those most in need with the definition of need currently based on variables that look at population size, poverty as expressed by GDP per capita, educational vulnerability as expressed by the number of out of school children at primary and lower secondary levels, and fragility. While the variables that make up the formula will need to be adjusted to factor in updated data and the goals and objectives of GPE2025, the decision to continue to use a **needs based formula as the basis for establishing an equitable indicative allocation can be determined now**.

2.5 The implications of such a decision would be not to further explore the use of a demand driven competitive allocation approach for our core implementation grants, and to continue to reward performance through incentives and a results-based financing approach rather than hide performance elements within a formula which was the approach prior to 2014.

2.6 If approved, the Secretariat will concentrate efforts on the formula itself including the variables to use, and related elements such as potential modifications to grant floors and ceilings. The issue of how to manage significant reductions in allocation sizes from one financing period to another for countries that have made progress and for which DCPs have cited the perception of being penalized for doing the right things will also be considered. Eligibility and Allocation options will also be developed for the other funding mechanisms that will form part of our overall funding framework for GPE2025.

ANNEX 3 – Strengthening resilience and mitigating the systemic impacts of crises

3.1 The goal of GPE2025 stresses the importance of resilient education systems, and the bulk of GPE grant financing will support system strengthening and transformation. However, there is an important role for accelerated financing. GPE is on track to allocate over US$750 million (including over US$500m for COVID response and recovery) over the current financing period from the GPE Fund through accelerated funding modalities. While there is significant work ahead to determine how GPE can better support education systems to become more resilient, enabling them to prepare for, respond to, and recover from crises, it is important at this stage to clearly set out GPE's role in this space and to agree on the principle that GPE will continue to have flexibility to deploy funds rapidly when the need arises. Based on this, further detailed design options can be developed for consideration in the weeks and months ahead.

Building Resilience

3.2 Today, nearly 40 million children globally have their education interrupted every year by natural disasters and subsequent disease outbreaks following extreme weather events.[2] 65 of GPE's partner countries are affected by disaster displacement, which affected 3.8 million people in 2018. This year we have seen COVID-19 disrupt education for an astounding 1.6 billion learners.[3] The risks posed by climate and public health emergencies are very real, including for GPE partner countries, some of whom are expected to be severely impacted by climate change.

3.3 Preparedness for emergencies is not only cost-effective, it saves lives and mitigates learning losses. The range and frequency of crises in GPE partner countries calls for GPE to ensure preparedness for responding to crises and changing circumstances are integral parts of diagnostics, sector planning and implementation support, and that are operational model is flexible enough to respond to changing circumstances. The question of how to better strengthen the resilience of education systems, in other words to prepare for and manage change without compromising long-term prospects[4], is therefore essential, whether it is in relation to climate, conflict or public health risks. Beyond mitigating the impact of crises on education services, GPE and its partners need to leverage opportunities to build more effective education systems in the wake of crises to enable better, more adaptive and more inclusive delivery of education services. The key questions for GPE's next strategic plan are therefore not whether we should invest in resilience but rather how to best support countries in this effort, and this will be the focus of the next stage of our work. DCP consultations have cited the importance of access to accelerated funds which can be focused on building resiliency in light of the impact of COVID for example. They cite the disruption and transaction costs involved in reprogramming existing grant funds. In addition to maintaining flexibility in our model to respond rapidly through accelerated funding, there may also be merit in

[2] SAFE SCHOOLS: THE HIDDEN CRISIS - A framework for action to deliver Safe, Non-violent, Inclusive and Effective Learning Environments, Theirworld, 2018

[3] https://www.un.org/sites/un2.un.org/files/sg_policy_brief_covid-19_and_education_august_2020.pdf

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/186874/defining-disaster-resilience-approach-paper.pdf

identifying strategic capabilities in organizations that specialize in resilience and/or disaster risk financing.

Supporting Governments and Partners to respond to a crisis

3.4 As we have just witnessed with COVID-19, there are events that can force even the most stable countries into crisis. Remaining engaged during crisis situations allows GPE to preserve development gains, protect education systems, and support resilience and recovery with a particular focus on the most vulnerable populations, including girls, who are more likely to suffer severe loss of learning and education opportunity. In response to COVID-19, GPE supported governments and partners to respond by promoting alignment and coordination behind national response plans and funding mitigation and recovery. Through a multi-country grant, GPE supported COVID response planning in 87 countries early in the pandemic. By the end of July 2020, 51 country grants had been approved for over US$422 million and US$384 million of that had already been disbursed to grant agents though an Accelerated financing modality.

3.5 Accelerated financing approaches have proven to be an important tool even prior to the COVID-19 crisis. There are several instances where partner countries have chosen to draw on their core allocations in order to address needs related to a crisis, whether related to a political crisis, conflict, disaster, or influx of refugees from neighboring countries. It is critical to continue to allow countries to quickly access a portion of their country allocation to address urgent needs if they choose to do so. Considering both the longer-term impact of short-term losses in education gains and the spill-over effects of crises to neighboring countries, for example in the form of refugees, helping systems to address crises rapidly is in everyone's interest. GPE's approach to accelerated financing ensures systematic consultation with both the Local Education Group and Cluster (where active), and the Secretariat's close coordination with other actors (such as Education Cannot Wait (ECW), UNICEF, UNHCR, Save the Children and other INGOs) is focused on maximizing complementarity and avoiding duplication. The relationship with ECW in particular has grown steadily in recent months with strong cooperation and information sharing through the response to COVID and maximizing synergies will be a priority. The next phase of the work will also need to look at experience from GPE's approach to accelerated financing looking in particular at its effectiveness when funds needed to be drawn from the overall country allocation, to when it was provided as a top up, and from the stand-alone mechanism provided for COVID.

Supporting the inclusion of forcibly displaced children in national systems

3.6 In line with the Global Compact for Refugees, GPE supports countries to include refugee children and youth into national education systems, providing financial, technical and policy support for countries to invest in sustainable solutions. 40 GPE eligible countries are hosting 12.1 million refugees[5], of whom 4 million are children. GPE has pledged to provide support to countries to develop and pursue national sector plans that include refugees and to ensure more and better financing to scale up quality learning for refugees. GPE is already working together with UNHCR, ECW and the World Bank to improve collaboration, co-ordination, and financing of global efforts in this area.

[5] This includes 40 out of 89 GPE-eligible countries that are hosting more than 5,000 refugees each.

3.7 There is also a need for GPE to continue supporting the inclusion of internally displaced children, who account for the majority of those forcibly displaced. 38 of GPE's partner countries are home to 22.8 million internally displaced people due to conflicts and violence, including at least 10 million children. Internal displacement is expected to rise as a result of climate change, with a potential 140 million people displaced within their countries by 2050[6].

3.8 Stating clearly that GPE continues to support efforts to integrate displaced populations into national systems is important now. The work ahead will then need to focus on the best way to provide such support through our operating model, and this may involve consideration of specific incentives through the operating model or a thematic top up.

[6] https://www.worldbank.org/en/news/press-release/2018/03/19/climate-change-could-force-over-140-million-to-migrate-within-countries-by-2050-world-bank-report

ANNEX 4 – Incentivizing additional finance to support national priorities and transformation

4.1 GPE's case for investment will need to set out both an overall target for resources that we seek to raise for the GPE fund, and an amount for funds we seek to unlock in additional financing directly linked to our grant mechanisms. In the Case for Investment for the 2018-2020 period, that target for unlocking additional finance was set at US$900 million based on US$300 million in allocations from the Multiplier. The target is well on track to be reached with a lower level of funds from the Multiplier: the ratio is close to 1:4, rather than the targeted 1:3.

4.2 To finalize the Case for Investment, there will need to be agreement on the overall magnitude of resources that we aim to unlock. The Secretariat proposes that this be an ambitious target, increasing the proportion of GPE grant resources channeled through the Multiplier from an original level of approximately 10% of overall grant funds for 2018-2020 to **up to 20%** for the 2021-2025 period and in the process move the additional leveraged financing target for our financing campaign from millions to billions.

4.3 Related to the proposal to increase the overall proportion of funds available, the Secretariat also proposes to **allow all Low Income Countries the opportunity to benefit from the Multiplier** noting substantial demand from such countries, and the opportunity the Multiplier brings in terms of supporting efforts to align resources of partners behind national priorities.

4.4 Mechanisms and approaches like the Multiplier are fully consistent with our objective to *"Mobilize coordinated action and financing to enable transformative change"* through catalyzing more and better external funding for education, and the instrument has gained traction in a relatively short period of time. The full US$ 250 million currently available for Multiplier grants is forecast to be absorbed by at least 25 eligible countries by end-December 2020 mobilizing co-financing above the US$ 900 million target set out in the 2018-2020 Case for Investment.

4.5 It's also important to recognize that the Multiplier is fully consistent with our operating model and follows the same processes as our core implementation grants, and is often combined into a single program when a country is eligible for both Multiplier and core implementation funding. The only difference with the Multiplier is that it is unlocked by demonstrating additional external co-financing (which can be either grants or loans and from any source) of at least US$3 for every US$1 of GPE funds. Therefore, as the operating model adapts to support transformative change, so too will the Multiplier.

Demand

4.6 The current level of approved and forecast demand for Multiplier allocations indicates that all available funds will be allocated by end-Q3 (calendar) 2020. Enhancing the level of resources available for this instrument in the 2021-2025 period will enable GPE to address unmet demand from countries that are currently eligible, and allow for an increase in demand from low income countries that are not currently eligible but have demonstrated interest in accessing the instrument and mobilizing cofinancing for education. When considering demand, there are a number of elements to consider.

4.7 First, several countries are currently in the process of developing expressions of interest or in negotiations with partners to mobilize the additional financing that would allow them to access the Multiplier (Vietnam, Cote D'Ivoire, Cambodia, Morocco, Indonesia, Moldova, and Tunisia). However as existing multiplier resources are nearly exhausted, an early decision by the Board on increasing the Multiplier would allow those existing eligible countries to continue the process to access the Multiplier. To ensure there was no additional impact on the financial carryover, the Board is asked to allow those countries the opportunity to submit an expression of interest to access the Multiplier, and if it is approved by the Grants and Performance Committee per the normal review process, they would be provided with a Multiplier maximum country allocation and would have the opportunity to develop a full proposal in 2021 to be financed from 2021-2025 resources. This decision will allow for a steady flow of grant applications in 2021 and countries could be given the option of applying the existing funding model requirements or the new operating model once such arrangements are approved.

4.8 Enhanced Multiplier resources will enable GPE to meet demand from existing Partner countries that are not currently eligible. This currently includes 18 Low-Income Countries such as Sierra Leone which expressed interest in accessing the Multiplier for a results-based financing program but is not currently eligible. It will also allow fluctuations in economic classification to not act as a barrier to access. For example, Sudan has recently been reclassified as a "low income country" from lower middle income status, and the economic impact of COVID may result in further fluctuation across other countries.

4.9 Third, this will also allow GPE to meet demand from a number of Lower Middle-Income Countries (LMICs) that are not eligible for our core implementation grants. These countries are characterized by relatively higher incomes per head but face significant education challenges, which will be exacerbated due to COVID. The Multiplier is the only implementation grant they can access. Twelve (12) countries deemed eligible for the Multiplier in June 2018 were not GPE member countries at the time, and with limitations in staffing, the process to engage them in the partnership was slower than hoped. However, reallocations of staff resources since mid-2019 has enabled the Secretariat to increase the number of Country Leads to engage with this group of countries. This is now having a positive impact in terms of some existing multiplier negotiations, but also in countries seeking to join the partnership such as The Philippines which has now been approved for an Education Sector Plan Development Grant, potentially as a precursor to securing a Multiplier allocation. Another example is Armenia which has just submitted a request to formally engage in the partnership.

Performance

4.10 The Multiplier has been examined in two evaluations. Most recently, the Independent Summative Evaluation (ISE) included evidence on six countries. The ISE found that in three of the cases, it positively impacted the "timing and the amount of other development partners' financial contributions." and in the other cases, the grant accelerated the availability of cofinancing for education. It should be noted that GPE's Board approved more rigorous requirements for assessing additionality in June 2018 as part of the decision to scale-up financing for the Multiplier. Four of the six countries in the evaluation sample accessed their Multiplier allocations before these more rigorous procedures were put in place.

4.11 The ISE notes other positive effects related to the grant beyond additionality, such as encouraging harmonized modalities, and ensuring debt sustainability. In particular, while sector dialogue is not a specific objective of the instrument, the report notes that these grants have "…some potential in this regard as it requires co-financing, meaning financing that is either delivered through the same modality as GPE funding in a single program and with a single grant agent, or that is delivered through a common funding mechanism such as a pooled fund"

4.12 The ISE findings support findings from an early-stage evaluation presented to the Finance and Risk Committee in 2018 based on data from seven (7) countries. That early stage evaluation also confirmed that "The approach to determining additionality and debt-sustainability are aligned with broader development finance practice" and that GPE's approach to measuring additionality of cofinancing was comparable with approaches adopted in a sample of comparable institutions or funds.

Path forward

4.13 There are a number of opportunities to reduce transaction costs, improve the efficiency in which the multiplier is deployed going forward, and also a range of innovations that could be used to unlock additional financing (see annex 5 on innovative finance). This will be an ongoing focus for the Secretariat in the coming months. However, clarity on the expected resources available, eligibility, and the status of countries currently in the pipeline will be extremely beneficial both for articulating GPE's offer in the Case for Investment, and for continued successful implementation of the mechanism.

ANNEX 5 – Innovative Financing

5.1 The Board identified "Mobilize coordinated action and financing to enable transformative change" as a critical country-level objective in GPE's 2021-2025 strategy. Increased access to the GPE Multiplier is expected to substantially increase cofinancing for education (see Annex 4). The Secretariat has identified a small number of further promising approaches that could be explored to further enhance resource mobilization for education either through the GPE Fund or as co-financing in support of national priorities. These potential approaches, mostly country-specific rather than generic, are outlined in this Annex and the Board is asked to determine whether the Secretariat should proceed with a technical analysis of any or all of these approaches to allow for decision making in December 2020 as to whether they should be incorporated into GPE's overall approach to financing GPE2025.

5.2 Other innovative concepts (such as student loans, solidarity levies, etc.) were explored in 2016-2017 as part of the work of the Strategic Financing Working Group to develop the current Financing and Funding Framework (FFF) and the same reasons for not exploring them further at that time are still relevant for GPE today[7].

Debt forgiveness for education

5.3 Debt "swaps" are a tool for resource mobilization in which donors forgive outstanding loans to developing countries if those countries (or third parties) offset the loan for a fraction of the value of outstanding payments. This is usually done by transferring the buy-out to an international development organization like GPE. Since this funding would have been paid to the creditor if the debt were not cancelled, some share of the cancelled debt is recorded as a contribution by the creditor to GPE. This is a transfer of resources, not the transfer of debt. The intermediary (GPE) receives a transfer of funds from the debtor country, which is re-invested in the country's education sector via a grant from the GPE Fund and scored as a contribution from the creditor.

5.4 Debt swaps create a fundraising tool to meet partners' differentiated needs. Some donors may be able to mobilize resources through debt forgiveness but not otherwise increase their contributions to the GPE core fund. In addition, more than US$ 3 in each US$ 4 of cofinancing mobilized by the GPE Multiplier is from multilateral or regional development banks (M/RDBs). Fiscally constrained countries, like those facing debt distress, cannot always benefit equally from this form of cofinancing. Debt swaps and related instruments could help countries in this situation mobilize external resources.

5.5 Debt swaps and analogous transactions have a track record across multiple sectors. An agreement between France and Cameroon in 2006 liberated €60 million from debt repayments for the latter's education sector plan; in health, a ¥6.29 billion loan conversion for Polio eradication between Japan and Pakistan (with Gates Foundation providing funding to "buy out" the loan) was agreed and met its eradication targets; in nutrition, a 2017 debt swap in which Russia forgave debt owed by Mozambique liberating US$ 40 million that the country invested through the World Food Program. The Global Fund to Fight AIDS, Tuberculosis, and Malaria's Debt2Health initiative has raised US$127 million since 2007. Its most recent agreement involves Spain agreeing to cancel outstanding debt of 36 million euros to Cameroon, the Democratic Republic of Congo, and Ethiopia, who in turn will invest a total of 15.5 million through contributions to the Global Fund which are

[7] Dalberg Assessment of GPE Financing and Funding Options December 2016 - Annex D

recorded as contributions on behalf of Spain. In return these countries will receive grants from the Global Fund providing Spain with the assurance that these funds will indeed be invested in quality health programs.

5.6 The number of Debt swaps GPE would engage in would not be significant (3 or 4 transactions over 5 years would be a very good return), and greater flexibility with respect to targeting under the Contributions and Safeguards Policy would be required. However, they may be a very useful tool in a select number of countries to mobilize additional resources for education, including from new donors. Debt swaps could also be used to unlock the Multiplier creating even greater incentives.

Enhanced Convening

5.7 One of GPE's core capabilities is to convene actors to generate financial and policy support for an education sector plan. A model for this engagement targeting financial mobilization would be a country- or issue-specific mobilization event or campaign organized and delivered by the GPE Secretariat using its expertise in resource mobilization. The opportunity to crowd-in emerging donors is significant.

5.8 The single goal of the event or campaign would be to mobilize "more and better" support for an education intervention or policy change by targeting high-level decision-makers from a range of funding organizations including and beyond those active in the LEG, including local and international private sector actors and philanthropies. This activity could also be used to complement the proposed approach in the operating model of developing a country level partnership framework.

5.9 This type of approach builds on the detailed analytical work done (with Committee and Board review) to develop the Education Sector Investment Case (ESIC) model. ESIC is a "pitch" that uses the education sector plan (ESP) or analogous diagnostic / planning document to identify an un- or underfunded priority issue and make the case for support. ESIC's development was based on "supply side" analysis of a range of traditional and non-traditional donors about what would help to shift their investment decisions. An ESIC pilot is currently underway and is showing very promising initial results.

5.10 To ensure value-added, it would be critical for the demand for a convening operation be made by the Government and build on or supplement LEG-level discussions, for example by involving more and different potential funders, particularly those not active in education in the country or not yet active in the country. As with debt swaps, it is not envisaged, that there would be sufficient opportunities or Secretariat resources to support these operations in every country, but in a select few countries (e.g. those countries serious about embracing an ambitious transformation agenda), they could be a valuable tool.

Matching Funds

5.11 The vast majority of GPE Funds are contributed by sovereign donors. While non sovereign actors have provided contributions to the GPE Fund and play an important role in other ways, the overall resources contributed to the GPE Fund from such entities are relatively low compared to other major global funds.

5.12 To provide greater incentives for non-sovereign donors to contribute their resources, we could consider the creation of a matching incentive, where for every US$1 raised from non-sovereigns such as the business community and private foundations, an additional US$1 would be

provided from the GPE Fund (this could come from the Multiplier resources) and could be targeted to a specific country and/or thematic area.

5.13 To ensure there was no distortionary effect on allocations, the matching funds could be capped at a certain level, e.g. US$100 million in total with a maximum amount per country. Having a tangible incentive combined with the flexibility for targeted finance that is not currently available under the existing contributions and safeguards policy may significantly enhance the Secretariat's ability to engage non sovereign actors in the partnership be it at global level or at the country level. Many partner countries have already established relationships with such actors, but they have also flagged the opportunity for GPE to help broker agreements to bring such actors to the table.

Frontloading cofinancing

5.14 Relatively low levels of international investment in education reflects a longstanding preference for other sectors, such as infrastructure.[8] Lowering the price of concessional loans for education from Multilateral and Regional Development Banks (M/RDBs) will encourage clients to use their non-concessional/ordinary resource allocations for education. The Independent Summative Evaluation (ISE) identified the relatively high transaction cost of a country-by-country approach as a potential constraint to mobilizing cofinancing.

5.15 To increase the demand for concessional resources, GPE could "frontload" Multiplier cofinancing. GPE would provide a fixed level of grant capital to a partner seeking to deploy concessional lending. The partner would provide resources to eligible countries at a lower cost (that is, with a larger *grant element*) and act as the grant agent for the resulting programs. GPE's capital would be drawn down as the pipeline of education-focused products are committed. To ensure that scarce grant resources are used effectively, the parties would need to agree on levels of education lending above historical benchmarks, so that GPE's resources would subsidize *additional* resource mobilization (lending that is unlikely to have occurred without the subsidy), and commitment to embracing our new operating model focused on transformation would be expected.

5.16 This type of "blended finance" structure would increase resource mobilization for education by leveraging grant capital from GPE and the partner's balance sheet. This would facilitate larger overall programs in eligible countries than could be achieved if these grants were used without blending.

Social / Development Impact Bonds

5.17 Development Impact Bonds (DIBs) are a type of pay-for-success contract.[9] A DIB includes three actors: an investor, an outcomes payer, and an implementer. Unlike traditional results-based aid, the implementer is paid the fixed costs of the intervention "up front." If the intervention meets pre-agreed targets, the investor is repaid by an outcomes funder.

5.18 In the 2018-2020 period, several countries indicated interest in using GPE grants to support impact bonds. For example, Uzbekistan sought to use GPE funds to support a DIB to enhance early

[8] For example, a recent report surveyed World Bank clients and country directors and concluded that the principal reason that governments are reluctant to invest non-concessional/ordinary lending in education is that there is competition from other sectors "with clearer cash flow."

[9] A Social Impact Bond (SIB) is simply a DIB in which the outcomes payer is the public sector, like a local or national government actor.

childhood development outcomes; Sierra Leone sought to support a DIB to pursue ambitious learning targets.

5.19 By raising working capital from a range of traditional and non-traditional sources, DIBs can mobilize new resources to enable transformational change. Because funders only pay if outcomes are achieved, DIBs lower the risk of paying for results that do not materialize. For example, the Educate Girls impact bond in Rajasthan is a contract to increase test scores and enrollment for girls. The Optimus Foundation provided up-front funding and the Children's Investment Fund Foundation agreed to repay this investment only if ambitious targets were met or exceeded.

5.20 There are two entry points to support partners' use of this form of results-based finance. First, GPE can link existing grants to results achieved through impact bonds. For example, using GPE's results based financing (variable tranche) as outcomes funding for impact bonds. Second, GPE could explore synergies through a strategic partnership with a relevant organization, such as the Education Outcomes Fund (EOF). The EOF was established by the Education Commission to collaborate with governments to provide technical expertise and mobilize funding for impact bonds in education. In relevant contexts—where partners seek to mobilize non-traditional funding for ambitious outcomes aligned with their ESP—a working arrangement with EOF and similar organizations could be deployed (with or without associated GPE funding) to support an impact bond. A strategic partnership approach would help to ensure alignment of GPE funds, reduce the transaction costs for partners, streamline joint operations, and ensure transparency and national ownership.

5.21 Enabling GPE funds to be used through impact bonds will require technical work to mitigate risks. Funding must be sufficiently flexible to adapt to the country context. (For example, outcomes may need to be updated if underlying conditions evolve, such as after a natural disaster). In addition, acceptable contracting arrangements would need to be clarified to ensure funds are used in line with GPE's governing policies, including the private sector engagement strategy.

Next steps

5.22 Operationalizing these approaches requires careful consideration of how effectively the instrument integrates with existing processes and requirements across the whole GPE 2025 strategic plan, the degree to which GPE wishes to tailor its approach to individual country context versus efforts rolled out across a larger number of countries (for example, debt swaps might provide a valuable opportunity but only for a small number of countries), and the resource costs / implications of each.

5.23 Further work on these approaches would include an analysis that considers the value add of these approaches, the fit with GPE's operating model, lessons learned from similar organizations, resource, and risk considerations.

ANNEX 6 – Accelerating Gender in the GPE 2025 Strategy

6.1 Gender equality is a key priority for GPE. This includes and goes beyond narrow indicators such as parity in access or learning. The Gender Equality Policy and Strategy 2016-2020 notes that "Gender equality … encompasses the narrower concept of gender equity, [but] … also refers to the transformational commitment needed to make equal rights and equal power a reality, within the human rights agenda." Girls are particularly marginalized relative to boys in many education systems. Accordingly, the Board has determined that "Strengthen gender-responsive planning, policy development for system-wide impact" as a critical country-level objective.

6.2 Progress is being made across partner countries on certain aspects of gender parity in access to education-- but not quickly or comprehensively enough. Girls are disadvantaged on average according to indicators that measure girls' and boys' outcomes, and the gender gap is many contexts is narrowing slowly, if at all.

6.3 Considering progress and lessons learned, key questions for GPE's next strategy are: (1)what more can be done to accelerate progress and impact at country level on girls' education outcomes in Partner Countries? And (2) what can be done differently to improve gender equality (as an outcome)?

6.4 Two complementary approaches could be explored to enable transformative change in GPE's 2021-2025 strategy. First, gender should be fully *hardwired* into the operating model. This includes a renewed focus on gender-responsive planning, leveraging data and evidence to better measure and improve gender-specific outcomes, and deploying appropriate partnerships for advocacy and analysis. Second, these efforts can be complemented with further, high-impact funding aligned with GPE's implementation grants. This funding could be focused on countries in which girls lag the furthest behind. The supplemental funding would aim to increase GPE's resources specifically for gender to enable ambitious reform and critical investments where they are most needed.

6.5 This support is timely. Girls are more likely to drop out of school during recessions or shortfalls in household income, and less likely to return to school after crises end. Financial and technical assistance are therefore essential to help education systems build back better for girls in the wake of the Covid epidemic, particularly in countries expected to suffer protracted public health or fiscal crises.

Hardwiring Gender into GPE's Operating Model

6.6 In practice, hardwiring gender equality into the operating model consists of embedding support for identifying and addressing specific gender-related barriers faced by girls and boys into all GPE instruments and processes. Such support would span the policy cycle and include gender diagnostics to identify system bottlenecks to gender equality in all contexts, gender responsive planning/policy development, allocation-linked incentives for policy reforms that address bottlenecks to gender equality, results-based financing for the delivery of programs that promote gender equality, and incorporating a gender lens in all monitoring, evaluation, and learning activities.

6.7 Hardwiring gender equality will also mean mobilizing coordinated action and financing to enable transformative change. This includes identifying GPE technical and financial partners (through the LEG and sector coordination mechanisms) who can support actions identified, including, for example, dialogue between different ministries, or technical partnerships with national level networks and increased social accountability at country level – building on EOL – with

support for information exchange, dialogue and the use and development of participatory assessment and monitoring tools.

6.8 To strengthen capacity, adapt and learn, to implement and drive results at scale, in addition to sex-disaggregated data, support to identify indicators to monitor progress in addressing gender inequality, and/or put in place country level evaluations will be provided. Joint Sector Reviews to report on identified gender indicators and measure progress against interventions and adjust actions if needed will be used. In addition, global and national partners and resources for sustainable results will be mobilized as to consider technical and financial partnerships with key partners to (a) improve data and jointly monitor progress in GPE partner countries; (b) enter into advocacy partnerships with organizations and networks on key issues such as school related gender-based violence, ending child marriage, early pregnancies with partners etc.

Mobilizing Resources for Transformative Change

7.9 Hardwiring gender equality into GPE's operating model – including putting in place some of the proposals above – supports a systematic consideration of gender in all contexts, including those where parity data suggests boys are at a disadvantage. A further option is to consider how GPE might provide additional resources to countries where education outcomes for girls lag the furthest behind.

7.10 A targeted financing mechanism running alongside other support would expand GPE's capacity to support general education and targeted interventions, both of which have a role to play in closing gender gaps[10]. This would add value to existing approaches: the needs-based allocation formula to determine implementation grant allocations does not focus directly on gender disparity. (For example, of the top 10 countries globally in terms of the share of primary school-age girls out of school, only four were in the top ten in terms of GPE maximum country allocations for implementation grants in the 2018-2020 period). Such an approach would also be relevant in the broader aid architecture for education. At present, no other major fund specifically targets girls' education.

7.11 This financing could support gender-focused interventions in a group of countries with capacity and appetite to make tangible, measurable progress in key, mutually-agreed outcomes, such as differences in enrolment ratios between girls and boys, differences in attrition rates, and differences in learning levels.

7.12 This would create a visible, effective way to tackle gender disparities in countries where gender equality has been identified as a major issue in preventing boys and girls in learning in safe environments. By leveraging GPE's existing relationships and integrating these supplemental resources into existing grant instruments, it would combat aid fragmentation and maximize the alignment of development support to national plans and priorities. Finally, it would create a multilateral channel for donors to support education in general and gender equality in and through education in particular.

[10] Evidence suggests that some general education interventions that do not specifically target girls often confer equal benefits to both boys and girls. Specific interventions that *do* target girls can help further narrow or close the gap between girls and boys in terms of access and achievement. Depending on the context and the nature of the barriers to girls' education, general and specific interventions are often needed.

6.13 Such an approach requires careful consideration by the Board and relevant Committees before being operationalized. This design work would be undertaken between September and December 2020. At a minimum, it would include agreeing the level of ambition for the total level of financing, ensuring that any thematic targeted approach complements and does not distract from how we hardwire gender into our operating model, developing safeguards to ensure targeted financing for girls' education increases a donors overall contribution for GPE, and high-level operational details for how funding would be committed and disbursed for transformational change in the context of GPE's new operating model to implement the 2021-2025 strategy.

ANNEX 7 – Supporting the domestic financing agenda through GPE 2025

Background

Domestic financing, understood here as public spending through the government budget, constitutes by far the most important source of funding for education development, accounting for 59% of education spending in LICs and 73% of sector expenditures in LMICs. Mobilizing more and better domestic resources to address the education funding gap will remain the most critical sector challenge in the coming decade. As recognized in the 2015 Incheon Declaration, and as a multi-stakeholder platform with far-reaching networks of engagement at both country and global levels, GPE is well-positioned to lead the advancement of the domestic financing agenda for education. This has also been identified by the GPE Board as a priority area for GPE 2025.

The funding model presents the most direct lever through which GPE aims to move the needle on domestic financing. ESPIG applicants are currently assessed against two financing benchmarks: (1.) that they are spending, or progressing towards spending, at least 20% of the public budget on education, and (2.) in cases where universal primary education has not been attained, 45% of the education budget should be allocated to primary education.

In addition to support for country-level dialogue on domestic financing, GPE embraces several complementary avenues through which it exercises influence over domestic financing decisions. GPE works closely with a cross-section of stakeholders to inform global dialogue on education financing issues, and commitments by DCP governments to improve domestic financing have been central to past financing campaigns. GPE's CEO has also taken a proactive stance in elevating the domestic finance agenda at country level, including through mission travel. For the last 10 years, GPE has also supported civil society capacity building on domestic resource mobilization research and advocacy. Budget advocacy by education coalitions has been supported by Civil Society Education Fund (CSEF), and it continues through Education Out Loud grants for national and transnational advocacy.

Constructive engagement on domestic financing issues requires improving the availability of financing and related data. Through direct engagement with key technical partners like the UNESCO Institute for Statistics (UIS), the GPE Secretariat has worked to improve the timeliness and consistency of financial reporting. GPE has also contributed to the development of key financial assessment tools, including the Education Sector Analysis Methodological Guidelines (ESA Volume 1) and the Methodology of National Education Accounts (NEA). In 2019, GPE published guidelines for the monitoring of national education budgets to facilitate dialogue at the country level for effective monitoring of domestic resource allocation to the education sector.

Challenges and opportunities

(1.) **Lessons from the independent and country-level evaluations**: GPE's country-level evaluations highlight that while the current funding model requirements have had some impact on country dialogue and engagement around domestic financing, they have not translated into systematic increases in domestic spending across our DCPs. Furthermore, the **independent summative evaluation** notes that current GPE grant funding requirements are blunt, targeting the share of public expenditure allocated to education, but failing to account for the quality of expenditure or whether absolute spending per child is adequate to fund sector plans.

An analysis of the achievability of ESPs also suggests significant funding gaps, i.e. that insufficient resources are allocated for delivery on key sector objectives.

The independent summative evaluation also argued that GPE has a key role to play in generating support from all stakeholders for building on this agenda, including by continuing to forge long-standing partnerships at the country level through local education groups, and supporting and incentivizing systemic reform. In addition to current efforts, this review recommended that GPE could engage in strategic dialogue with DCP ministries of finance on issues around taxation and revenue collection, debt management, austerity, macro-economic policies, and public sector wage bills (i.e. focus more on public financial management (PFM) concerns in DCPs that directly affect the level of resources available to governments).

Meaningful impact on domestic financing for education also will require a less siloed approach to education financing, and consideration of its synergies with other social sector spending, including health and social protection. The evidence overwhelmingly suggests a core role for GPE on domestic financing, but that business as usual will not suffice: GPE's engagement in this space must evolve both to be more multi-dimensional and more robust.

(2.) Since implementation of the funding model in 2014, there has been **inconsistent interpretation of ESPIG requirements on financing by key GPE governance structures**. Context has previously been considered an important factor in review of these requirements by the Board and Committees, highlighting the limitations of a strictly mechanistic evaluation. However, more recently, it has been suggested that if not strictly met, requirements should instead be subject to annual review during grant implementation, creating potential uncertainty around the availability of program financing and massively increasing transaction costs. It will be critical to ensure a clear, consistent and fair approach to the levers and incentives developed as part of GPE's revised operating model approach. As discussed below, an independent expert evaluation of the financing context could help to guide governance structures in their review of grant applications.

(3.) **The realities of the COVID pandemic mean an uncertain financial future for the education sector**. Pre-COVID, there was broad agreement that the sector was facing a learning crisis, and while attempts to predict eventual outcomes are highly speculative, the pandemic has clearly compounded existing challenges. It is likely that public budgets will decline due to the recessionary impacts of COVID measures, and UNESCO estimates suggests that the staggering pre-COVID funding gap of $148 billion annually to achieve SDG4 is likely to increase by up to one third. This could translate into both a declining share and, even more troubling, declining absolute volume of domestic financing for the sector. Even with reallocations to health, in the short term, there may be a less pronounced impact on education budgets as governments enact counter-cyclical spending measures to mitigate economic impacts. However, limited available evidence on budget reallocations under COVID already points to a negative impact on the relative share received by the sector. Even greater threat to education budgets is likely to be felt in the medium term – for many DCPs, stimulus packages are largely funded through debt which will need to be repaid, translating into greater allocations for debt servicing and requiring commensurate cuts to line ministry budgets.

A vision for GPE's engagement on domestic financing

GPE's 2025 mission is, "[t]o mobilize partnerships and investments that transform education systems in developing countries, leaving no one behind," with the Ministerial Advisory Group (MAG) reinforcing in March 2020 that transformative, resilient and sustainable education systems are essential for national development. Domestic financing is the cornerstone of this transformation agenda, both as an area where significant reform is needed and as a determinant of reform readiness in all other aspects of education systems.

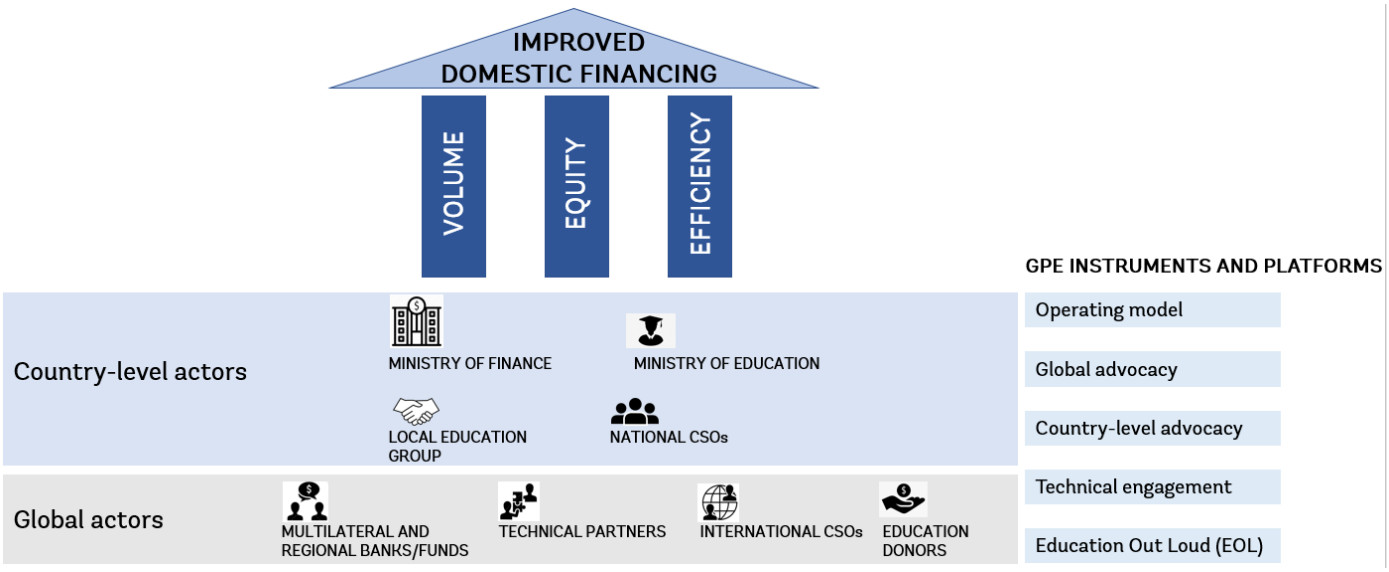
To date, the GPE funding model requirements have largely viewed financial commitment to the sector through a limited lens, focused primarily on volume as assessed through progress towards a 20% requirement for the overall education budget share. Application of a global standard without due consideration for context contradicts the key principles underscored in the Effective Partnership Rollout (EPR), which emphasize:

1. increasing decentralized mutual accountability
2. driving national government ownership and strengthening its capacity
3. rebalancing the country-level model to focus on implementation and sector policy dialogue
4. reducing GPE processes and transaction cost

Sustainable improvements in domestic financing for education arguably require a sharp focus on three core pillars: volume, equity and efficiency.

VOLUME	EQUITY	EFFICIENCY
DCPs should allocate adequate resources to education to accelerate progress towards delivery of quality education for all. It is critical that countries ensure adequate financing for implementation of key education reforms. This means a focus on both the share of the budget allocated to education, as well as a country's overall fiscal space, or capacity of the country to generate (primarily) tax revenue. High levels of debt servicing across some also reduce the funding available for education and other social sector spending.	Often the poorest households bear a disproportionate burden in funding education, and public education expenditure tends to favor wealthier, more powerful groups. This is particularly significant given the ways in which improvements in access to education may mask low completion rates for vulnerable groups. Public financing for education should be focused on the most marginalized, ensuring not only access but also quality learning across a full cycle of education. The COVID crisis has further exposed the impact of social disparities on learning. Disruptions to household livelihoods are likely to reinforce the importance of a gender lens.	It is estimated that almost one third of education spending is lost to inefficiencies. Key efficiency concerns include low levels of learning, high repetition rates, waste in procurement, and ensuring better allocation and more transparent payment of teachers. Tackling inefficiencies also includes improving monitoring and financial planning, using real-time data to track how resources are spent. Improved accountability for spending and demonstrating convincing results is also a key step towards stronger dialogue with ministries of finance.

Led by changes to our operating model, GPE has a wide range of complementary tools through which it will continue to drive progress on the domestic financing agenda throughout the implementation of GPE 2025. A robust, broad-based and mutually-reinforcing approach to engagement on domestic financing will be central to the success of our new strategy, proactively responding to the needs expressed by GPE DCPs.



GPE will continue to make a commitment to domestic financing a core condition for access to implementation grants. However, current funding model requirements are limited in their effectiveness because they are not sufficiently contextualized, seen as overly rigid, and often lack connections to country priorities. The new operating model therefore proposes the adoption of a flexible approach, allowing requirements to be adapted to context, and replacing a "global standards" approach with a rigorous multidimensional analysis of each country's performance for each requirement area, including domestic financing. The model also offers the opportunity to more concretely target system level reforms, rather than a focus on project implementation.

A robust set of tools already exists to undertake assessments of financial performance, both specific to the education sector as well as for broader analysis for public financial management (PFM). These kinds of assessment could be funded through System Capacity Grants and would assist in identifying key system bottlenecks related to domestic financing. Adoption of system reforms to address these bottlenecks would then serve to unlock additional funding allocations from implementation grants. The use of allocations linked to demonstrated progress in requirement areas, including domestic financing, can incentive countries to take the policy actions needed to improve the equity, efficiency, and volume of domestic financing. The actions incentivized in each country would be tailored to the appropriate sequence of reforms given country context.

Rather than a mechanistic focus on the existing 20%/45% benchmark, this would allow for tailored responses by countries to those areas identified as priority for more effective financing. For example, proposals to improve the efficiency of education spending might include the introduction of performance budgeting (not always feasible), greater decentralization (only effective where capacity exists), or targeted interventions to improve repetition and dropout rates. A focus on equity might translate into creative teacher labor market reforms to ensure better teaching and improved access to secondary education in remote, under-served areas.

This approach does not preclude withholding all GPE funding from countries where no commitment to domestic financing for education is evidenced. In such cases, allocations may be withheld until demonstrated progress is made.

It is important to note that the introduction of nuance into the assessment should not translate into heavier transaction costs for DCPs. To mitigate existing governance challenges, the possibility of review by an independent expert panel is discussed below.

GPE PARNTERSHIP ADVOCACY	At global level: A key element of GPE 2025 will be to expand GPE networks of engagement and develop stronger ties with new partners in the wider macro/financing space, including the IMF and regional development banks. As for previous campaigns, domestic financing will positioned as be a central element of GPE's 2021 financing campaign, underscoring the critical importance of high-level political commitment in a post-COVID world At country level: Providing support for country level dialogue around financing is core to GPE's DNA. The new operating model offers opportunities to strengthen Secretariat engagement here - for example, a concern where the kinds of diagnostics/assessments highlighted above are undertaken is that findings are quickly forgotten and only rarely mainstreamed into policy dialogue. Working through the local education group (LEG), the GPE Secretariat might play a role as broker to improve the use of evidence for enhanced accountability the domain of public finance. In addition and building on the relationships developed through global networks, country-level engagement may help to strengthen dialogue between ministries of finance and education. Education Out Loud: Most of the 54 national coalitions receiving grants from Education Out Loud have identified, size, sensitivity and scrutiny of national education budgets as a key advocacy focus and it has been a cornerstone of their engagement in LEG and other national policy processes
GPE PARNTERSHIP TECHNICAL ENGAGEMENT	In addition to ongoing global-level technical engagement, under the new operating model at country level the Secretariat will support key elements of engagement around domestic financing, including the selection of diagnostic tools that are appropriate to context, the use of diagnostics to identify selective reform priorities, the adaptive management of reform implementation, and brokering engagement with providers of technical assistance.

Next Steps

There are several structural and operational considerations that will need to be considered in the coming weeks and months in terms of GPE's approach to domestic financing for GPE2025. These issues touch on incentives, governance arrangements, monitoring, evaluation, and learning, strategic capabilities, and Secretariat resources.