GRANT ALLOCATIONS ANALYSIS

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.

Recommended by: Finance and Risk Committee (FRC)

Committee Consideration:

- The FRC asked for an analysis of the bottlenecks to the timely allocation of funds and the combination of short and longer terms actions that are and can be taken to address these issues. The analysis is included in this document **BOD/2019/12 DOC 07**.

1. Objective

1.1 This paper complements the financial forecast (BOD/2019/12/DOC 06) and provides information on some of the bottlenecks to timely allocation of funds, and actions in the short and long term that are and may be taken to address these issues.

2. Recommended Decision

BOD/2019/12-XX – 2020 Maximum Country Allocations (MCA) Options: The Board of Directors:

1. Notes that a number of countries are unlikely to meet GPE's funding model requirements or apply for their MCA before the end of the current strategic plan period resulting in automatic expiry of the allocation as of 31 December 2020.
2. Requests the Secretariat to present analysis and options for consideration by both the Finance and Risk Committee and the Grants and Performance Committee on how to operationalize such MCAs including whether additional flexibility on funding model requirements is warranted, whether such MCAs should be cancelled and funds re-allocated, or whether the allocations should be extended beyond 2020.
3. This analysis and options should take into consideration proposals on eligibility and allocation of funds for the Strategic Plan period 2021-2025 and should be presented for Board decision no later than June 2020

3. Background

3.1 Disbursements from the GPE Fund are primarily driven by the value of grants approved. Once a grant is approved, the funds are disbursed typically over a 3-5-year period depending on grant duration and whether the grant has been extended or not. Grant approvals over the course of 2018/2019 of approx. US$900m are significantly higher than approvals over the three-year period 2015-2017 of US$650m. Essentially double the value of the previous replenishment period if annualized, and projected grant approvals in 2020 are on course for a record year with over US$1.3 billion currently in the pipeline with the potential for higher allocations based on uptake of the multiplier and the recommendations put forward by the FRC on increasing allocations. This is turn will result in a record year of disbursements in 2020 and continued strong disbursement rates in 2021. Disbursements will then turn lower from 2022 onwards without another strong replenishment in the first half of 2021 which would allow for new applications to be processed in time for disbursements to continue to maintain and build on the 2020/2021 numbers.

3.2 While the increasing volume and dollar value of approvals is positive and positions GPE for significant growth, the reality is that approvals and disbursements should be higher at this stage of the replenishment than they're now:

- A significant number of applications were received and approved several months after they were expected. The GPC meets four times per year to review grants and over 20 countries are recorded in the Secretariat's internal tracking system as having slipped by 1 to 2 rounds (3-6 months) in terms of when applications were approved versus projected.
- The announcement of MCAs is designed to allow countries to receive a new allocation when they've utilized approximately 75% of an existing allocation, which should allow for a relatively seamless transition between existing and new grants. However, 72% of GPE countries have a break between end of an existing grant and commencement of a new one.
- When considering disbursement projections, the Secretariat works with Grant Agents to obtain estimates of disbursement needs. In 2018, actual disbursements were only 70% of what Grant Agents had originally predicted at the start of the year.
- Internal analysis has also shown in many cases, a significant length of time (up to 40 months) between when an MCA is announced, and when an application is submitted, and first disbursement occurs.

3.3 Many countries have outstanding maximum country allocations that still need to be applied for in 2020. Given past trends with slippage and considering the challenges some countries will face in

meeting GPE funding model requirements, not all countries will avail of their allocation by the end of 2020 which is the end of the current strategic plan and replenishment period[1].

3.4 The Secretariat is clear that there is no shortage of demand for GPE funds from partner countries. However, the evidence from country level evaluations, the process review and the effective partnership review is that GPE's model is too complex and transaction heavy. This represents a challenge for all parts of the partnership. Everyone has a role to play as outlined in the accountability matrix approved in June as part of the Effective Partnerships Rollout. Developing Country Partners' commit to develop a credible sector plan and meet domestic financing requirements, while Coordinating Agency's and LEG's support rapid movement on meeting those requirements and key milestones in the funding model, especially selection of a Grant Agent. Grant Agents themselves have an obligation to develop a good-quality and timely program, and once approved, ensure implementation begins promptly and is appropriately supported over the life of the grant. The Secretariat must guide partners through the process and ensure quality assurance is robust, efficient and not overly bureaucratic. Finally, the GPC and Board are responsible for ensuring the timely review/approval of grant applications, overseeing performance, and ensuring that requirements and the decision-making process are fit for purpose and not an impediment to timely deployment and utilization of funds.

3.5 The Secretariat has taken action to prioritize support to country level operations, notably the redeployment of existing staff and a vacant position to the country support team. The Secretariat has also redeployed a senior manager to oversee the Effective Partnership Rollout and conducted a detailed analysis of bottlenecks and areas of inefficiency in the grant process. The first four recommendations from this analysis have been approved; others are under review or will be incorporated into the new strategy. The development of the new strategic plan provides an excellent opportunity to build on these initiatives to incentivize strategic investment and timely utilization of funds and to make our funding model less transaction heavy and more flexible and adaptable to country context and needs, while maintaining the results-based funding approach which is critical to our success.

3.6 In the meantime, attention should also be paid to the countries that are unlikely to apply for or meet the requirements for their allocation by the end of 2020. In cases where funding model requirements, particularly on domestic financing commitments, will not be met or where the country will not submit an application before the end of 2020, the Board should decide whether to cancel those

[1] Flexibility on requirements related to the Multiplier have been adopted by the GPC to emphasize the primary goal of leveraging additional co-financing, and a request for extension of MCAs to the end of 2021 to facilitate new proposals on securing such co-financing in 2020 is deemed a practical approach that will facilitate continued uptake, and will not have a material impact on GPE"s overall financial position.

allocations and reprogram the funds. The Secretariat recommends that further analysis and options should be developed for FRC and GPC consideration and Board decision before June 2020.

3.7 A key question linked to the rate of approvals and disbursements is how such matters impact replenishment timing. From a Secretariat perspective, a replenishment in the first half of 2021 is vital. Firstly, GPE's allocation model assumes that a significant portion of disbursements related to grants approved in the current replenishment period (2018-2020) will only be disbursed in the post 2020 period. To avoid having excess cash balances and to increase funds available for allocation, the Board allows a carryover of approximately US$500 million in unfinanced obligations to the next replenishment period. This means that contributions from 2021 onwards are required to pay for obligations the Board makes in the 2018-2020 period. Secondly, the amount donors pledge directly impacts how much is estimated to be available for allocation, and it's on this basis that countries are then informed how much they can apply for. The timing of the pledges impacts how quickly applications can be made, and the earlier we have predictability on our resources for the next strategic plan period, the earlier we can inform countries how to access those funds, and the quicker those resources can be applied for and implemented.

3.8 The financial target of the replenishment and the timing of the replenishment need to be considered separately. The expected timing of new grant applications, projected cash balances at the end of 2020, and the Board's ambition for the next strategic plan are factors in determining the financial target to be pledged and paid-in over 2021-2025. The target, and timing considerations for when contributions should be paid in, will be presented in more detail at the Board meetings in 2020 in the context of developing the strategic plan, which in turn will inform the case for investment for replenishment. None of these decisions—on target amount and timing of contributions—changes the necessity of having a replenishment event in 2021 that will provide the required predictability of funding for timely development of applications and utilization of funds.

3.9 Additional analysis on bottlenecks to funding and short/long term actions that can be taken are outlined in Annex 1.

Annex 1: OVERVIEW OF BOTTLENECKS AND ACTIONS TO GRANT APPROVALS

Issue	Response
Domestic Financing Requirement: Some countries are struggling to meet the funding model requirement related to domestic financing. Some of these issues relate to quality of data, others to declines or insufficient evidence in overall education spending, and others relate to the requirements related to 45% of education spending on primary. Of the eight countries with the largest MCAs (combined total of US$1 billion), At least five have or had concerns on domestic financing which require or required significant work or discussion with GPC to determine if they met or will meet the funding model requirement.	**Short Term:** The Secretariat are actively engaging with each country to ensure that accurate and complete information is available for consideration, along with any contextual factors. Engagement by the CEO at the highest levels of DCP Governments is ongoing and continues to focus on the issue of domestic financing. **Recommendation** – Consider cancelling MCAs for countries that clearly won't commit to meet the requirements by end of 2020 and redeploy funds **Longer Term:** Adapting the funding model requirements to different contexts while maintaining rigor is viewed as a key change needed as part of the new strategic plan development process.
Timing of development of Education Sector Plan or Revision to Plan: With the requirement to have a credible sector plan in place, the sequencing of development of a new plan or revisions to a sector plan can result to a later submission of an ESPIG application	**Short Term:** There is flexibility to apply for an ESPIG based on a current sector plan without waiting for a new one to be developed (this has been further clarified in EPR) and these cases are being explored when relevant **Longer Term:** A more context specific approach to funding which could involve staged investments along the funding model cycle from analysis to plan development to implementation and revision is an area for exploration under the new strategic plan.
Issues related to Proposal Development: Sometimes delays with Grant Agent selection, agreement on scope of the ESPIG, or internal procedures of the Grant Agent, combined with quality assurance and reviews at Secretariat/GPC level can slow down an application.	**Short Term/Long Term:** The Effective Partnerships Rollout is designed to tackle a number of these area, and internal work within the Secretariat to streamline processes is underway. The Board can also speed up the process through greater delegation of

	authority. It's expected that this will be an ongoing process
Slow implementation of existing program: A number of programs are implementing slower than anticipated or have required lengthy and multiple extensions. The reasons are varied, and some relate to factors beyond anyone's control such as conflict and crisis, or political instability. In addition, as there is also no limit on grant extensions some grants may run significantly longer than originally planned delaying subsequent applications	**Short Term:** close monitoring with Grant Agent, reprogramming of grants to unblock bottlenecks, increased delegation of grant approval authority to the Secretariat to free up significant GPC time for oversight of performance issues. **Longer Term**: Consider introduction of incentives and consequences for timely utilization of funds, as well as greater flexibility to adjust the program during implementation.
Allocation Model: The current approach of providing MCAs provides predictability but doesn't necessarily incentivize timely utilization of funds. The pure needs-based allocation formula penalizes countries that have performed well (by reducing their allocations) and that could accelerate progress with additional investment.	**Longer Term:** Consider adjustments to the allocation formula and maximum country allocation approach as part of the new strategic plan that would still ensure prioritization of resources to most in need while not acting as a disincentive to countries that are performing well but have significant challenges.

Annex 2: Additional Financial Analysis

