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.



ANNEX 3: ASSESSMENT OF GPE'S FINANCING AND FUNDING FRAMEWORK

FINAL MEMO

FEBRUARY 14, 2017

INTRODUCTION

The purpose of this assessment is to provide the Global Partnership for Education ("GPE") Board with an independent review of the final Financing and Funding Framework ("FFF"). As stated in the Terms of Reference, part of Dalberg Advisors' mandate is to ensure the FFF can effectively deliver on its objectives and to make specific recommendations on how to strengthen and enhance the proposed framework. Given that the mandate from the November / December 2016 Board Meeting was for the Secretariat and Dalberg to work together on this next set of materials, most of our perspectives have been incorporated in the final products. This review will be limited to those analyses driven primarily by the Secretariat (Eligibility and Allocation approach and Contributions and Safeguards Policy) as well as key points worth noting regarding the FFF and related operational feasibility.

FINANCING AND FUNDING FRAMEWORK

The Dalberg team fully endorses the final FFF as proposed in BOD/2017/03 DOC 3. With this assessment of the FFF design process, we offer the Board a few considerations for ensuring effective implementation of what is currently planned.

- The proposed enhancements to the core funding model address key opportunities for improvement that were surfaced across both the FFF development process as well as the Independent Evaluation of GPE. As noted in our presentation to the Board in December 2016, GPE stands apart, globally, for its use of variable funding to reward the achievements of results in education, and the enhancements to the model will play an important role to helping to realize the full potential of this approach to funding education systems strengthening. The scope and the level of improvement envisioned by the suite of enhancements to the core funding mechanism are, in our opinion, appropriately ambitious.
- The new funding mechanisms for Advocacy and Social Accountability, as well as for Knowledge and Innovation Exchange are also essential components of the overall architecture. In our opinion, they represent some of the most compelling opportunities for GPE to accelerate progress towards GPE2020.

The Education Sector Investment Case (ESIC) approach embedded in the FFF represents an important evolution for GPE to deliver on its objective of more and better finance for education, while still being rooted in GPE's core competency of facilitating high quality education sector plans. The ESIC is the "glue" by which the objective of crowding in greater levels of financing for education sector investments, from a more diverse array of sources, can be achieved. It will enable GPE to better

align co-financing with Grant Agents and development partners, including members of the Partnership that can bring complementary financing resources and instruments outside their GPE grant contributions. It will also enable GPE to partner more effectively with Multilateral Development Banks (MDBs)—and the emerging MDB Investment Mechanism—to leverage GPE grant resources in a way that lowers the cost of concessional loan financing to DCPs for education investments. Finally, it will enable GPE to engage in mobilizing private capital for ESP-aligned investments. The importance and the level of effort devoted to fully realizing the potential of the ESIC should, therefore, not be underestimated.

In particular, the ESIC's focus on "making the case" for education sector investments, while actively supporting DCPs to crowd in external financing where desired, goes beyond existing GPE education sector planning processes and outputs. It will therefore require a modest level of additional capacity and new skill sets at the GPE Secretariat for (a) translating education sector plans and policy into investment, and (b) actively convening financing partners to support country-level education investments where desired by DCP partners. Beyond these added functional roles in supporting DCPs, we believe a repositioning in the way that GPE's role at the country-level is communicated will be important—with GPE as a coordinating and convening partner, in support of country-driven processes and other development partner efforts. We liken this role to that of a broker—a knowledgeable third party that can facilitate financing partnership and investment in support of education outcomes. This role is similar to the closest multilateral financing analogue to the ESIC, the Global Financing Facility for the World Bank-hosted *Every Woman Every Child* initiative. Finally, realizing the full potential of the ESIC approach will require GPE to tailor a unique approach rooted in its core competencies but not constrained by its existing education sector planning support processes and structures.

ELIGIBILITY AND ALLOCATION

As observers of and participants in the discussions around eligibility and allocation, we have seen the revised approach stress-tested rigorously by the Secretariat, the SFWG members and co-chairs. In particular, each element of the allocation formula and decision regarding eligibility was debated extensively within the framing of which principles and policy positions GPE should be espousing. These considerations included reference to findings of previous independent evaluations that called on GPE to avoid "spreading itself thin" and ensure that its investments in different countries can have a meaningful impact. Further, several analytical scenarios were prepared to reflect different approaches and choices to eligibility and allocation, including alternative metrics and definitions of "need" to

determine eligibility as well as different parameters to determine country allocations. Analyses were also prepared to understand the sensitivity of allocation outcomes to changes in these parameters, which informed discussion and debate among the SFWG and Secretariat staff.

Eligibility

Following the Cambodia Board meeting, the question of breadth (covering more countries) vs. depth (intending to achieve impact within a smaller group) became central to the definition of LMIC eligibility. Recognizing that it is difficult to move too sharply from serving a broader range of countries to a smaller, more focused suite of countries, particularly given the GPE partnership model, we welcome the modest shift towards depth by limiting LMIC eligibility as current proposed.

In addition to the revised eligibility and allocation policy for GPE's core ESPIG funding, it will be critical to develop a detailed proposal on allocation of the proposed Leverage Funding Pool, as well as how and under what conditions eligibility to access the Leverage Funding Pool will be expanded over time, as the FFF implementation planning proceeds during 2017. The SFWG endorsed the principle of making available a dedicated $100 million pool to support leverage funding for non-ESPIG eligible LMICs—where the grant resources provided by GPE help both to expand education sector financing and to lower the cost of concessional lending absorbed by participating LMICs. Every $1 of leverage funding from GPE would be conditional on participating DCPs raising $3 in incremental funding. In addition, the SFWG endorsed the principle of making available additional leverage funding for ESPIG-eligible countries as an incentive for such countries to pursue more coordinated and aligned financing where possible. This would be conditional on exceeding fundraising targets in the upcoming replenishment process.

We believe this dual approach to leverage funding eligibility is a sensible way for GPE to test and refine new leverage financing approaches—including more structured MDB co-financing to align with the forthcoming MDB Investment Mechanism—while balancing concerns of affordability and overall resourcing. In addition, the broad eligibility approach articulated in the Board paper is an attractive way for GPE to engage LMICs that are ineligible for the ESPIG process but which nonetheless have significant unmet educating sector financing needs, as the leveraging requirement means that GPE's impact is magnified through financing that will be coordinated and aligned with ESPs.

Going forward, there will need to be more detailed work to define the methodology for allocating Leverage Funding Pool resources for non-ESPIG countries. In particular, the "application based"

approach described in the Board paper will require a structured process and decision criteria for allocating funds, as well as metrics and monitoring processes associated with leveraging requirements or other conditions placed on GPE funding. In addition, there will need to be more detailed design work on the replenishment threshold that triggers expanded access to the Leverage Funding Pool with incentives for ESPIG-eligible countries: how much needs to be raised in the replenishment, and how should the Leverage Funding Pool scale at different replenishment outcomes? In addition, it will be important to determine the level of incentive to ESPIG-eligible countries that justifies an incremental financing process; what this level of incentive implies about resourcing requirements and, therefore, potential tiers of eligibility; and how this leverage funding process can be integrated into existing ESPIG processes to economize on transaction costs at the country-level. Finally, both parts of the dual track approach to the Leverage Funding Pool will require a deliberate outreach approach to appropriately communicate to relevant DCP countries.

Allocation

The reasoning behind the decisions regarding inclusion and exclusion is captured clearly in the eligibility and allocation paper. Here, we comment on a few elements that led to significant debate.

There was much discussion focused on the introduction of a "floor" (i.e., minimum allocation), with two possible justifications cited as preventing disproportionate transaction costs and ensuring GPE funds were significant enough to drive impact. With regards to the question of impact, two different interpretations were (i) the amount of money required for impact on education outcomes and (ii) the amount of money required for meaningful influence of the GPE funding model. Ultimately, the SFWG endorsed setting a minimum allocation for the purpose of ensuring reasonable transaction costs relative to ESPIG grant funding provided. At this time, it was seen as not possible to develop a sound enough methodology, both in terms of principle and technical approach, to justify a minimum "floor" for some that might prevent others from being eligible for any funding at all. Again, the question of breadth vs. depth in GPE's reach and impact was critical to informing this discussion. **In future – and depending on replenishment outcomes – GPE may need to revisit this question and be willing to accept that being effective where it operates may require further tightening eligibility with implications for some countries that score high on the needs index.** In that event, the SPP team should explore additional options for how an "impact floor" could or has been calculated elsewhere to better inform potential methodologies.

In addition to allocation within specific funding mechanisms, the SFWG also discussed allocation across mechanisms and put forth a few illustrative scenarios. We support the approach of setting minimum allocations from core GPE funds for the reinforcing mechanisms (KIX and ASA), particularly as we see the FFF as an integrated whole that should not be separate into its component parts. However, while this is perhaps the more important concern at the outset, it is also important to remember the need for caps across the reinforcing mechanisms in order to avoid any strategic or mission distortion that might be driven by significant targeted contribution across multiple contributors.

One final point worth addressing is that of the 15% adjustment for FCACs. In communicating the basis for including this in the allocation formula, the Board should recognize and be clear that it serves the purpose of directing more resources to countries with high numbers of out-of-school children (a priority highlighted in GPE 2020) and sending a clear message that GPE prioritizes support to FCACs. That having been said, simply putting more money into these systems is not necessarily the ideal type of support; rather, **GPE should also consider whether it is providing enough capacity-building and TA to address issues of absorption capacity.**

CONTRIBUTIONS AND SAFEGUARDS POLICY

The consultation process conducted by the Secretariat, although very thorough, also raised some concerns about whether elements of the CSP were being defined by the stakeholder's individual preferences as opposed to the desired outcomes of allowing targeted contributions. This is likely true, given that the original consultation was conducted in isolation of a fuller design of the FFF. However, the question is whether GPE wants to constrain its policy by the principles under which it wants to operate or the types of activities it wants to enable. Our interpretation was that the Partnership, through the consultations and SFWG discussions, is clearly more interested in maintaining the core unrestricted nature of GPE activities and the ability of the GPE Board to drive the strategy or the organization. Thus, the 'consultation-based' approach was a sound one.

In terms of implementing the proposed CSP, we note that it is written in compliance with what we understand is possible within the World Bank relationship; furthermore, it opts for notional as opposed to hard targeting – as suggested by the Trustee – in order to minimize risk of mission distortion as well as transaction costs of reporting. Additional safeguards have been proposed to minimize the potential for complexity around reporting, notably that donors cannot request

specialized reporting. Ultimately, the Secretariat should aim to produce one report for all donors that breaks down expenditures across all relevant targeting dimensions.

The Secretariat will also need to very closely observe the impact of allowing targeting (in particular, with respect to the potential risks discuss in the CSP paper) and be ready to make adjustments to the CSP early on to course-correct if necessary –it will be difficult to predict all the potential unintended consequences in advance of implementing.

OPERATIONAL FEASIBILITY AND PATH FORWARD

Dalberg's recommendations regarding operational feasibility can be found in Annex 2 of the FFF Board Document (BOD/2017/03 DOC 3 – Annex 2). However, we would like to underscore a few points pertaining to the Education Sector Investment Case (ESIC). As alluded to above, we believe the full potential of the ESIC approach will not be realized if it is simply folded into "business as usual" education sector planning processes. The ESIC is rooted in the ESP process and builds off of elements of a high quality education sector plan, in particular, the standard financing framework and action plan in an ESP. However, the ESIC *approach* more broadly is intended to enable a more active coordination and crowding in of additional external finance to support education sector plan implementation across development partners, MDBs and private investment. This implies additional skill sets required among Secretariat staff to includes greater public-private finance expertise and resource mobilization capabilities at the country level. It also implies more active processes in engaging and convening financing partners, where requested by DCPs, to accelerate the coordination and mobilization of additional resources. The additional human resource requirements to fully realize the ESIC approach could be accessed in a demand-driven way through external consulting support, potentially procured through Grant Agents as part of the ESPDG process, but additional implementation planning, including for human resource requirements, will need to happen in the coming months.

CONCLUSION

The new FFF has truly transformative potential for GPE, not just because of what it includes today, but more importantly because the architecture that underpins it will allow GPE to continue to evolve its finance and funding offerings in a dynamic and flexible manner. Beyond the impact of the specific components proposed in the FFF that will help GPE better realize its goals, we see an equally important impact of the FFF as a tool for the Partnership to innovate and refine funding mechanisms and

financing approaches in the future. The FFF includes clear logic for how funding and financing should operate, as well as decision criteria for how to consider adding new funding mechanisms or financing approaches, and considerations for realizing synergies across the entire framework. In addition, the FFF will usher GPE into a much more competitive positioning alongside other leading multilateral funding platforms. It also "pre-positions" GPE for a strong, continued role in the evolving global education financing landscape, including vis-à-vis the MDB Investment Mechanism and other shifts in deploying blended finance or innovative finance solutions to achieve development impact. Accordingly, we would urge the Board to think of the FFF as not just a new package of ideas, but rather a new way of thinking and operating—and, ultimately, of delivering education outcomes.