ELIGIBILITY, ALLOCATION, AND PROPORTIONALITY: RECOMMENDATIONS FROM THE STRATEGIC FINANCING WORKING GROUP

For Decision

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

1. STRATEGIC PURPOSE

1.1 The purpose of this paper is for the Board to consider approval of Strategic Financing Working Group recommendations on the proposed methodology for allocation of GPE funds in the next replenishment period and eligibility criteria to access these funds.

1.2 The paper also provides indicative resource scenarios to enable the implementation of the Finance and Funding Framework on which the Board are asked to provide input. The Board may also further direct the Finance and Risk Committee to develop prioritization criteria in the event that available resources are lower than the minimum estimated levels envisaged to fully operationalize the FFF, or are significantly higher.

2. EXECUTIVE SUMMARY

2.1 GPE's Charter states that all developing countries are eligible to join the partnership. However, it is important to distinguish between eligibility to be a member with eligibility to receive funding. GPE2020 states that:

"The Global Partnership's financing will continue to focus primarily on low-income and lower middle-income countries, especially those countries with high numbers of out-of-school children and significant gender disparities, as well as those countries affected by crisis and fragility."

2.2 In line with GPE2020, funding will be limited to low (LIC[1]) and lower middle income countries (LMIC), and Small Island and landlocked developing states (SILDS)[2]. All these countries are proposed to have access to Education Sector Plan Development Grants (ESPDGs), and to the

[1] Excludes Democratic People's Republic of Korea as deemed unlikely to meet GPE requirements
[2] Small Island and landlocked developing states in a GPE context are those that are also IDA eligible, and for landlocked developing states are restricted to those with a population below one million.

reinforcement mechanisms on Knowledge and Innovation Exchange, and Advocacy and Social Accountability.

2.3 Education Sector Program Implementation Grants (ESPIGs) that represent the majority of GPE's funding will be concentrated on a smaller group of countries with the greatest needs in terms of income, lower secondary completion rates, and fragility.

2.4 To calculate a maximum country allocation (MCA) for ESPIG eligible countries, an allocation methodology is proposed that is needs-based and prioritizes the poorest countries with high numbers of out of school children (and through this approach will address those with significant gender disparities), and will include a premium in the allocation model for countries affected by crisis and fragility.

2.5 To ensure that allocations are not so low that they call into question their impact or they result in unreasonably high management and administration costs, minimum allocation amounts are proposed when the allocation formula produces a very low MCA (US$1.3 million for SILDS with a preference for multi-country regional approaches and flexibility on how resources will be used, and US$5 million for all other countries).

2.6 Remaining LMICs that will not be eligible for an MCA for an ESPIG will be able to apply to access a leverage funding pool "Leverage Fund" provided they can demonstrate additional external financing. The proposed ratio for leveraging additional external financing is at least US$3 for every US$1 of GPE funds, leading to a larger co-financed program that complies with GPE funding model requirements and its results based financing approach for at least 30% of any GPE funds in line with the existing variable allocation of the funding model. In the event that available resources are sufficiently high, the SFWG recommends that an additional or enlarged Leverage Fund be established that could provide top ups to ESPIG eligible countries under the same principles of leveraging at least US$3 to US$1 through co-financed programs.

2.7 The table below summarizes the proposed eligibility for the different types of funding envisaged in the FFF

Table 1 – Eligibility for GPE Funding 2018-2020

CATEGORY	Education Sector Plan Development Grants	Knowledge and Innovation Exchange	Advocacy & Social Accountability	Education Sector Program Implementation Grants[3]	Leverage Fund
Low Income Countries (30) Afghanistan, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, DRC, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Tanzania, Togo, Uganda, Zimbabwe	**YES**	**YES**	**YES**	**YES**	**NO***
Small Island and Landlocked Developing States (18) Bhutan, Cabo Verde, Dominica, Grenada, Guyana, Kiribati, Maldives, Marshall Islands, Micronesia, Samoa, Sao Tome and Principe, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Tonga, Tuvalu, Vanuatu	**YES**	**YES**	**YES**	**YES**	**NO***
Vulnerable LMICS (19) – Less than $2,000 GNI p/c and below 90% LSCR OR FCACs with Less than $3,000 GNI p/c and below 90% LSCR Bangladesh, Cambodia, Cameroon, Côte d'Ivoire, Djibouti, Ghana, Kenya, Lao PDR, Lesotho, Mauritania, Myanmar, Nicaragua, Nigeria, , Pakistan, PNG, Sudan, Syria, Yemen, Zambia,	**YES**	**YES**	**YES**	**YES**	**NO***
Other LMICs (22) Moldova, Congo Rep, Honduras, Swaziland, Guatemala, Kyrgyz Republic, Tajikistan, Vietnam, Uzbekistan, Ukraine, Bolivia, Sri Lanka, Mongolia, Armenia, Morocco, Egypt, Arab Rep., West Bank and Gaza, Indonesia, Philippines, El Salvador, Tunisia, India[4]	**YES**	**YES**	**YES**	**NO**	**YES**

*Could be revisited if sufficient funding available

2.8 In considering how GPE resources should be allocated across the various components of the FFF, the SFWG has focused on initial estimates of the minimum resource levels that would be required to operationalize it, noting that the components of the FFF are interlinked and should be implemented in their entirety. **The SFWG does not equate these minimum estimates with the level of ambition in terms of resources that GPE should aim to raise**, rather it sees

[3] Also eligible for Program Development Grants to design an ESPIG program
[4] Excluded from ESPIG eligibility due to overall size of economy exceeding one trillion US dollars

these estimates as a necessary pre-requisite for the GPE to be able to implement the FFF without the need for a significant process to prioritize expenditure.

2.9 In the December 2016 Board paper from the SFWG, it was also envisaged that after the approval of the FFF, further work would be needed by the Finance and Risk Committee (FRC) to develop prioritization criteria. These criteria should guide how GPE resources would be allocated in the event that the minimum resource levels envisaged were not available, or if resources turned out to be significantly higher. The Board is encouraged to consider its priorities and provide initial input to the FRC to guide this work. Scenarios are provided in the Annexes of this document by the Secretariat that provide an indicative breakdown of how these resources might be allocated. The SFWG is not making any recommendation beyond the minimum resource levels, as prioritization criteria will need to be built on the decisions made by the Board at this meeting relating to the FFF.

3. RECOMMENDED DECISION

3.1 The SFWG recommends the Board of Directors approve the following decision:

BOD/2017/03-XX—<u>Eligibility and Allocation</u>: The Board of Directors:

1. Recognizing the GPE 2020 commitment that financing will continue to focus primarily on low-income and lower middle-income countries, especially those countries with high numbers of out-of-school children, significant gender disparities, and those affected by crisis and fragility, approves eligibility for GPE Funding for the 2018-2020 period as set out in Table 1 of BOD/2017/03 DOC 04.
2. Approves the following needs based allocation formula

$$NeedsIndex = \frac{PrimAgePop \times (1 - PCR) + LSecAgePop \times (1 - LSCR)}{\sqrt{GDPperCapita(PPP)}} + 15\%\ FCAC\ Adjustment$$

   as further described in Annex 1 of BOD/2017/03 DOC 04 for calculating the share of available resources that countries eligible to receive an Education Sector Program Implementation Grant Maximum Country Allocation may apply for, subject to the following adjustments:

   a. The existing cap of US$100 million shall apply to Maximum Country Allocations for ESPIGs unless the Board determines on the recommendation of the Finance and Risk Committee that the level of resources available for allocation is sufficiently high that the cap may be raised in a manner that doesn't reduce existing allocations below the levels set out in Scenario 1 of Annex 1 of BOD/2017/03 DOC 04 for remaining eligible countries.

b. Small Island and Landlocked Developing States that have a Maximum Country Allocation calculated by the allocation methodology of less than US$1.3 million shall have their MCA increased to this amount.

c. All other eligible countries that have a Maximum Country Allocation calculated by the allocation methodology of less than US$5 million shall have their MCA increased to this amount.

3. Given the integrality of the Financing and Funding Framework, the Board determines that a minimum level of resources shall be made available to operationalize the Leverage Fund, and the Reinforcing Funding Mechanisms as set out below:

    - Leverage Fund – US$100 million
    - Knowledge and Innovation Exchange – US$60 million
    - Advocacy and Social Accountability – US$60 million

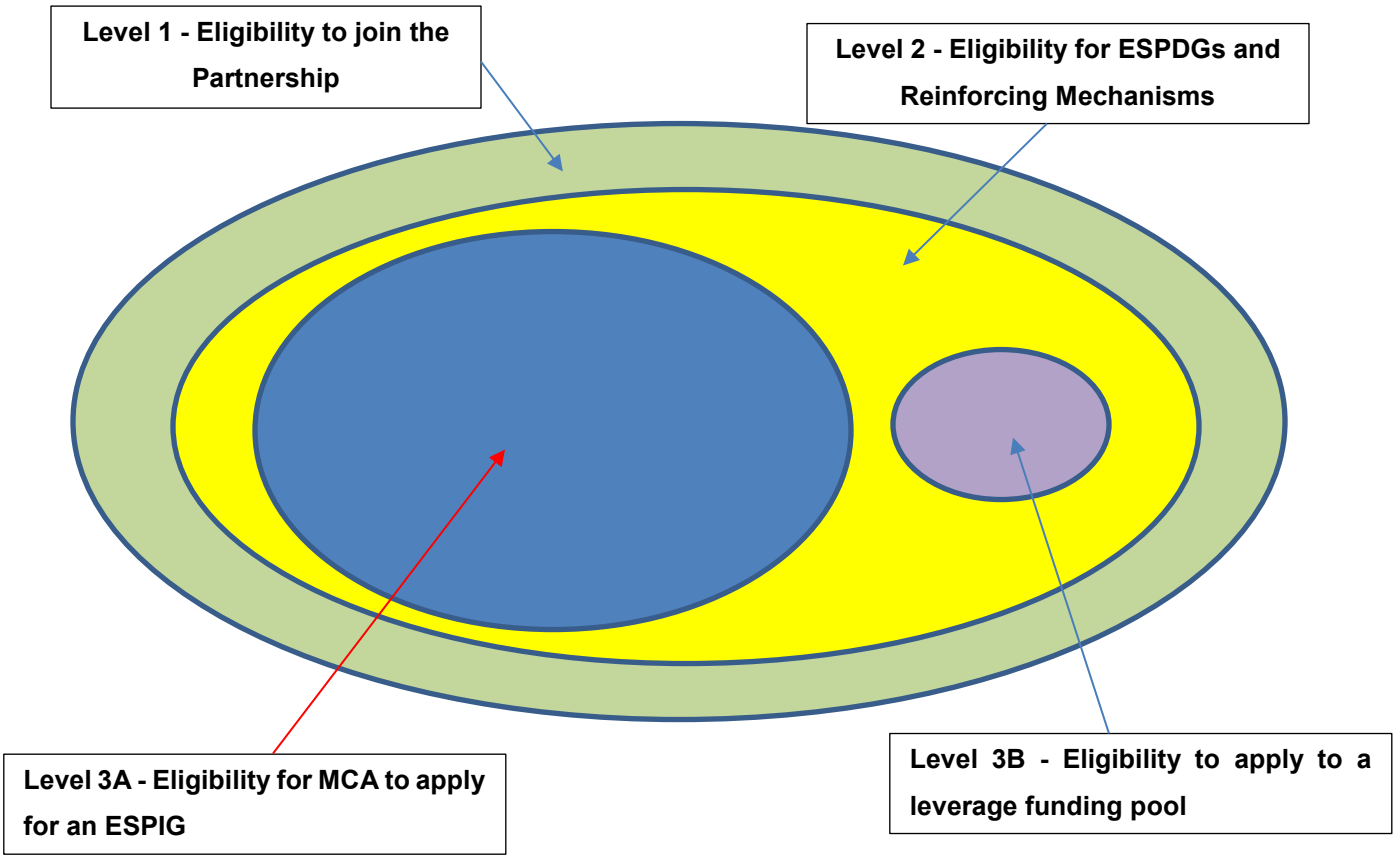
    The Board notes that these amounts are minimum levels and may be increased if resources are available, and based on approved prioritization criteria to be developed. It is further noted that the source of financing from the GPE Fund may be from both unrestricted and targeted financing subject to the provisions of the Contributions and Safeguards Policies.

4. The Board of Directors requests the Secretariat to develop options for consideration by the Finance and Risk Committee and subsequent recommendation to the Board on prioritization criteria in the event that resources are either insufficient to finance the FFF at the minimum resource levels envisaged in Scenario 1, Annex 1 of BOD/2017/03 DOC 04 or resources are higher than the minimum resource levels.

4. ELIGIBILITY

4.1 Eligibility to join the partnership and eligibility to receive funding from GPE rests at different levels as outlined in the diagram below.

Figure 1 – Eligibility



<u>Level 1: Eligibility to be a GPE Developing Country Partner</u>

4.2 GPE's Charter states that all developing country partners may join, however it is less clear where the definition of a developing country partner in a GPE context should apply. The SFWG considered that eligibility to the partnership should be broad and apply to all LICs (30), LMICs (41), SILDS (18), and the two existing Upper Middle Income Countries (UMIC) members. It recommends that the Governance and Ethics Committee consider the issue of eligibility for membership to remaining UMICs given eligibility may have implications on governance arrangements such as the size of DCP constituencies.

Level 2: Eligibility to small technical grants (ESPDG and PDG), Knowledge and Innovation Exchange, and Advocacy and Social Accountability

Proposal **-** ALL LICS, LMICS, and SILDS

4.3 While GPE may not be in a position to provide large scale funding through ESPIGs in all partner countries, its support through ESPDGs (capped at US$500k including sector analysis) is a critical support for some countries. For example - Swaziland was not eligible for an ESPIG in the current replenishment period but has very much welcomed the role that GPE has played in supporting dialogue at the country level and support to develop its sector plan. Knowledge and Innovation Exchange, and Advocacy and Social Accountability work is expected to be extremely valuable for these countries.

Level 3A: Eligibility for ESPIGs

4.4 Eligibility criteria for ESPIGs determine which countries are able to receive an MCA to apply for ESPIG funding. With the adoption of GPE2020, there is a need to revise the current eligibility criteria for the ESPIGs to align it to the new strategic plan[5]. The existing eligibility criteria for the 2014 replenishment applied to 67 countries as follows:

- *All LICs (GNI per capita below USD1035): 36 countries*
- *All small island and landlocked developing states (SILDS): 18 countries*
- *LMICs with GNI per capita comprised between USD1,035 and USD2,560 and a Primary Completion Rate of less than 85%: 13 countries*

4.5 The current criteria focuses on the poorest countries and those who are still far from universal primary education, which is the proxy used by the Global Partnership to capture education poverty. With GPE2020 the Global Partnership renewed its commitment to the poorest and most marginalized population: *"The Global Partnership's financing will continue to focus primarily on low-income and lower middle- income countries, especially those countries with high numbers of out-of-school children and significant gender disparities, as well as those countries affected by crisis and fragility*."[6] However, GPE2020 also specifies that "*financing continues to focus on basic education, defined as pre-primary, primary, lower secondary education and second-chance learning opportunities*." It implies to go beyond primary education and consider lower secondary

[5] As mentioned in the SFWG June 2016 report to the Board: "The SFWG considers that in order to achieve the goals of GPE 2020, eligibility criteria will need to be aligned with the new scope, scale and goals of the plan, and that this may result in additional (or different) countries being eligible for support of some kind."
[6] GPE 2020 p.12.

education, as part of the progressive realization of a comprehensive approach to life-long learning in the SDG Education 2030 Agenda.

Indicators considered for the eligibility criteria

4.6 Keeping Low Income Countries and SILDS as the core of the eligible group, several criteria were considered for the possible eligibility of LMICs. With a goal to keep these criteria few and simple, two dimensions were identified to support this prioritization:

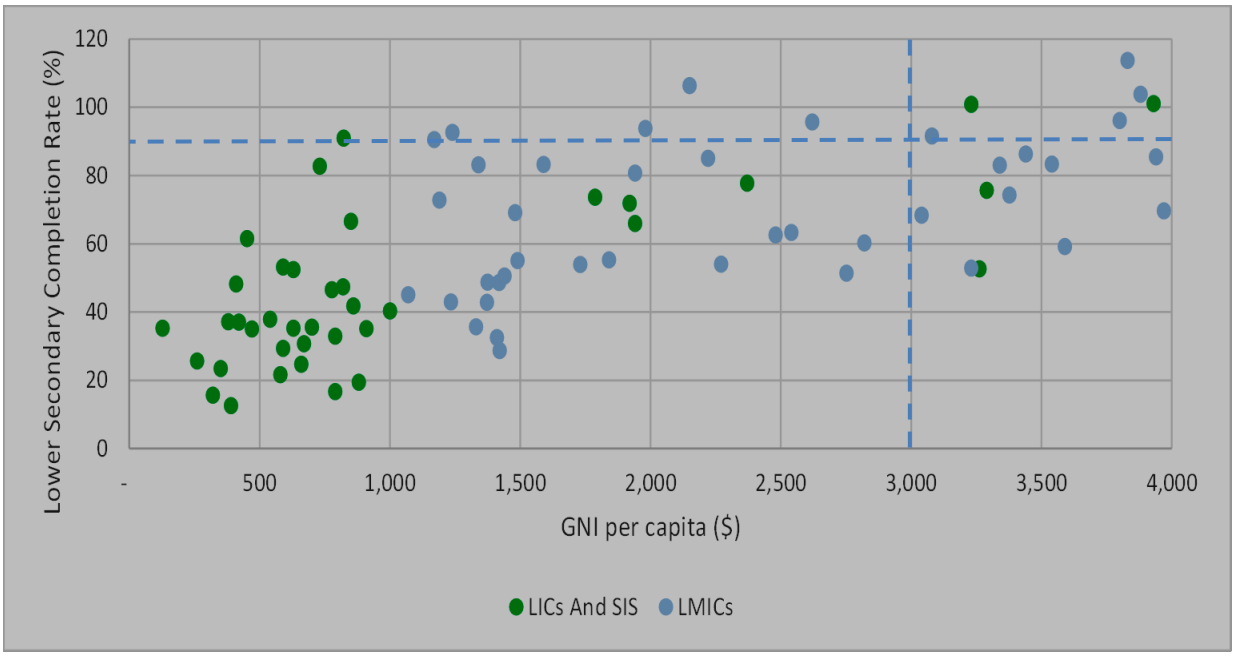
- **Poverty**: LMICs that are very close to the Low Income threshold are essentially in very similar situations of budget constraints, population poverty, etc. The approach would continue prioritizing those countries where governments lack resources to properly develop their education system, and where poverty constitutes an obstacle to children's participation and performance.

  Selected indicator: GNI per capita - Atlas method (Source: World Bank). This is the indicator used for the income categorization and is thus consistent with IDA eligibility and previous GPE approaches.

- **Education poverty as measured by the distance to GPE2020 and SDG4 goals:** The GPE strategic plan goals and the SDG4 are much wider than those of EFA and MDG2, which focused on primary. A number of these new aspects, such as learning outcomes, well-being, geographical or wealth equity, are difficult, if not impossible, currently, to measure in a systematic and comparable manner due to the lack of comparable data. In order to encompass pre-primary, primary and lower secondary, completion appears as the most appropriate proxy. GPE is supporting work to try and improve measurement of learning outcomes and will look to incorporate such measures in the future.

  Selected indicator: Lower Secondary Completion Rate (Source: UNESCO Institute for Statistics). The Lower Secondary Completion Rate (LSCR) is preferred because of its better coverage and more systematic calculation and circulation. The choice of the LSCR is consistent with the current approach using the Primary Completion Rate. And, more importantly it is aligned to GPE Results Framework as LSCR is one of the key indicators of the GPE results framework to measure strategic goal 2 (increased equity, gender equality and inclusion).

Figure 2: GNI per capita and Lower Secondary Completion Rate of LICs and LMICs



4.7 Based on these two indicators, three categories were created, using "natural" cut-offs as identified by observed gaps between values amongst targeted countries. The rationale for this is in part to avoid situations where countries would be excluded because their indicator is a fraction of percentage point above the threshold.

- GNI per capita < $2,000
- $2,000 < GNI per capita < $3,000
- $3,000 < GNI per capita
- LSCR < 65%
- 65% < LSCR < 90%
- 90% < LSCR

4.8 One additional group of interest for the eligibility is the Fragile and Conflict Affected Countries (FCAC). Conflict-affected countries have only 20% of the world's primary-school-age children but 50% of the world's out-of-school children[7]. For this work, the definition of FCAC used are those countries which appear in either or both of the World Bank "Fragile context" countries (FY17 List) and UNESCO Conflict-affected countries (published in the 2016 GEMR Report).

4.9 Informed by these different elements, the SFWG considered several scenarios. LICs and SILDS were always considered eligible, but the issue was about which LMICs should be eligible. The SFWG weighed the issues of breadth versus depth seeking to balance the need for GPE to truly be global and meet the needs of both LICs and LMICs as set out in GPE2020 against the risk of

[7] Source : Fixing the broken promise of education for all. Executive summary, 2015, p. 11

spreading a limited amount of resources over too many countries and therefore either diluting the effectiveness of the model or creating the risk of overpromising to countries and then coming up short in terms of available resources.

4.10 In an attempt to strike the appropriate balance, the SFWG therefore agreed on a third category of eligible countries named 'vulnerable LMICs'. It regroups LMICs with a GNI per capita below $2,000 and a lower secondary completion rate below 90% or LMICs that are FCACs with less than $3,000 GNI per capita. These criteria are aligned with the GPE 2020 focus on basic education and the poorest and most marginalized population. The following 67 countries are proposed to be eligible for ESPIGs:

Low Income Countries (30) Afghanistan, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Comoros, DRC, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Liberia, Madagascar, Malawi, Mali, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Sudan, Tanzania, Togo, Uganda, Zimbabwe

Small Island and Landlocked Developing States (18) Bhutan, Cabo Verde, Dominica, Grenada, Guyana, Kiribati, Maldives, Marshall Islands, Micronesia, Samoa, Sao Tome and Principe, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Timor-Leste, Tonga, Tuvalu, Vanuatu

Vulnerable LMICS (19) – Less than $2,000 GNI p/c and below 90% LSCR OR FCACs with Less than $3,000 GNI p/c: Cambodia, Djibouti, Cameroon, Lesotho, Yemen, Côte d'Ivoire, Myanmar, Mauritania, Pakistan, Zambia, Lao PDR, Sudan, Nigeria, PNG, Syria, Ghana, Kenya, Bangladesh, and Nicaragua

4.11 The result is that 67 countries would be eligible for ESPIGs in the next replenishment period, and while some there is some change in the countries supported from the current period, the overall numbers remain consistent.

LEVEL 3B - ELIGIBILITY TO APPLY TO ACCESS A LEVERAGE FUND

4.12 While the majority of GPE funds will be targeted to countries based on considerations of poverty, educational vulnerability (as reflected in lower secondary completion rates), and fragility, it was recognized that many additional LMIC countries have significant needs, particularly around learning outcomes for which there is not a comparable measure that could be used to factor into the eligibility considerations. There is also a hard cut off in access to funding for some previously ESPIG eligible countries and therefore it was felt important that given GPE2020 identifies that GPE funding should go to both LICs and LMICs, there should be credible options for those LMIC countries that

cannot access an MCA for an ESPIG to be able to apply for GPE grant funding. In line with the recommendation from the Education Commissions that international financing should "***prioritize investment in countries that demonstrate commitment to invest their own resources and reform",*** and GPE's commitment to promote more and better financing, a Leverage Fund is envisaged that the 22 LMIC countries not eligible for an MCA could apply to on the understanding that applications:

a. meet GPE's funding model requirements around domestic financing, data, and credible education sector plans
b. Demonstrate additionality and co-financing from external sources of at least US$3 for every US$1 of GPE grant funds
c. Ensure at least 30% of GPE funds are subject to GPE's results based funding approach

4.13 It is not expected that there will be sufficient funds for all eligible countries to access the leverage fund, and therefore it is proposed that this will be an application based approach rather than an allocation based approach as is currently the case for ESPIG eligibility.

4.14 There should however be sufficient resources to work with a number of interested countries and financing partners to test this approach over the 2018-2020 period, with the aim of substantially scaling up GPE's approach to leveraging from 2020 if proved successful. Further information on leverage funding is outlined in BOD/2017/03 DOC 03 - Annex 1

4.15 The SFWG also recommended either expanding eligibility to access the Leverage Fund or to create a separate Leverage Fund for ESPIG eligible countries as a top up mechanism should sufficient resources become available. This would provide a financial incentive for ESPIG-eligible countries to encourage co-financing and give an added benefit of being able to test the leveraging approach in a variety of countries with different needs.

5. ALLOCATION

Context and current approach for ESPIG Allocation Methodology

5.1 The 2014 GPE funding model was based on the calculation of a country score, which in proportion to all eligible countries' scores determined the country's share of the ESPIG fund available amount as its allocation. The country score was calculated as follows:

$(1\text{-PCR})^{0.15} \times PSAC^{0.7} \times LSSAC^{0.3} \times PCI^{-0.125} \times RP^{0.2} \times EXT^{-0.1} \times GPIC^{-0.35} \times FRAG^{0.15}$

5.2 Where PCR is the Primary Completion Rate, PCSA the number of Primary School Age Children, LSSAC is 10% of the number of Lower Secondary School Age children, PCI the Per Capita

Income, RP the proportion of Rural Population, EXT the amount of external aid to basic education, GPIC the Gender Parity Index on primary school Completion, and Fragility is a binary indicator of fragility.

5.3 While the formula tried to incorporate many factors that influence the cost for a country to develop its basic education sector, its complexity has made it difficult for GPE and its in-country partners to communicate and explain. In particular, the large number of indicators, and the use of non-integer exponents has made it difficult to explain to partner countries how their allocation was established.

5.4 The GPE Board of Directors therefore asked the SFWG to revise the allocation process in a way that would allow for simpler communication of funding outcomes, while still effectively capturing countries' needs and GPE's priorities. In particular, two objectives were set:

- To reduce the number of variables considered;
- To simplify the structure of the formula.

Proposed approach

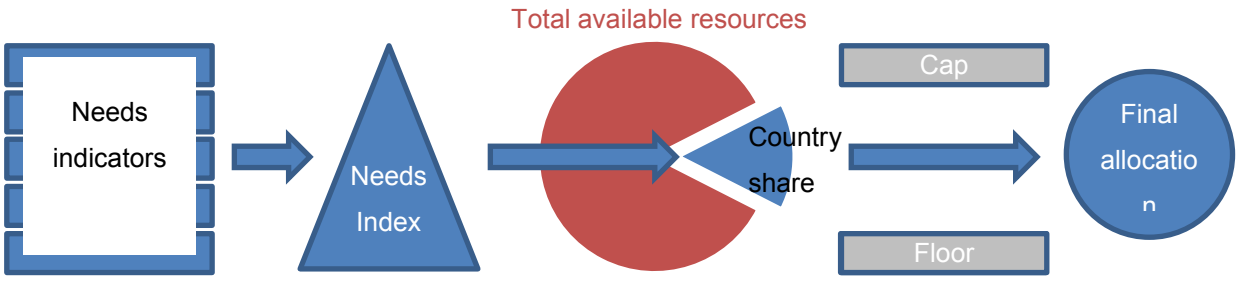
5.5 Like the current allocation approach, the proposed approach is needs-based. Performance provides an alternative guiding principle for allocation, and between 2012 and 2014 GPE followed an approach that combined needs and performance. However, a review of this approach found that the inclusion of performance factors limited the capacity of GPE to create appropriate incentives and recommended that performance should be best explicitly evaluated in the grant-making phase of funding rather than "hidden" in the allocation formula. A cost-based approach was also considered in 2014 but rejected by the Board, as the cost of education tends to be higher in wealthier countries (which would then qualify for higher levels of funding).

5.6 The effort of simplification is guided by the recognition of the trade-off between simplicity and an expansive formula that allows for a multi-dimensional consideration of country challenges and efficacy in mobilizing resources to improve education

5.7 The proposed process of allocation determination is similar to the one agreed upon in 2014 in that it is based on the calculation of a composite index ("country score" in the 2014) which, divided by the sum of the eligible countries' indices, determines the country's share of the available resources. As the different stages of review of partner countries' Education Strategic Plans and program proposals ensure that sufficient attention is given to countries' performance, both in terms of policy reforms and of implementation progress, the proposed composite index remains exclusively needs-

based and, in order to make this explicit, is called "Needs Index". In addition to the cap already introduced in the 2014 approach, a floor approach, or minimum allocation, is proposed to be applied before the final allocation is determined. Figure 2.1 below summarizes the approach, and each stage is described in details below.

Figure 3: Process of allocation determination for a country



The needs indicators

5.8 Many needs indicators have been considered for the allocation formula, and ultimately 4 were selected based on their relevance and the availability of data. The SFWG noted that the lack of comparable learning data is a clear impediment to a better formula.

Primary and Lower Secondary School Age Populations

5.9 The population of children and youth in age of attending primary and lower secondary school serves as a scaling factor in the formula. It relates to the number of potential beneficiaries, or more generally translates the size of the beneficiary country. Since ESPIG support is focused on Primary and Lower Secondary education and not on life-long learning, the school age population gives a better measure of the population needing support than the total population, as the proportion of school age children in the total population varies between countries.

Primary and Lower Secondary Completion Rates

5.10 The Primary Completion Rate (PCR) and the Lower Secondary Completion rate (LSCR) are used here as a prioritizing factor. Countries that are further from reaching universal basic education completion will receive a higher needs index and thus a higher allocation.

5.11 Furthermore, the combination of the Primary and Lower Secondary age populations with, respectively, the PCR and LSCR offers a proxy of the population of concern for GPE: the product of these two pairs of indicators is a proxy for the number of children of primary and lower secondary

school age in the country at risk of not completing their respective education cycle if the current situation does not improve. This approach is thus consistent with the GPE goal of supporting not only those children out of school but all children at risk of dropping out.

GDP per capita (PPP)

5.12 The rationale for the inclusion of a poverty indicator is that poorer countries have more difficulty capturing domestic resources into their budget and tighter budgets to fund the development of their education system. In addition, poorer populations are more likely to be faced with high direct and opportunity costs, and often, for many reasons, show lower results in learning achievement tests, all of which contribute to early drop-outs.

5.13 An analysis of the links between the different national income measures, in particular GNI per capita and GDP per capita, and the poverty rates indicates that the GDP per capita PPP[8], while translating resources potentially available at national level, are the most appropriate to also convey a measurement of the population's poverty. Therefore, although it slightly differs from the eligibility approach, and because alignment with the standard World Bank definition of income groups is less important here, GDP per capita (PPP) is the preferred measure of poverty for the allocation formula.

Fragile and Conflict Affected Countries (FCAC)

5.14 Countries in fragile contexts, in post-conflict situations or affected by conflict face specific conditions that are additional obstacles to progress in the education sector. These may include the destruction of education facilities, the presence of refugees or internally displaced persons, unsecure areas, psychologically traumatized children, etc.

5.15 As for the eligibility criteria, the list of countries considered fragile and conflict affected is the combination of the World Bank's fragile context countries and UNESCO's conflict affected countries lists (cf. Annex).

[8] Purchase Power Parities (PPPs) are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries. For GDP, PPP is calculated for a basket of goods and services covered by GDP. The indicator is measured in terms of national currency per US dollar.

The needs index

5.16 The proposed Needs Index is based on a basic score and some adjustments. The basic score combines the primary and slower secondary school age population with the Lower Secondary Completion Rate and the GDP per capita PPP, while an adjustment is introduced for FCAC to refine the calculation of the needs index.

$$NeedsIndex = \underbrace{\frac{PrimAgePop\times(1-PCR)+LSecAgePop\times(1-LSCR)}{\sqrt{GDPperCapita(PPP)}}}_{\text{“Basic Score”}} + 15\%\ FCAC\ Adjustment$$

5.17 The FCAC adjustment consists in increasing by 15% the basic score for FCACs. The SFWG considered several levels of adjustment and concluded that 15% increase in the needs index translate in a 5 % increase in the allocations, which corresponds to the level of additional administrative costs observed in FCAC grants.

Maximum and Minimum Allocations

Maximum allocation – Cap

5.18 Considering the presence of a number of very large countries with high education support needs amongst those potentially eligible for GPE funding, there is a risk of capitation of a large part of the total resources in the ESPIG fund by those few countries. The establishment of a maximum allocation, or cap, could thus prevent this from happening, and allow for a better distribution of resources amongst eligible countries.

5.19 The SFWG proposed to keep the same approach of the cap as used in the previous replenishment period. A cap of $100 million is considered in the allocations scenarios. The cap can be increased using the approach previously agreed by the Board in 2014 whereby any increases in allocations for capped countries should not result in a decrease in allocation for non-capped countries.

Minimum allocation- Floor

5.20 In the current replenishment period some countries get allocations that are extremely low and result in higher proportions of overall costs for management and administration for ESPIGs. To address this issue, the SFWG proposes a minimum allocation to ensure that transaction costs are reasonable relative to the size of the allocation.

5.21 To take into account the specific case of Small Islands and Landlocked Developing States, where regional approaches are encouraged and flexibility to utilize the funds other than through a traditional ESPIG may be required, two levels of minimum allocation are considered: (i) US$1.3 million for SILDS, and (ii) US$5 million for other countries eligible to ESPIGs.

Allocation for other types of funding

5.22 **ESPDGs** are not subject to an allocation formula. Each country may apply for up to US$500,000 to cover both education sector analysis, and plan development.

5.23 **Program Development Grants (PDGs)** have a standard of US$200,000 but up to US$400k may be requested in exceptional circumstances for countries applying for an ESPIG.

5.24 **Knowledge and Innovation Exchange** – the criteria for accessing these funds will be further developed with the Strategy and Impact Committee. A minimum resource envelope for this mechanism of US$60 million is envisaged and could potentially be funded from unrestricted and targeted contributions. The Strategy and Policy Committee has recommended that GPE aim to allocate 5% of overall resources towards this mechanism and scenarios are shown in Annex 1 that further examines the implications of this.

5.25 **Advocacy and Social Accountability –** the criteria for accessing these funds will be further developed through the design phase of this mechanism. The SFWG has considered a resource envelope of at least US$60 million over the 2018-2020 period with any expansion subject to further analysis from the Strategy and Impact Committee and availability of resources.

5.26 Some members of the SFWG in the context of the Contributions and Safeguards Policy (BOD/2017/03/DOC 05) raised the issue of whether an upper limit in terms of targeted financing for the above mechanisms should be considered. However the SFWG did not come to any definitive conclusions noting that these issues may be addressed during the next phase of design work, and the Board may want to provide some guidance on this subject during its deliberations.

5.27 **Leverage Fund –** An initial allocation of US$100 million is envisaged. It is expected that this would enable 4-6 countries from the 22 LMICs that are proposed as eligible to apply to access these funds. Further work will be required to determine an appropriate basis of allocation for individual countries recognizing that the size of the maximum allocation will be an important determinant for its attractiveness to DCPs and external financing partners. Part of this work should also examine how to determine allocations and the process to access funds from either an enlarged or separate Leverage Fund for ESPIG eligible countries meeting co-financing requirements, should such resources become available.

6. RESOURCE IMPLICATIONS AND PRIORITIZATION

6.1 The SFWG considers the FFF to be an integrated framework and that the various components of it are interlinked and should be implemented in their entirety. The SFWG has examined preliminary resource estimates of the overall levels of resources that would be required to operationalize the FFF at minimum levels. It is important to be clear that the SFWG does not consider these minimum levels to be the ambition of what GPE should seek to raise through its next replenishment campaign, and with greater levels of resources, the Board would have more options to expand the scope and scale of the FFF to achieve even greater impact.

6.2 Scenarios are included in this paper that outline what the initial estimates of new resources required to operationalize the FFF would look like, while some additional scenarios have been developed by the Secretariat to allow the Board to consider the potential scale up in the FFF under scenarios that are closer to and at the level of ambition envisaged by the Education Commission in their call for GPE to reach US$2 billion per year by 2020.

6.3 An important phase of work following the February Board meeting will be to prepare prioritization criteria to guide the allocation of resources should the levels raised by lower than what the SFWG has examined is a minimum resource level for the FFF, or indeed where to allocate resources should substantially higher resource levels be achieved.

6.4 It's important to note that the timing of remaining grant applications from countries with an approved MCA, and implementation of existing grants under the current replenishment period may have an important impact on minimum resources required. Countries with sufficient grant financing through the end of 2020 will not get access to a new allocation in the 2018-2020 period, while other countries may only need an allocation in 2019 or 2020 enabling outer year funding needs to be financed from a post 2020 replenishment.

6.5 It is recommended that the Finance and Risk Committee (FRC) examine this work and develop a proposal for Board consideration. The Board is encouraged to consider its priorities and provide initial input to the FRC to guide this work. The SFWG is not making specific recommendations on this but notes the following key points that may be relevant for the Board's deliberations:

a. To ensure the integrality of the FFF, it must be implemented as a whole, therefore at least US$100 million should be reserved for the Leverage Fund, with a further US$60 million each for the Knowledge and Innovation Exchange, and the Advocacy and Social Accountability mechanisms.

b. The Leverage Fund should either be increased or a separate Leverage Fund created to allow ESPIG eligible countries to access additional funding as an incentive to promote leveraging and additionality through co-financed approaches, should sufficient financing be available.
c. The Board should note the recommendation from the Strategy and Policy Committee that GPE should aim to allocate 5% of overall resources to knowledge and good practice exchange and global public goods in the education sector (Knowledge and Innovation Exchange).

7. NEXT STEPS

7.1 Assuming Board endorsement of the FFF, key pieces of work on eligibility and allocation over the coming months will include the following:

a. Developing an allocation methodology for the Leverage Fund including consideration of how to expand it to ESPIG eligible countries
b. Finalizing operational details and allocations of the Knowledge and Innovation Exchange, and Advocacy and Social Accountability mechanisms
c. Developing the prioritization criteria for lower or higher than minimum resource scenarios.

8. PLEASE CONTACT

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9. ANNEXES AND FURTHER INFORMATION

9.1 This paper contains the following annexes:

Annex 1 – Resource Scenarios

Annex 2 – List of Fragile and Conflict-Affected Countries

ANNEX 1 – RESOURCE SCENARIOS

All figures in USD millions Scenario 1 – SFWG considered Scenario 2/3 – Secretariat Provided	Scenario 1 (Minimum Resource Estimate for FFF)	Scenario 2 (Accelerated Ramp to 2020	Scenario 3 (Reaching Two Billion by 2020)
Projected Opening Balance – Jan 2018[9]	270	270	270
Existing Pledges 2018/2019[10]	480	480	480
Total Assets	**750**	**750**	**750**
Remaining Commitments on ESPIGs approved prior to 2018[11]	(917)	(917)	(917)
New ESPIGs in 2018 based on existing MCAs[12]	(167)	(167)	(167)
New Commitments for ESPIGs on new MCAs (2018-2020)[13]	(900)	(1,372)	(2,539)
Leverage Fund[14]	(100)	(300)	(500)
Sub-total ESPIGs	**(2,084) - 87.6%**	**(2,756) – 85.6%**	**(4,123)- 86.5%**
Knowledge and Innovation	(60) – 2.5%	(161) - 5%	(239) – 5%
Social Accountability and Advocacy	(60) – 2.5%	(80) - 2.5%	(100) – 2%
Small Grants (ESPDG/PDG)	(36) - 1.5%	(36) – 1.1%	(36) – 0.8%
Secretariat/Trustee/Agency/Supervision[15]	(140) - 5.9%	(187) - 5.8%	(272) – 5.7%
Total Liabilities	**(2,380)**	**(3,220)**	**(4,770)**
NEW RESOURCES REQUIRED	**1,630**	**2,470**	**4,020**

[9] Projection of cash in the bank at 1 January 2018 that is not yet committed "ring-fenced" for a specific allocation

[10] Current replenishment period originally ran to 2018. Some donors have already pledged to the end of 2018, and a small few beyond.

[11] GPE grants average 3-4 years in duration and are committed in annual instalments. Grants approved in 2016 or 2017 are likely to have commitments stretching into 2018 and beyond and a provisions must be included for them

[12] Existing eligible countries with an announced MCA for the 2015-2018 period that will only apply in 2018 are unlikely to finish their 3-4 year program before the end of the 2018-2020 replenishment cycle. Therefore, an additional allocation will not be made available.

[13] It is assumed that at least 25% of the value of allocations approved in the 2018-2020 period would be carried over into the 2021 / 2022 period and could be financed through a subsequent replenishment. The figures here represent estimates of commitments made in the 2018-2020 period. The actual grant values for each scenario are higher and set out in the indicative MCA scenarios in these annexes.

[14] The Leverage Fund will be application based but countries will need to meet the same funding model requirements as an ESPIG with the exception that the program must be co-financed with at least US$3 of external funding for every US$1 of GPE funding.

[15] Assumptions underlying Secretariat costs have not yet taken into account the implications of the HR plan under development

Annual Inflows Required (USD Millions)		2018	2019	2020	Total
All Scenarios	Existing Pledges[16]	406	73	1	480
Scenario 1 (Minimum Resource Required for FFF)	New[17]	204	627	799	1,630
	Total (Existing Pledges + New)[18]	610	700	800	2,110
Scenario 2 (Accelerated Ramp to 2020)	New	394	927	1,149	2,470
	Total (Existing Pledges + New)	800	1,000	1,150	2,950
Scenario 3 (Reaching Two Billion by 2020)	New	594	1,427	1,999	4,020
	Total (Existing Pledges + New)	1,000	1,500	2,000	4,500

Projected 2017 Inflows are US$475 million so if static over 2018-2020 would be equivalent to US$1,425 million

Scenario 1 – US$2,110 million requires a 48% increase in resources over current levels

Scenario 2 – US$2,950 million requires a 107% increase in resources over current levels

Scenario 3 – US$4,500 million requires a 215% increase in resources over current levels.

[16] Represents the expected timing and value of contributions from donors that have already pledged for these periods.

[17] New – represents the value of new donor pledges that would need to be contributed in order to finance the respective scenarios

[18] Existing pledged contributions plus new pledged contributions equal the total annual contributions by year that GPE would need to finance the different scenarios

Indicative Maximum Country Allocations for ESPIGs under different scenarios

Summary table

	Total Allocation (67 countries) 1.4 billion	% 1.4 billion	Total Allocation (67 countries) 2 billion	% 2 billion	Total Allocation (67 countries) 3.6 billion	% 3.6 billion	MCA 2014 (65 countries?)	% 2014 MCA
Total amount allocated to LICs	971.4	69%	1390.1	70%	2439.7	68%	1211.0	60%
Total amount allocated to vulnerable LMICs	405.2	29%	586.5	29%	1136.9	32%	774.7	38%
Total amount allocated to SILDS	23.4	2%	23.4	1%	23.4	1%	18.2	1%
Total amount allocated to other LMICs	0.0	0%	0.0	0%	0.0	0%	14.3	1%
Total amount allocated to FCAC	847.6	61%	1202.4	60%	2165.2	60%		
Total amount allocated	1400		2000		3600		2018	

Allocation by country (for the 67 countries)

Country	Allocations Scenario 1 (1.4 Billion)	Allocations Scenario 2 (2.0 Billion)	Allocations Scenario 3 (3.6 Billion) Increased Cap	2014 MCA
Somalia	51.4	84.9	125.0	33.1
Burundi	28.4	46.9	114.0	25.8
Central African Republic	19.1	31.6	76.7	16.1
Malawi	29.5	48.7	118.2	44.9
Liberia	10.8	17.8	43.2	11.9
Niger	51.5	85.1	125.0	57.2
Congo, Dem. Rep.	100.0	100.0	125.0	100
Madagascar	40.2	66.4	125.0	62.2
Gambia, The	5.0	5.0	10.0	5
Guinea	22.9	37.9	92.0	27.1
Togo	9.5	15.6	37.9	17
Mozambique	71.2	100.0	125.0	57.9
Ethiopia	100.0	100.0	125.0	100
Guinea-Bissau	5.0	5.0	6.2	4.8
Afghanistan	58.8	97.1	125.0	100
Sierra Leone	8.9	14.7	35.7	17.2
Burkina Faso	33.3	55.0	125.0	40.9
Uganda	93.4	100.0	125.0	87.4
Rwanda	18.6	30.8	74.7	25.2
Nepal	5.6	9.2	22.4	59.3
Comoros	5.0	5.0	5.0	2.2
Mali	27.7	45.7	110.9	43.1

Country	Allocations Scenario 1 (1.4 Billion)	Allocations Scenario 2 (2.0 Billion)	Allocations Scenario 3 (3.6 Billion) Increased Cap	2014 MCA
South Sudan	25.3	41.7	101.3	30.3
Haiti	6.0	9.9	24.2	20.1
Eritrea	9.3	15.3	37.2	17.2
Zimbabwe	7.1	11.7	28.5	29.4
Benin	11.8	19.4	47.2	20.7
Chad	34.5	57.0	125.0	44.8
Tanzania	61.9	100.0	125.0	84.9
Senegal	19.8	32.6	79.2	25.3
Cambodia	5.2	8.5	20.7	20.8
Bangladesh	32.6	53.9	125.0	100
Djibouti	5.0	5.0	5.0	0
Cameroon	23.5	38.8	94.2	36.1
Kenya	5.8	9.7	23.4	77.3
Lesotho	5.0	5.0	6.1	4.7
Yemen, Rep.	19.6	32.4	78.7	64.7
Côte d'Ivoire	31.5	52.1	125.0	52.3
Myanmar	30.2	49.9	121.3	77.7
Mauritania	5.0	6.8	16.5	7.7
Pakistan	99.5	100.0	125.0	100
Ghana	5.7	9.4	22.9	0
Zambia	9.7	15.9	38.7	0
Lao PDR	5.0	5.0	8.4	11.7
Sao Tome and Principe	1.3	1.3	1.3	1
Sudan	35.7	59.0	125.0	98.6
Timor-Leste	1.3	1.3	1.3	3.9
Nicaragua	5.0	5.0	5.0	9
Solomon Islands	1.3	1.3	1.3	1.6
Bhutan	1.3	1.3	1.3	1.6
Papua New Guinea	5.0	5.0	10.2	14.1
Syrian Arab Republic	15.1	25.0	60.7	0
Nigeria	60.9	100.0	125.0	100
Kiribati	1.3	1.3	1.3	0.5
Vanuatu	1.3	1.3	1.3	0.7
Cabo Verde	1.3	1.3	1.3	1.2
Micronesia, Fed. Sts.	1.3	1.3	1.3	0.5
Samoa	1.3	1.3	1.3	0.6
Guyana	1.3	1.3	1.3	2.1

Country	Allocations Scenario 1 (1.4 Billion)	Allocations Scenario 2 (2.0 Billion)	Allocations Scenario 3 (3.6 Billion) Increased Cap	2014 MCA
Tonga	1.3	1.3	1.3	0.5
Marshall Islands	1.3	1.3	1.3	0.5
Tuvalu	1.3	1.3	1.3	0.5
St. Vincent and the Grenadines	1.3	1.3	1.3	0.5
Maldives	1.3	1.3	1.3	1
Dominica	1.3	1.3	1.3	0.5
St. Lucia	1.3	1.3	1.3	0.5
Grenada	1.3	1.3	1.3	0.5
Total	1400	2000	3600	2004

ANNEX 2 – LIST OF FRAGILE AND CONFLICT-AFFECTED COUNTRIES

Name	Fragile context World Bank (FY List)	Conflict-affected UNESCO (as of 20 - List from GEMR 20 Report)	Combined FCAC list
Afghanistan	✓	✓	✓
Algeria	·	✓	✓
Burundi	✓	✓	✓
Central African Republic	✓	✓	✓
Chad	✓	✓	✓
Comoros	✓	·	✓
Colombia	·	✓	✓
Côte d'Ivoire	✓	·	✓
Congo, DR	✓	✓	✓
Djibouti	✓	·	✓
Eritrea	✓	·	✓
Ethiopia	·	✓	✓
Gambia	✓	·	✓
Guinea-Bissau	✓	·	✓
Haiti	✓	·	✓
India	·	✓	✓
Indonesia	·	✓	✓
Islamic Republic of Iran	·	✓	✓
Iraq	·	✓	✓
Liberia	✓	·	✓
Libya	·	✓	✓
Madagascar	✓	·	✓
Mali	✓	✓	✓
Myanmar	·	✓	✓
Nepal	·	✓	✓
Nigeria	·	✓	✓
Pakistan	·	✓	✓
Palestine	·	✓	✓
Philippines	·	✓	✓
Papua New Guinea	✓	·	✓
Russian Federation	·	✓	✓
Rwanda	·	✓	✓
Sierra Leone	✓	·	✓
Somalia	✓	✓	✓
South Sudan	✓	✓	✓
Sri Lanka	·	✓	✓
Sudan	✓	✓	✓
Syrian Arab Republic	·	✓	✓
Thailand	·	✓	✓
Togo	✓	·	✓
Turkey	·	✓	✓
Uganda	·	✓	✓
Yemen	✓	✓	✓
Zimbabwe	✓	·	✓
Total	**23**	**31**	**44**