

GLOBAL PARTNERSHIP *for* EDUCATION

FINANCE AND RISK COMMITTEE REPORT

Board of Directors Meeting
June 6-7, 2017
Ottawa, Canada

Overview 1st meeting

April 11-12th meeting

- Committee mandate and composition
- Overview of discussions

Today Agenda

- Misuse of Funds
- Financial Forecast
- Risk Managment / Operational Risk Framework
- Leverage Fund



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UPDATE ON MISUSE OF FUNDS

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Afghanistan

→ US$55.7m grant of which US$52m has been disbursed by March 2017.

→ Two cases of misappropriation of funds identified and reported by Ministry of Education, totaling US$121,714.

→ At two Provincial offices, expenditure under FY 2015 was misappropriated by the cash custodian.

→ Process has been initiated to return the misappropriated funds.

→ UNICEF and the Government of Afghanistan working on addressing any deficiencies in the internal controls.

Benin

→ In 2014, fraudulent activities in school canteens in Benin. Misuse detected on sample of 20% of school canteens was US$69,300 and repaid in February 2016.

→ Further audit based on sample of 30% has shown additional fraudulent activities of $83,053 and was reimbursed in April 2017.

→ World Bank Integrity Vice Presidency (INT) reviewed the case and does not plan to pursue any additional investigative steps.

→ Audit requested on the remaining 50%, currently underway.

Ghana

→ US$22m grant across >7,000 schools from 2012 to 2016.

→ In 2015 auditors identified c.US$19,000 which had not been properly accounted for. So far, US$15,000 has been recovered and Ministry of Education pursuing remaining amount and taking action against head teachers found culpable of inappropriate conduct.

→ World Bank recognizes the Ministry worked hard to address systemic weakness in PFM at sub-national level.

→ Accountability system functioned well, but need for capacity building and strengthened monitoring of school grant programs.

Uganda

→ In August 2016, anonymous complaint made of alleged irregularities in the ongoing evaluation of the school construction bidding process under Uganda Teacher and School Effectiveness Project.

→ World Bank Integrity Vice Presidency (INT) is currently reviewing and pursuing investigative leads.

→ Without additional information from the complainant it is unlikely that INT will pursue this matter further.



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FINANCIAL FORECAST

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Background for forecast

- Forecast is used to provide information on the amount of funds projected to be available for allocation.
- Forecasts are subject to significant change – either temporary (timing issues) or permanent (impact of FX rates on contributions, decisions of donors on amounts)
- Current forecast covers remainder of this replenishment period (i.e. to the end of 2018). It does not factor in outcome of upcoming replenishment campaign.

Key Events Since Last Forecast

- Continued strengthening of US Dollar since US election
- New pledge for 2017 - France
- Increase in funding – Switzerland/Japan (Targeted).
- Reductions on 2016 contribution from a key donor less than previously anticipated.
- Targeted Financing on track from foundations – First contribution from Dubai Cares

Status of contributions (usd millions)

Brussels Pledge + Post Brussels Pledges and Adjustments	Paid to Date (Jan 31, 2017)	Remaining Pledge Value (Jan 31, 2017)	Total Value of Pledge + Paid in (Jan 31, 2017)	FX Related Change in Value (Jan 31, 2017)
2,249.0	896.2	923.9	1,820.1	(429.5)

Resources for forecasting

Opening Uncommitted Cash Balance 1 January 2017	165
Balance on Signed Contribution Agreements	284
Donor Pledges (after discounting for uncertainty)	593
Projections of Additional Contributions - Secretariat Recommended	75
Projected Carryover from 2015-2018 Approvals (20% of MCA)	241
RESOURCES FOR FORECASTING PURPOSES (A)	1,358

Amount to be set aside

Remaining Commitments to be made on Existing Approved Grants (2013-2016)	(601)
Provisions for other Grants (Plan Development, Program Development, CSEF)	(40)
Provisions for other costs (Supervision, Agency, Secretariat, Trustee)	(54)
General Provision (Leverage Fund and Contingencies)	-
Provision for Future Commitments based on MCAs for 2017-2018	(677)
TOTAL AMOUNT TO BE SET ASIDE (B)	(1,371)

Summary

SUMMARY (USD Millions)	
RESOURCES FOR FORECASTING	1,358
AMOUNT TO BE SET ASIDE	(1,371)
PROJECTED SURPLUS / (SHORTFALL)	(13)

- Down from a US$21 million shortfall in November 2016
- Insufficient funding projected to announce any new MCAs or reverse any of the previous prioritization measures
- No further prioritization measures are recommended at this time given relatively low shortfall, proximity to next replenishment event, and cash balance projected to be positive due to timing issues.

Summary of FRC discussion

- Agreed that the financial position while challenging is relatively stable and that there was no need for further reductions.
- Emphasized that a **successful replenishment** is key for the success of the Financing and Funding Framework.
- Concerned about GPE's **continued exposure to foreign exchange risk**.
- Noted the current low volume of grant applications.
- Discussed methodology to treat conditional pledges at the next replenishment.

Risks and implications

- Potential for a further strengthening of the US dollar in 2017 and lack of effective mitigation options.
- Any delays or reductions in contributions from major donors
- Any further reduction in projected available resources could trigger prioritization measures such as delaying of Board approval, or grant commitments as outlined in the Comprehensive Funding Guidelines approved by the Board in 2013.

Proposed Decision

BOD/2017/06-XX Financial Forecast:

The Board of Directors:

- Notes that while additional prioritization measures are not currently anticipated, there is no scope to provide additional indicative allocations at this stage.

- Calls on all partners to intensify their efforts to secure additional financing through the GPE Fund and for donors and developing country partners to fulfill their pledges in a timely manner.

- Noting the risk to GPE's liquidity, calls on those donors that are in a position to do so, to advance the timing of their contributions to the GPE Fund.



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RISK MANAGEMENT REPORT AND OPERATIONAL RISK FRAMEWORK

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Risk Management - Background

Policy and tools

- Risk Policy/Risk Matrix – Dec. 2014
- Operational Risk Framework – June 2016

Process

- Finance and Risk Committee – Oversee
- Other Committees – Inputs
- Board – Focus on critical/high risks – ownership 4 risks

Severity Chart

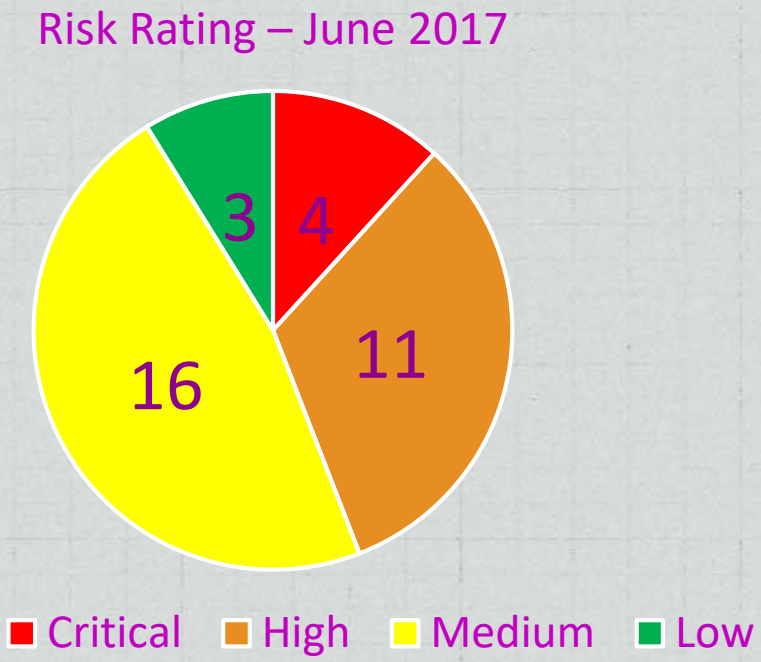
Probability	Impact			
	Minor	Moderate	Major	Severe
Very Likely	Medium	High	Critical	Critical
Likely	Low	Medium	High	Critical
Possible	Low	Medium	Medium	High
Unlikely	Low	Low	Low	Medium

3 ratings:

- Inherent risk (before controls are applied)
- residual risk (as of March 2017)
- target risk (by 2020)

Overview

- 34 risks
- 26 are lower than their inherent risk rating
- 5 risks meet the target risk rating



Status key Critical/High risks

- ✓ Domestic Financing (1.2.3 - critical)
- ✓ Availability of Suitable Grant Agent (2.1.3 - critical)
- ✓ Program Implementation Modalities (2.3.3 - critical)
- ✓ *The risk that donors fail to deliver on their current funding pledges within the replenishment period (3.1.1 - critical ↘ high)*
- ✓ *The Secretariat's technical capacity (4.2.3 - critical ↘ high)*

Summary of Committee deliberations

FRC

- Link with Results Report
- Notion of risk ownership

SIC

- Include risk/cost analysis in all decision making
- Inputs in the Matrix

GPC

- Inputs in the Matrix

5 new risks recommended

- ***delays in the design of ASA mechanism undermines the continuity of civil society engagement and teaching profession*** (1.1.4) ***- Board -medium***
- ***GPE and ECW are not complimentary and aligned*** (1.1.5) – ***Board - medium***
- ***the absence of the Private Sector and Foundations Strategies could result in misalignment with current partnership processes (***1.1.7) – SIC - ***medium***

- ***GPE and IFFEd are not complimentary and aligned*** (1.1.6) – ***Board / critical***
- ***GPE is adversely affected by Foreign Exchange movements*** (3.1.5) – ***FRC - high***

Proposed Decision

BOD/2017/06-XX Risk Management Report:

The Board of Directors:

- endorses the changes to the Risk Matrix, including modification of risks, revisions to the overall score of some risks, update on current mitigations actions and addition of future mitigation actions, as presented in BOD/2017/06 DOC 06.

- requests the Secretariat to review the risk policy, including further clarification of the risk ownership and to report back to the Finance and Risk Committee by October 2017.

Update on Operational Risk Framework

- A differentiated risk based approach to quality assurance and monitoring on a **country by country and grant by grant basis**
- On an annual basis, Secretariat to **reassess operational risk across the portfolio of ESPIGs**, linking data from grant portfolio reviews and results-framework country analytics with the Operational Risk Framework
- Secretariat to finalize **operational risk assessment methodology** once risk specialists on board



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LEVERAGE FUND

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Proposed Decision

BOD/2017/06-XX Leverage Fund:

The Board of Directors approves:

1. Initial eligibility to access the Leverage Fund to countries that may be eligible and ready to apply for funding in 2018 in the following categories:

a. ESPIG eligible countries that are subject to the cap of US$100 million

b. ESPIG eligible countries that have an allocation of less than US$10 million

c. Non-ESPIG eligible countries that are approved as eligible for other forms of GPE Funding as set out in Board decision BOD/2017/03-07

Proposed Decision (continued)

BOD/2017/06-XX Leverage Fund:

2. Approves the basis for allocation of funds from the Leverage Fund as set out in BOD/2017/06-DOC 08.

3. Noting the importance of demonstrating the potential impact of the Leverage Fund, and with due consideration to ensuring additionality and co-financing approves the process for rolling out the operationalization of the Leverage Fund as set out in BOD/2017/06-DOC 08.

4. In the interests of ensuring efficiency and providing flexibility to test the concept, delegates authority to the Finance and Risk Committee to approve minor modifications to the approach that may arise in-between scheduled Board meetings.

Proposed Decision (continued)

BOD/2017/06-XX Leverage Fund:

4. In the interests of ensuring efficiency and providing flexibility to test the concept, delegates authority to the Finance and Risk Committee to approve: ~~minor modifications to the approach that may arise in-between scheduled Board meetings~~.

a) Adjustments to the eligibility criteria to allow any ESPIG eligible country that can apply in 2018 and has strong prospects for success to request to be considered for inclusion in the initial phase

b) In consultation with the Coordinating Committee, an accelerated timeline for announcements of a Maximum Country Allocation in cases where it would improve prospects for achieving additional external co-financing and facilitate a timely application in 2018