

## MEETING OF THE BOARD OF DIRECTORS

PARIS, FRANCE

BOD/2022/12 DOC 05

FOR INFORMATION

### SEMI-ANNUAL CORPORATE RISK UPDATE

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#### Key issues for consideration:

- The Finance and Risk Committee (FRC) considered the Corporate Risk Update at its October 2022 meeting. The Committee highlighted the risks arising from the challenging global economic environment, and noted the importance of GPE focusing on actions that are within the control of the Partnership.
- The Committee highlighted currency exchange risk and emphasized the desire for more uptake of Euro grant allocations as a natural currency hedge, which is already possible.
- The Committee raised concerns over the risks associated with the rollout of the operating model and delays in disbursements, highlighting the need for appropriate mitigation strategies, while also citing the importance of diversification of grant agents.
- FRC members also noted the importance of considering risks associated with potential de-hosting of GPE from the World Bank as part of the risk framework. The Secretariat acknowledged that the risk framework would need to be updated to take account of implications of any Board decision to de-host from the World Bank.

#### Objective

1. This document presents the status of risk management across the Partnership by focusing on the most critical risks to GPE's ability to achieve its goals and objectives. The Board is invited to review the information provided and determine if there are any additional risk-specific concerns, particularly in areas that are affecting GPE's ability to implement its strategic plan.

#### Background

2. GPE's risk framework is designed to be an effective internal management tool while supporting the Committees and Board in strategic decision-making. The semi-annual corporate risk update focuses on the key risks that could impact the delivery of GPE2025.
3. **The global economic environment is challenging.** Increased focus on security in the context of the Russian invasion of Ukraine combined with high inflation is placing pressure on GPE donors' and partner countries' economies. In turn, this increases **risks around both development assistance and domestic financing.**

4. **Risks around GPE fund management, in particular currency exchange risk** and liquidity risk, **have remained very high, while resource mobilization risk has also increased.** Record appreciation of the US dollar has continued, significantly eroding the dollar value of many pledges made in other currencies, and therefore reducing projected funds for allocation. The global economic challenges have elevated risks around resource mobilization efforts.
5. **Risks around the rollout of the new operating model** are twofold. At the **strategic level, the risk that the Partnership does not understand, champion, or deliver on the operating model approach towards system transformation remains high, although it is improving.** Several partners are actively mobilizing their staff at HQ and country level to support the rollout. At the operational level, while progress and feedback received on the operating model are broadly positive, the process is taking longer than hoped, which has increased the **risk of delayed rollout to high.**
6. **Risk around grant performance is high,** with a higher number of off-track grants than acceptable in the existing grant portfolio, and a longer rollout of the operating model. This will impact approvals and disbursements which will be increasingly backloaded. Delayed disbursements combined with increased hosting costs mean operating expenses will be temporarily outside the targeted 5-7% range in FY22 and FY23, but should recover in FY24-FY26, ensuring cumulative costs will stay within range. Some of the causes of grant delays are temporary (linked to the residual impact of COVID-19 or time taken to commence new programs) and should be overcome soon. Other delays, more complicated to resolve, are linked to the effects of conflict, political instability, and natural disasters. Applying GPE's updated operational framework approved by the Board in May 2022 ([BOD/NO/2022/05-04](#)) should help reduce risk.
7. While GPE cannot control the increase in risks caused by external factors, it can put itself in the strongest position possible to mitigate the impacts of such risks, particularly by continuing to advocate for education, and focusing on successful implementation of the operating model and existing grant portfolio. While the GPE Management Team is ensuring the Secretariat is taking actions within its control in these areas, it will require all partners' collective commitment and capabilities to succeed.
8. **Annex A** presents the Key Findings and Trends focusing on ongoing business management risks on an outlier basis and matters that will require attention in the future. An update on relevant risk areas discussed in the previous report is also provided. **Annex B** presents data and detailed information on risk indicators in a table format, comparisons with previous data, when possible, and the direction of travel. Since the last risk report, the GPE Secretariat has continued to refine and improve the list of indicators, adding new indicators around gender equality and alignment. The Secretariat is developing new indicators in risk areas not yet covered, as listed at the end of the tables in Annex B.

#### **Annex A: Key Findings and Trends**

#### **Annex B: Detailed information on risk indicators, per risk category**

## Annex A: Key Findings and Trends

1. **Introduction:** This section follows the structure of the revised risk taxonomy which includes risk, control, and performance indicators under GPE 2025, while relevant indicators developed under GPE 2020 continue to be monitored. Qualitative information is presented alongside quantitative information to contextualize the analysis and better reflect actual risk levels. Furthermore, the qualitative assessment aims at considering the impacts of external factors (e.g., the Russian invasion of Ukraine, the impact of COVID-19, political context, etc.) and how it affects GPE operations.
2. **Methodology:** The rating is based on a scale developed following the [2019 Board approved methodology](#) (from **very low**, **low**, **moderate**, **high** to **very high** risk exposure). A qualitative estimate of the impacts, or the estimated consequences should the risk occur, is provided, as well as the direction of travel where possible. The overall risk rating at the category level is the outcome of a collective qualitative assessment by the Secretariat risk owners.

### 1) Strategic Risk exposure remains high

3. **The biggest strategic risk remains that the Partnership does not understand, champion, or deliver on the operating model approach towards system transformation.** There has been progress over the past six months on the Partnership's understanding of the operating model, including gender hardwiring. Several partners have mobilized their staff at HQ and country level to support. This increased understanding has been aided by Secretariat outreach and issuance of more operational guidance. However, time delivery risks are emerging in terms of the longer than anticipated time it takes to proceed through the operating model stages. The Secretariat will continue to seek ways to improve its support, but all partners will need to fully engage in the process to make progress.
4. **Resource mobilization, or the risk that contributions to the GPE Fund are insufficient, is the second biggest strategic risk. It is elevated to very high given the pressure that GPE fund management risk, particularly foreign exchange risk, puts on GPE's ability to finance its programs and future resource mobilization efforts.** The [July 2021 Global Education Summit](#) saw GPE secure US\$4 billion in pledges out of a US\$5 billion target. However, a reduction in pledge from a major donor in 2021, combined with a significant US dollar strengthening against many GPE donor currencies (exacerbated by the Russian invasion of Ukraine), has eroded the overall value of pledges in US dollar terms. This puts pressure on GPE's ability to finance its programs fully and to deliver on announced allocations for GPE 2025. Furthermore, the challenge of increasing donor commitments to reach the US\$5 billion target is also exacerbated as many donors seek to cope with the economic pressures created by high inflation and the implications arising from the war. This will likely reduce the volume and/or reorient the direction of aid available for education. New individual donor advocacy strategies are being developed and revised to mitigate the risk of insufficient contributions to the GPE Fund. The ability to deliver on the

operating model and maintain a high level of disbursements is critical to demonstrate the need.

5. **With regards to domestic financing, the risk around the decrease or lack of increase of the share of education spending in national budgets has increased to high** given the impact on national budgets to deal with the impact of increases in the price of food and energy, and increased debt service costs for dollar-denominated debt. Advocacy on domestic financing continues through the [Heads of State call to action on education finance](#), with support reaffirmed by the Commonwealth Heads of Government at their meeting in Rwanda in June 2022. The UN Secretary General’s Transforming Education Summit has also increased attention on education. At the summit it was announced that President Akufo-Addo of Ghana is now championing the declaration on education financing, picking up the mantle from President Kenyatta. The operating model has a significant focus on domestic financing of education, with the volume, equity, and efficiency of domestic financing considered upstream in the enabling factors assessment and partnership compact, with continued monitoring by the local education group and the Secretariat of delivery of commitments. The new model also offers the option to use the system transformation grant (STG) top-up as a lever for incentivizing progress where relevant.

## II) Operational risk exposure is elevated to high risk

6. **The biggest operational risk remains the ineffective or delayed rollout of the operating model, resulting in the inability to approve and disburse funds on time to support system transformation.** The risk exposure has increased from moderate to high given the challenges around the time taken to move from the start of the process to having the strategic parameters approved by the Board. Some of the reasons include slower than anticipated coordination at the country level, capacity constraints, and difficulty providing the level and accuracy of information required by GPE, particularly around domestic financing. However, in other cases, alignment with national processes and the need to ensure a robust policy dialogue has taken time. The Learning Framework captures the lessons learned from the rollout of the operating model thus far and opportunities to streamline processes and provide increased support to partners will be explored expeditiously. It is also clear that the initial 14-month estimate to navigate the operating model from the start of the process to grant approval is not going to be realistic for most countries, and the standard 18 months provided to them is a challenging but more realistic target.
7. **The second biggest operational risk is around grant performance or the risk that existing grants do not achieve results in their intended timeframe. Grant performance risk is elevated to high given the higher number of off-track grants than acceptable in the current grant portfolio.** 31% of active grants are off-track with implementation, compared to 14% six months ago. This is partly due to conflicts, political instability, and the

fallout of the COVID-19 crisis and its impact on grant timelines and utilization of funds. The GPE Secretariat engages with grant agents on the status of portfolio and utilization, including on measures to deal with issues causing slower than expected disbursement (e.g., slow start, delayed verification of results, delayed implementation, and lack of ability to adapt to a crisis environment). An action plan is being implemented to tailor support to countries and to escalate grants facing challenges. Regular engagement with grant agents to understand the bottlenecks and to support restructurings, including change of grant agent where necessary, are ongoing.

8. The risk of delayed rollout of the operating model combined with a higher number of off-track grants **impacts on approval and disbursement rates** by increasingly backloading them. This, in turn, **can impact on results and resource mobilization efforts** and make it challenging to keep the Secretariat's operating expenses budget within the 5-7% range of total disbursements expected by the Board. While these risks are real, they **can be addressed** through a concerted effort from all partners. The **Secretariat does see a strong pipeline of upcoming grant applications** (even if the speed is not as fast as desired). In addition, the **World Bank has provided assurances that most of the delays in its existing GPE grant portfolio** (which accounts for the largest amount of overall GPE Funds) **are temporary** and primarily related to COVID-19 impact and also the relatively recent grant approvals which require more time in some cases to start implementation. They also note that this trend applies to much of its portfolio, not just GPE.
9. **With regards to the risk of not having the tools and processes in place to enable effective and efficient grant portfolio management and monitoring, the risk level remains moderate, given it is an enabler of the biggest operational risk** (i.e., the ineffective or delayed rollout of the operating model). The grant operations team within the Secretariat has been strengthened and the Secretariat is investing in an improved grant management system. The Secretariat is focusing on increased monitoring and the use of metrics on grant approval timelines, effectiveness, disbursement, utilization rates, and implementation status to improve reporting and real-time portfolio management.
10. **Regarding grant management compliance, risk exposure has increased from high to very high risk, driven by the percentage of late audit and completion reports (respectively 69% and 45.5%).** This risk is linked to grant performance risk and the higher number of off-track grants than acceptable in the existing portfolio. The GPE Secretariat has reinforced the monitoring of reporting of due dates and is building an integrated tracking tool on upcoming report due dates that will be incorporated into the online grant management tool under development. Meanwhile, risk will continue to be mitigated by ensuring the required information is available through the portfolio meetings or otherwise to avoid delayed reports leading to late detection of issues. The Risk and Compliance and Grant Operations teams are now fully constituted and operational, allowing more active engagement with grant agents on these issues.

11. **Risk exposure has remained high with regards to the risk of fraud and misuse of funds.**

While the percentage of misuse cases satisfactorily addressed within an appropriate timeframe has decreased from 71% six months ago to 60%, the data needs to be contextualized given that 2 out of 5 misuse cases could not be addressed due to COVID-19 preventing travel for further in-country investigation. The risk exposure does not necessarily reflect a higher level of fraud and misuse but rather the difficulties of conducting investigations in the context of the global pandemic. The Secretariat continues to ensure that grant agents have strong policies and procedures in place to prevent misuse and to detect it and ensure repayment, should it occur (e.g., with the review of grant agents' standards during accreditation, with financial procedures agreements between the GPE and the grant agents, and contractual agreements between the grant agents and GPE's partner countries to govern the use of funds). The Secretariat ensures that grant agents can effectively mitigate fiduciary risk at grant quality assurance, and reviews all submitted reports, following up when necessary to ensure significant issues are addressed satisfactorily. The Secretariat engages regularly with the grant agents and reports to the Committees and Board on all credible misuse cases.

### III) GPE fund management risk remains very high

12. **The most significant risk in this category remains GPE's continued exposure to foreign exchange movement considering 67.5% of total unpaid donor pledges are in non-US dollar currencies.**

Small movements in the US dollar can have a significant positive or negative impact on the overall financial position. The ongoing demand for safe-haven US dollar assets in a time of global economic slowdown and political tension, combined with high and rising US interest rates to combat inflation, is causing significant US dollar appreciation against many GPE donor currencies. This is eroding the value of pledges in US dollar terms and increases the projected deficit in financing over the replenishment period.

13. One of the solutions to mitigate this volatility in the future is through **currency hedging**, and the World Bank is continuing to develop the operational details for the pilot approach approved by the Board in June 2022 ([BOD/2022/06-04](#)). The Trustee and Secretariat continue to consult with donors on the impact on contribution agreements, encouraging donors to sign multi-year contribution agreements where feasible. Donors are also encouraged to contribute to the GPE fund in US dollars. For instance, the Netherlands agreed to sign a dollar contribution agreement based on an initial Euro pledge (basically self-hedging for GPE). This has saved GPE several million dollars compared to if the contribution agreement was kept in Euros.

14. **The second biggest risk in this category is liquidity risk, which has increased from moderate to very high over the past six months, as anticipated in the previous risk report.**

GPE's cash balance is temporarily above the 9-12 month target for disbursement cover, with 22 months of expected disbursements cover held in cash. The higher cash balances have been driven by a combination of accelerated donor contributions (which



is positive) combined with slower disbursements than projected by grant agents, particularly on the existing grant portfolio. The higher cash balance is temporary and will reduce over the course of the strategic plan period ending in 2025 as disbursements rise significantly.

#### **IV) GPE business continuity risk is moderate to high**

15. **The risk of operating expenses exceeding the target range is high due to increased hosting charges and disbursement delays in some large programs.** GPE aims to keep operating expenses within a range of 5–7% of GPE disbursements. While the Secretariat made significant savings on its operating expenses budget in FY22, lower utilization of funds than projected by the World Bank on its existing GPE grant portfolio translated into lower disbursement needs. This resulted in GPE operating expenses for FY22 amounting to 9%, although on a cumulative basis for the first two years of GPE2025 (FY21 and FY22), it stood at 6.8% and still within range. The decision of the World Bank to increase hosting charges by more than 40%, resulting in a 24% markup being applied on all direct operating expenses from FY23, combined with the impact of longer timelines for countries to navigate through the operating model and slower disbursements than expected in the existing grant portfolio, will most likely result in the range being exceeded in FY23 before falling back within range in FY24–FY26 as disbursements rise significantly.
16. With regards to Human Resources or the risk that people, culture, or governance factors that cause uncertainty in the business environment could adversely affect operations, risk exposure has decreased to low, given the progress achieved in the sub risk areas identified in the previous risk report:
  - 16.1. **GPE had previously identified a risk around the GPE Secretariat not having the right staff in place and staff not having the right support to roll out the new operating model. The Secretariat considers this risk limited now,** given 126 term staff are onboarded out of 137 approved positions, including the 7 positions approved by the Board in June 2022. A significant focus has been put on rolling out the operating model internally, with trainings of staff and the development of guidelines. In the next six months, the risk exposure is likely to further decrease as the use of the new operating model and new IT equipment should be mainstreamed into business processes, along with more office presence and increased ability to travel in the aftermath of the global pandemic. While overall positive, the Secretariat has however placed a temporary hiring freeze on newly vacant positions pending evidence of disbursement progress, while inequities in World Bank compensation policies between DC and European based staff are increasing retention risks for staff based in Europe.
  - 16.2. **GPE had previously identified a risk around transitions and changes in senior GPE leadership. The Secretariat considers this risk as limited now.** The risk exposure has decreased significantly after the Board Chair and Vice Chair have been successfully onboarded and the new GPE CEO, Ms. Laura Frigenti, appointed by the GPE Board in

September 2022. The CEO will assume her role from December 2022 onwards, which will strengthen the Partnership and Secretariat at a critical time.

17. **With regards to GPE’s technological environment, even though the GPE Information Technology (IT) strategy is in place and pending update, the risk level remains moderate.** The risk is around the execution of the strategy and the fact the Secretariat could remain limited in its ability to make its own IT decisions under the World Bank IT requirements, which in turn presents a risk to GPE’s ability to implement its programs. The independent mid-point hosting review conducted in November 2021 concluded that the World Bank’s IT policy limits GPE’s ability to procure fit for purpose solutions. A team within the IT strategic planning arm of the World Bank is conducting GPE’s Enterprise Architecture Review to ensure that the GPE IT strategy is aligned with GPE 2025 and the new operating model. While it is hoped that the review will enable better alignment between the GPE IT Strategy and the World Bank current and planned technologies, GPE’s IT ecosystem will remain subject to the World Bank’s evolving policies and procedures. This could increase the risk of not having the tools and processes in place to enable effective and efficient grant portfolio management and monitoring.
18. **With regards to the Secretariat budget and workplan execution, the risk around a lack of alignment between the annual workplan of the Secretariat and the overall long term strategic planning remains low.** The Secretariat has developed a robust mitigation plan, including the identification of annual work priorities, and a quarterly progress report to management. Creating SMART targets, such as key performance indicators, will ensure that a robust framework exists for monitoring and more importantly tracking of performance across the Secretariat, against targets set by teams and individuals. Within this framework of monitoring and reporting, mitigation plans will be created to enable objectives that are not on track to be remediated, escalated or reconfigured for the next fiscal year. In parallel, the Secretariat’s operating expenses are reviewed on a monthly basis and six-monthly internal reallocation exercises respond to emerging priorities.

## V) Reputational risk remains moderate

19. An organization’s reputation, or how key stakeholders perceive it, directly affects its effectiveness. While the data in the category indicate a low-risk level, **the actual risk exposure is higher, with the most significant reputational risk being GPE’s inability to deliver effectively and efficiently on its goals and objectives. The risk is twofold, encompassing the roll out of the GPE 2025 Strategy and operating model while continuing to advance grant disbursement under GPE 2020.** The ongoing work in these areas is critical to ensuring that results demonstrate the need for added investment. Given the high number of off-track grants in the existing grant portfolio, the GPE Secretariat focuses on disbursements to ensure these are at a level that justifies further fundraising. Should donors and other stakeholders’ question GPE’s ability to deliver, resource



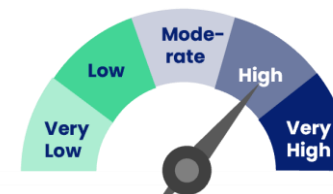
mobilization could be negatively impacted, and policy influence diminished. While reputational risk is largely dependent on the successful management of the other risks, the Secretariat will continue to seize every opportunity to proactively communicate GPE's work and impact, strategically using GPE leadership engagement in key political and policy fora, the media, social media, and GPE's communications platforms. Proactive communication and positively positioning GPE will help to enhance GPE's reputation, serving as a buffer against potential future reputational risk.

## Annex B: Detailed information on risk indicators, per risk category

### GPE Strategic Risk

The risk that GPE is not able to achieve its goals and objectives. Top Risks:

1. The risk that the Partnership does not understand, champion, or deliver on the operating model approach towards system transformation .
2. The risk that that contributions to the GPE Fund are insufficient (resource mobilization).



Risk Area	Risk Indicators & Trends (when applicable)	Risk level, Impact & Direction of Travel <sup>1</sup> (when applicable)	Context & Specific Countermeasures
<b>1. Financing risk and resource mobilization:</b> the risk that contributions to the GPE Fund are insufficient impeding GPE's abilities to fund its programs	<ul style="list-style-type: none"> <li>Total amount pledged versus US\$5 billion target: <b>US\$ 3.965 billion against the US\$5 billion target or 79.3%*</b></li> <li>Data for SI 2022: US\$ 3.956 billion or 79%</li> <li>*79.3% using the FX rates at the time of the pledges were made.</li> </ul>	<ul style="list-style-type: none"> <li><b>Very high (elevated)</b></li> <li>High Impact</li> <li>Direction of travel: ↑</li> </ul>	Foreign exchange movements over the past 12 months eroded the value of pledges in US dollar terms, putting pressure on GPE's ability to finance its programs. The challenge of increasing donor commitments to reach the US\$5 billion target is also exacerbated. New individual donor advocacy strategies are being developed and revised to mitigate the risk. The advocacy strategy focuses on increasing prioritization of education and GPE in national markets and global fora such as Transforming Education Summit and the G7. The ongoing work to roll out the operating model, and increase disbursements is critical to ensuring results demonstrate need for added investment.
<b>2. Financing risk and co-financings:</b> the risk that co-financing targets are not reached impeding GPE's abilities to co finance its programs	<ul style="list-style-type: none"> <li>% of total co-financing mobilized per calendar year versus target: <b>US\$ 1,003.81 million against a US\$500 million target or 200,8%</b></li> <li>Data for SI 2022: US\$ 567.8 million or 151,4%</li> </ul>	<ul style="list-style-type: none"> <li><b>Low Risk (adjusted)</b></li> <li>Moderate Impact</li> <li>Direction of travel: ↓</li> </ul>	Co-financing targets are well ahead of schedule. Some of the results are somewhat misleading due to an already well established pipeline coming into 2021, hence an adjustment of the risk level from very low to low based on a qualitative assessment. However, it is clear that demand for the Multiplier is very strong, with programs under the GPE2025 operating model approved in El Salvador and Rwanda and more on the way.
<b>3. Domestic Financing Risk:</b> the risk is that Partner Countries do not make progress towards GPE benchmarks in terms of	<ul style="list-style-type: none"> <li>% of GPE countries or states persistently below GPE benchmarks for DF volume: <b>27%</b></li> <li>Data for SI 2022: 24%</li> </ul>	<ul style="list-style-type: none"> <li><b>High risk</b></li> <li>High impact</li> <li>Direction of travel: ↑</li> </ul>	While there is no clear upward or downward trend based on data for the indicator, given global economic trends in a post-pandemic world, it is clear that government budgets are under pressure in many countries and domestic financing for education is affected. Therefore the assessment has been elevated to high.

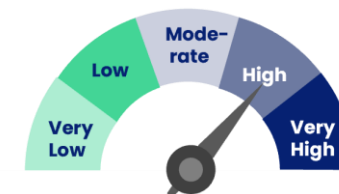
<sup>1</sup> Direction of travel indicates whether the measure it relates to has Improved (↓), Worsened (↑) or is Unchanged (↔) in the past six months.

domestic financing volume during implementation.			
<p><b>4. Mutual Accountability Risk:</b> the risk that partners at the country level do not take accountability for their commitments in the compact, impeding GPE's ability to mobilize global, national partners and resources for sustainable results.</p>	<ul style="list-style-type: none"> <li>• % of partnership compacts that 1) include specific commitments by country-level partners or a specified monitoring mechanism to review progress in the prioritized reform area, and which 2) implement the agreed monitoring mechanism: <b>100%</b></li> <li>• Data for SI 2022: n/a</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very Low risk</b></li> <li>• Moderate Impact</li> <li>• Direction of travel: n/a (data collected for the first time)</li> </ul>	<p>The assessment includes the six pilot countries under the new Operating Model (Kenya, Tajikistan, El Salvador, Nepal, Uganda and Democratic Republic of Congo).</p> <p>The indicator builds on the partnership compacts, which outline partner commitments to the prioritized reform area and their intentions for compact monitoring. Lessons from this initial assessment regarding foundations and practices of mutual accountability will inform the compact guidance review to be held in the first quarter of FY2023, and also help finetune and validate the methodology of this risk indicator.</p>
<p><b>5. Governance Risk (global level):</b> the risk that the systems by which GPE makes and implements decisions in pursuit of its goals and objectives is not fit for purpose.</p>	<ul style="list-style-type: none"> <li>• % of Board members agreeing with the statement: "The Board has the information it needs to operate at a strategic level and in the best interest of the GPE": <b>90%</b></li> <li>• Data for SI 2022: 90%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low risk</b></li> <li>• High Impact</li> <li>• Direction of travel: ↔</li> </ul>	<p>The adoption of the governance reforms had a positive impact on Board and Committees deliberations and decision-making. It enabled consistent, targeted information-sharing with governance officials, and has strengthened the understanding of governance rules, mandates, and pathways. The GPE Secretariat notes that the Board had to operate in a virtual environment during the global pandemic and resuming in-person meetings where feasible should further strengthen its effectiveness.</p>
<p><b>6. Gender Equality Risk:</b> the risk that gender equality is not hardwired during the implementation of GPE2025 operating model.</p>	<ul style="list-style-type: none"> <li>• % of programs that have hardwired gender equality through the program design to a satisfactory or highly satisfactory level at the QAR I stage: <b>n/a (new risk indicator to be collected in S1 2023)</b></li> </ul>	n/a	<p>This risk is in relation to GPE delivering the ambitious commitment to hardwire gender equality across the partnership. The new operating model is designed to incentivize the delivery of this at every stage of the grant approval process. This Risk Indicator is specifically designed to pick up at a portfolio level early trends from the quality assurance process on whether the hardwiring of gender equality is moving in a positive direction. The timing allows for mitigating actions at an individual country to be identified before the grant is finalized</p>
Risk areas where indicators are being developed: System Transformation			

## GPE Operational Risk

The risk that GPE is not able to deliver on its country-level objectives. Top Risks:

1. The risk of ineffective or delayed rollout of the operating model, resulting in the inability to approve and disburse funds in a timely manner to support system transformation.
2. The risk of ineffective or unefficient grant portfolio management and monitoring resulting in grants not achieving results in intended timeframe (i.e., grant performance risk).



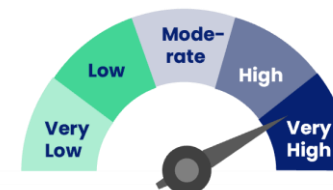
Risk Area	Risk Indicators & Trends (when applicable)	Risk level, Impact & Direction of Travel (when applicable)	Context & Specific Countermeasures
<p><b>1. Operating Model Risk:</b> the risk that Partners are unable to progress through key operating model stages in an effective manner</p>	<ul style="list-style-type: none"> <li>% of applications approved within 14 months of allocation: <b>n/a</b></li> </ul>	<ul style="list-style-type: none"> <li><b>High risk</b> (qualitative assessment)</li> <li>High Impact</li> <li>Direction of travel: n/a</li> </ul>	<p>Progress and feedback on the operating model is positive. However, there are challenges in terms of time taken to move from start of process to having strategic parameters approved by Board. The GPE Management Team has approved an action plan to ensure that approvals and disbursements rise rapidly. The GPE Secretariat will also adjust the methodology of this indicator. A more realistic target of 18 months to have an application approved will be set, hereby factoring readiness to apply and giving a more realistic timelines to countries applying for GPE grants.</p>
<p><b>2. Access to funding risk and approvals:</b> the risk that contributions to the GPE Fund are not allocated in a timely manner impeding GPE's abilities to implement its programs</p>	<ul style="list-style-type: none"> <li>Cumulative % of funds approved under the new operating model versus targets: <b>n/a</b></li> <li>Data for SI 2022: n/a</li> </ul>	<ul style="list-style-type: none"> <li><b>High risk</b> (qualitative assessment)</li> <li>High Impact</li> <li>Direction of travel: n/a</li> </ul>	<p>The first data cut off point for the indicator is December 2022. The risk assessment however is high. A number of mitigations actions are being implemented to streamline the process or under active consideration. The timeline is also being adjusted to reflect a revised target of 18 months to have an application approved compared to 14 months based on learning from the rollout of the operating model to date. The methodology to calculate risk exposure will be revised accordingly.</p>
<p><b>3. Access to Funding Risk and Multiplier:</b> the risk that partners do not, or are not able to, apply for GPE Multiplier funding impeding GPE's ability to implement its programs</p>	<ul style="list-style-type: none"> <li>% of Multiplier envelope allocated (= EOIs approved) per calendar year versus target <b>US\$216.75 million against the target of US\$150 million or 144,55%</b></li> <li>Data for SI 2022: US \$93.4 million or 83%</li> </ul>	<ul style="list-style-type: none"> <li><b>Very Low Risk</b></li> <li>Moderate Impact</li> <li>Direction of travel: ↓</li> </ul>	<p>Correlated to Financing risk and co financings above. The GPE Secretariat has allocated a number of Expressions of Interest (EOIs) received at the end of 2020 to the 2025 replenishment, hence the target is exeded. However, it is clear in the meantime that demand for the Multiplier is very strong with programs under the GPE2025 operating model approved in El Salvador and Rwanda, with more on the way.</p>

<p><b>4. Alignment Risk:</b> the risk that GPE grants insufficiently use government systems for implementation, and thus increase transaction costs</p>	<ul style="list-style-type: none"> <li>• % value of STGs on track to follow an aligned modality: <b>n/a</b> (new risk indicator to be collected in SI 2023)</li> </ul>	<p>n/a</p>	<p>The operating model creates opportunities to prioritize alignment and coordinated financing. Opportunities for use of the country public financial management systems and/or coordinated financing and funding is identified during the country analytics stage. It will be important to continue attention on this issue in the subsequent stages of the operating model. Data will be reported on this indicator in 2023.</p>
<p><b>5. Access to Funding Risk and Value for Money:</b> the risk that GPE investments do not demonstrate Value for Money</p>	<ul style="list-style-type: none"> <li>• Active grant portfolio administrative costs as of the FY-end*: <b>10.4%</b></li> <li>• Data for SI 2022: 10.6%</li> <li>• Operating expenses (OPEX) as a % of total GPE Fund transfers: <b>9%</b></li> <li>• Data for SI 2022: 6.9% (*Active grant portfolio administrative costs represent all agency fees, supervision allocations and management costs as a % of the total active grant portfolio).</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High Risk</b></li> <li>• High Impact</li> <li>• Direction of travel: ↑</li> </ul>	<p>Grant management and administration costs are closely monitored and reviewed for each grant application. Costs have experienced a small fall from 10.6% previously to 10.4% as some larger lower cost grants have become active during the FY. More than 61% of GPE programs and related grants are now disbursed in FCAS (fragile and conflict affected states) and there is now more diversity of grant agents with some GAs charging higher agency fees which has resulted in average costs rising over time. The data point does not necessarily reflect a lack of value-for-money in GPE investments but rather reflects GPE’s risk appetite statement to work in FCAS.</p> <p>With respect to OPEX, the impact of disbursement delays in some large programs and increased hosting charges is placing pressure on keeping OPEX within the 5–7% range. The disbursement delay is expected to be temporary as disbursements will rise over the course of GPE2025 while the Secretariat continues to seek opportunities for savings and expenditure remains below the approved budget.</p>
<p><b>6. Grant Performance Risk:</b> the risk that GPE grants do not achieve results in intended timeframe</p>	<ul style="list-style-type: none"> <li>• % of STGs &amp; Multiplier grants effective within targeted approval date (new OM): <b>n/a – data not available yet</b></li> <li>• % of active grants on track with implementation (previous OM): <b>69%</b></li> <li>• Data for SI 2022: 86%</li> <li>• % of active grants on track with implementation (new OM): <b>n/a – data not available yet</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>High Risk</b></li> <li>• High Impact</li> <li>• Direction of travel: ↑</li> </ul>	<p>Programs have stalled in a number of countries due to conflicts, political instability, and the disruption due to the COVID-19 crisis. The Secretariat is actively working with grant agents and relevant partners on the ground and at headquarters to overcome the bottlenecks. The GPE Secretariat engaged with grant agents on their utilization, including on measures to deal with issues causing slower than expected disbursement (such as slow start, delayed verification of results, delayed implementation and lack of ability to adapt to crisis environment). An action plan is being implemented to address delayed implementation in off track grants. Regular grant monitoring missions are also undertaken for off track grants, while the process and timelines set out in the operational framework for fragile and conflict affected states are also being applied.</p>

<p><b>7. Grant Management Compliance Risk:</b> the risk of a breach of the policies and procedures on grant management</p>	<ul style="list-style-type: none"> <li>• % of grants reports (progress, completion, audit) received late: <b>40.2%</b></li> <li>• Data for SI 2022: 29%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very High risk</b></li> <li>• Moderate impact</li> <li>• Direction of travel: ↑</li> </ul>	<p>The figure is driven up by the very high percentage of audit reports received late (69%, from 59% six months ago) and the very high percentage of completion reports received late (45.5%, from 22.2% six months ago) while the % progress reports received late remains low (6%).</p> <p>The Risk and Compliance and Grant Operations teams are fully constituted and operational which allows to more actively engage with grant agents to address these issues.</p>
<p><b>8. Risk of Fraud and Misuse:</b> the risk of losses due to fraud or misuse in GPE-funded programs</p>	<ul style="list-style-type: none"> <li>• % of misuse cases satisfactorily addressed within an appropriate timeframe: <b>60%</b></li> <li>• Data for SI 2022: 71%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>High risk (adjusted)</b></li> <li>• Low impact</li> <li>• Direction of travel: ↓</li> </ul>	<p>The data needs to be contextualized given that 2 out of 5 misuse cases could not be addressed by the end of June 2022 due to COVID-19. The risk exposure does not necessarily reflect a higher level of fraud and misuse but rather the difficulties around conducting investigations in the context of the global pandemic, hence the risk level was adjusted. The Secretariat is actively following up.</p>
<p><b>9. PSEAH (Prevention of Sexual Exploitation, Abuse, and Harassment) Risk:</b> the risk that GPE governance officials, staff and all partners involved in grant implementation are not able to prevent, manage the risk of and address SEAH incidents, should they occur in the delivery of GPE programs</p>	<ul style="list-style-type: none"> <li>• % of SEAH cases where information is provided by Grant Agents to allow the GPE Secretariat to monitor and track status, and report to the Board accordingly: <b>100%</b></li> <li>• Data for SI 2022: 100%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very Low Risk</b></li> <li>• Very high impact</li> <li>• Direction of travel: ↔</li> </ul>	<p>The GPE Prevention of Sexual Exploitation, Abuse, and Harassment (PSEAH) policy was approved by the Board in May 2021. The GPE grant quality assurance standards have been updated to reflect the GPE PSEAH policy ensuring that grants meet the requirements before approval. All new GPE grant agents are assessed as to their PSEAH standards, and all existing grant agents are being assessed in relation to PSEAH standards.</p> <p>Regular meetings with Grant Agents are organized to follow up on treatment of cases ; this has ensured that appropriate follow up actions are taken.</p>
<p><b>10. GPE Supporting Programs Risk:</b> the risk that GPE is not able to connect expertise, innovation, knowledge to support Partner countries to build stronger education systems</p>	<ul style="list-style-type: none"> <li>• Overall % KIX and EOL milestones met in the last FY: <b>96%</b></li> <li>• Data for SI 2022: 95%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very Low Risk</b></li> <li>• Moderate Impact</li> <li>• Direction of travel: ↔</li> </ul>	<p>The data point includes 92% of milestones met in the last fiscal year for EOL and 100% for KIX. The proposal for new funding for KIX and EOL will be reviewed by the Finance and Risk Committee and the Performance, Impact and Learning committee in October 2022, and submitted to the Board's approval in December 2022. It aims at strengthening through to mid-2027 the links between KIX and EOL with GPE2025. A timely extension of KIX and EOL mitigates the risk of disrupting ongoing work and losing the gains made to date.</p>
<p>Risk areas where indicators are being developed: Performance of ITAP ; Performance of Grant Agents</p>			



## GPE Fund Management Risk

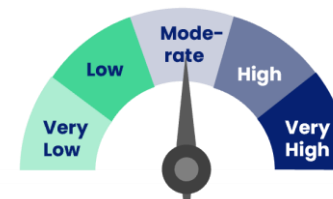


**The risk associated with the ineffective or underperforming financial management of the GPE Fund. Top Risks:**

1. **Foreign exchange risk and the fact GPE’s financial position continues to be exposed to significant foreign exchange fluctuations.**
2. **Liquidity risk related to impact of foreign exchange and expected pressure on donor pledges.**

Risk Area	Risk Indicators & Trends (when applicable)	Risk level, Impact & Direction of Travel (when applicable)	Context & Specific Countermeasures
<p><b>Liquidity risk:</b> the risk that GPE is unable to ensure that all payment obligations are met when they come due or that excess funds on hand impact ability to demonstrate funding need to donors</p>	<ul style="list-style-type: none"> <li>• GPE Fund balance within targeted range: <b>22 months expected disbursement held in cash</b></li> <li>• Data for S1 2022: 16 months expected disbursement held in cash</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very High Risk</b></li> <li>• High impact</li> <li>• Direction of travel = ↑</li> </ul>	<p>The higher cash balances have been driven by a combination of slower disbursements then projected particularly on the existing grant portfolio, combined with accelerated donor contributions. The high cash balance is temporary and will reduce over the course of the strategic plan period ending in 2025 as disbursements will rise significantly.</p>
<p><b>Currency Exchange Risk:</b> the financial risk that exists when the value of significant amounts of GPE donor pledges are subject to change, due to movement in currency exchange rates resulting in increased uncertainty for financial planning and potential reduction in funds available</p>	<ul style="list-style-type: none"> <li>• Value of unhedged outstanding non-USD contributions as a % of total replenishment pledges: <b>67.5%</b></li> <li>• Data for S1 2022: 86%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Very high risk</b></li> <li>• High impact</li> <li>• Direction of travel: ↔</li> </ul>	<p>The value of unhedged pledges have reduced as donor contributions are made in other currencies and are converted to dollars. However the value of these non-US dollar contributions and outstanding pledges have been negatively impacted by the rapid and sustained strengthening of the dollar to record levels over the past 12 months. The introduction of currency hedging for which the Board approved the pilot approach in June 2022 will be an important tool to reduce currency exchange risk. The World Bank is now actively working to develop the operational details. The Trustee and Secretariat are continuing to consult with donors on the impact on contribution agreements.</p>

## GPE Secretariat Business Continuity Risk



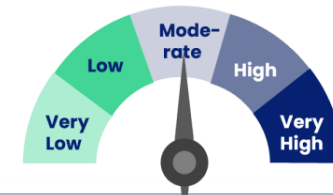
The risk that the Secretariat is unable to operate its critical business functions. **Top Risk:**

1. The risk of operating expenses exceeding the target range is very high due to increased hosting charges and disbursement delays in some large programs.

Risk Area	Risk Indicators & Trends (when applicable)	Risk level, Impact & Direction of Travel (when applicable)	Context & Specific Countermeasures
<b>Operating Expenses Risk:</b> the risk that GPE's operating expenses are not aligned with needs	<ul style="list-style-type: none"> <li>Actual vs. projected Secretariat expenditures overall (%): <b>83%</b></li> <li>Data submitted for S1 2022 : 91.8%</li> </ul>	<ul style="list-style-type: none"> <li><b>Low risk</b></li> <li>Moderate impact</li> <li>Direction of travel: ↑</li> </ul>	Out of a budget of \$58.2 million, GPE overall expenditures were at \$47.6 million (including hosting costs). A robust annual budgeting exercise, a monthly review of expenditure versus budget and a quarterly review of the work program are conducted to monitor spending and re-allocate funds to emerging priorities as needed..
<b>Human Resources (HR) Risk:</b> the risk that people, culture, governance factor that causes uncertainty in the business environment could adversely affect operations.	<ul style="list-style-type: none"> <li>% of staff (excluding short term and extended term consultants) currently employed out of total number of approved positions: <b>92%</b></li> <li>Data for S1 2022: 87%</li> </ul>	<ul style="list-style-type: none"> <li><b>Very Low Risk</b></li> <li>High Impact</li> <li>Direction of travel: ↓</li> </ul>	As of August 2022, GPE has 126 term staff on board out of 137 approved positions. The 7 positions approved by the Board in June 2022 have been filled or are at final selection stage. The recruitment process was redesigned to ensure efficient recruiting within the 90 day-policy, re-enforcing GPE's reputation with prospective job candidates as an efficient and organized prospective employer.
<b>Information Technology (IT) Risk:</b> the risk that external, internal, deliberate, or unintentional threats to IT systems affect business or project goals, service continuity, bottom line results, reputation, security, or infrastructure	<ul style="list-style-type: none"> <li>The GPE IT Strategy is up-to-date, well documented and implemented (qualitative assessment): the strategy is in place and implementation is slightly behind schedule.</li> <li>Data for S1 2022: the strategy is under review.</li> </ul>	<ul style="list-style-type: none"> <li><b>Moderate risk (adjusted)</b></li> <li>High impact</li> <li>Direction of travel: ↓</li> </ul>	Even though the GPE IT strategy is in place and pending update, the risk level remains moderate. The risk is around the execution of the strategy and the fact the Secretariat could remain limited in its ability to make its own IT decisions under the World Bank IT requirements, which, in turn, presents a risk to GPE's ability to implement its programs. While it is hoped that the review of GPE IT infrastructure conducted by the World Bank will enable better alignment between the GPE IT Strategy and the World Bank current and planned technologies, GPE's IT ecosystem will remain subject to the World Bank evolving policies and procedures.

Risk areas where indicators are being developed or refined in this category: Diversity and inclusion risk. ; Secretariat workplan

## GPE Reputation Risk



The risk of threat or danger to the good name or standing of the GPE. Top Risks: None

Risk Area	Risk Indicators & Trends (when applicable)	Risk level, Impact & Direction of Travel (when applicable)	Context & Specific Countermeasure
<b>The risk of threat or danger to good name or standing of the GPE</b>	<ul style="list-style-type: none"> <li>• % negative media coverage out of total GPE media coverage: <b>3%</b></li> <li>• Data for S1 2022: 3,6%</li> <li>• % of negative coverage in social media: <b>10%</b></li> <li>• Data for S1 2022: 33%</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Low to moderate risk (adjusted)</b></li> <li>• High Impact</li> <li>• Direction of travel: ↓</li> </ul>	<p>The two indicators measure a sentiment, which is an imperfect metric since posts or tweets that mention education challenges (ie. displacement, COVID, child marriage) are usually counted by algorithms as negative even if the message itself is not. GPE consistently monitors inbound messages with negative sentiment.</p>