Key issues for consideration:

- The Finance and Risk Committee (FRC) considered the Corporate Risk Update at its April 2023 meeting. The Committee raised concerns over the risks associated with the rollout of the operating model and delays in disbursements, highlighting the need for further improvements and simplifications. Members asked about risk related to human resources, considering the high staff turnover and the salary differentials between staff based in Washington D.C. and Europe.
- 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 if there was a decision to de-host from the World Bank, the risk framework would need to be adjusted accordingly.

Objective

1. This document presents the status of risk management across the Partnership by focusing on 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 GPE 2025. It builds on the previous report presented to the GPE Board in December 2022 (BOD/2022/12_DOC_05). Detailed information including analysis of top risks and corresponding mitigation actions is provided in the annex. Where possible, links are made with findings from the Monitoring, Evaluation and Learning Framework, the Results Report and other evaluations and/or reviews.

3. The global economic environment remains challenging, with interest rates, inflation, public debt levels, and the ongoing impact of Russia’s invasion on Ukraine weighing heavily on the availability of development assistance and domestic financing.
challenging economic environment, and in a context where global attention has been on other sectors such as health and climate, the ability of education to be prioritized remains a key risk for the entire sector at a time in which it faces a global learning crisis.

4. Therefore, the importance of having an education aid architecture that can collectively respond to the needs of partner countries to support education transformation is more important than ever. As requested by the Board, there is ongoing engagement with the SDG4 High-Level Steering Committee on this topic, along with engagement with the World Bank on GPE’s institutional arrangements to ensure that GPE is fully capable to respond to the challenges and adapt as needed.

5. Given the current economic environment, resource mobilization, or the risk that contributions to the GPE Fund are insufficient, is a major strategic risk. While there have been increases in donor contributions worth US$85 million since the Global Education Summit in 2021, these increases have not yet offset the significant reduction in a pledge from a major donor in late 2021. The Secretariat also expects at least one more donor will not be able to fully deliver on its pledge and has seen that some donors are backloading payments of their pledge to outer years. GPE continues to remain exposed to currency exchange risk on the outstanding payments to be made on non-USD pledges. Given high demand for GPE funding, resource mobilization will be a priority for the Secretariat. The finalization of a Foreign Exchange management framework for Board consideration in June 2023 should help mitigate some of the currency exchange risk.

6. A key operational risk is that contributions to the GPE Fund are not allocated in a timely manner impeding GPE’s abilities to implement its programs. Demand for GPE funding is high, and there are signs of a speed up among later cohorts of system transformation grant countries. We see a reduction in the risk that the Partnership does not understand, champion, or deliver on the operating model arising from greater familiarity from partners, and the impact of ongoing communication and outreach efforts. However, the time taken for countries to navigate the first phase of the system transformation process involving enabling factors, ITAP assessment, development of partnership compact, and approval of strategic parameters by the Board for GPE grants continues to be longer than anticipated. Significant efforts have been made to streamline these processes, but more is required, and these will be considered by the Board in June. On a positive note, once strategic parameters have been approved, the second phase of the process involving grant application and approval is in line with target timeframes.

7. Risk around grant performance remains high, with a higher number of off-track grants than acceptable in the GPE2020 grant portfolio. Some of the causes of grant delays are temporary (linked to the impact of COVID-19 or time taken to commence new programs) and are being overcome. Other delays are more complicated to resolve, and are linked to the effects of conflict, political instability, or natural disasters. Applying GPE’s updated
operational framework approved by the Board in May 2022 (BOD/NO/2022/05-04) has helped reduce risk in this area.

8. With respect to risks related to GPE’s current institutional arrangements with the World Bank, the Board in its decision BOD/2023/01-01 acknowledged there are advantages to the current institutional arrangements, but also the need for changes. As mandated by the Board, the CEO has engaged with the World Bank to further explore options around cost recovery charges for hosting, and fundraising instruments, with the next phase of work including the issue of direct access to GPE funds. The Board also requested the SDG4 High-Level Steering Committee to consider the call for the Education Aid Architecture to strengthen its support for the role of partner countries to own and deliver education transformation, and the related implications for GPE, and this work is ongoing. The CEO will report to the Board on progress in June and the Board will consider any potential changes to institutional arrangements in December. The risk framework may require updates to reflect the conclusions of this process.

9. The pace of approving new grants combined with delays in some of the existing approved grants continue to impact approvals and disbursements which will be increasingly backloaded. This has an impact on risks around GPE’s operating expenses which will be above the 7% target ceiling at the end of FY23, but should recover in FY24-FY26, ensuring cumulative costs will stay within range for the strategic plan period.

10. 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, by continuing to advocate for education, and focusing on successful implementation of the system transformation approach, and existing grant portfolio. While the GPE Management Team is ensuring the Secretariat is taking actions within its control in these areas, it requires all partners’ collective commitment and capabilities to succeed.

11. 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, comparisons with previous data when possible, and the direction on travel. Since the previous risk report, the Secretariat has continued to refine the list of indicators, adjusting methodologies as needed and adding new indicators on gender equality and IT risk. The Secretariat is developing new indicators in risk areas not yet covered (e.g., system transformation, diversity, equity, and inclusion, etc.) Annex B is available in the Governance Portal.
Annex A: Key Findings and Trends

1. **Introduction:** This section follows the structure of the 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 and how these affect 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) following a quantitative and qualitative assessment. An estimate of the impacts (i.e., 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.

3. **Resource mobilization, or the risk that contributions to the GPE Fund are insufficient, is a major strategic risk.** The July 2021 Global Education Summit saw GPE secure US$4 billion in pledges out of a US$5 billion target. The reduction in pledge from a major donor in late 2021 has been partially offset by new donor contributions, but the challenge of increasing donor commitments towards the target of US$5 billion is substantial. It is exacerbated by pressures on international aid budgets given an economic context of high inflation, high interest rates, elevated public debt levels, and for some donors increased pressure on defense spending and reallocation of resources towards support for hosting refugees from the war in Ukraine. Given priorities of some donors around health and climate, this will likely reduce the volume and/or reorient the direction of aid available for education. New donor advocacy strategies have been developed to mitigate this risk, while existing donors’ advocacy strategies are adapted to the political and economic contexts to maintain actual levels of pledges. There are risks of at least one more donor not being able to deliver on its pledge, and the ability to deliver on the system transformation approach and maintain a high level of disbursements is critical to demonstrate needs.

4. While foreign exchange movements have eroded the value of pledges in US dollar terms, the pressure as a result of exchange rates has been somewhat less severe over the past six months as the US dollar has weakened and stabilized. However, further US dollar strengthening could quickly return in the event of further geo-political shocks (see Currency Exchange Risk further below).

5. **While the risk that the Partnership does not understand, champion, or deliver on the operating model approach towards system transformation remains under watch,**
progress has been achieved in this area and the risk level is reduced to moderate. There has been continued progress in the past six months on the Partnership’s understanding of the operating model, including gender hardwiring. Since 2020, webinars have been delivered to partners (including donors, multilateral agencies, civil society organizations, the private sector, and Foundations) to explain the GPE operating model and receive feedback. The increased understanding has been aided by Secretariat outreach and issuance of more operational guidance, for example in February 2023.

6. There has been a strong focus in the past six months on simplifying the system transformation approach to reduce transaction costs. This is in response to lessons learned on the rollout to date including feedback from partners and the Board. Further adaptations are necessary, and these proposals will be considered by Board in June 2023 as GPE continues its commitment to learn and adapt.

7. Domestic financing risk remains high considering the impact of the global economic environment on national budgets in partner countries (i.e., high levels of inflation, high interest rates and increased debt service costs). 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. In October 2022, 35 organizations and governments issued a call to the Indonesia G20 presidency to continue to prioritize education financing.

8. The system transformation approach 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 approach also offers the option to use the system transformation grant (STG) top-up as a lever for incentivizing progress where relevant. GPE is also exploring debt relief mechanisms and other innovative finance mechanisms for the benefit of the education sector and providing co-leadership of the financing track (FA3) of the SDG4 High Level Steering Committee.

II) Operational risk exposure remains high

9. The biggest operational risk is that contributions to the GPE Fund are not allocated in a timely manner impeding GPE’s abilities to implement its programs. Only 52% of funds
under GPE2025 were approved against the target by December 2022\textsuperscript{1}. The risk is directly related to the risk that the ineffective or delayed rollout of the operating model, results in the inability to approve and disburse funds on time to support system transformation. These risks are primarily driven by the longer than anticipated timeframe for countries to navigate the first phase of the system transformation approach which culminates with approval of the strategic parameters by the Board. Adaptations have been made and continue to be rolled out reflecting the lessons learned. These include streamlining of enabling factor processes which is helping countries from cohort 3 (January 2022 launch) onwards to submit their enabling factor packages earlier. These initiatives, combined with a Secretariat better equipped to deliver on GPE2025 after intensive training and greater experience should help reduce the risk, although further adaptations are warranted, and will be considered by the Board in June 2023. Like all new operational processes, the operating model has taken time to be understood and implemented, but we expect the pace to continue to increase, and this is apparent in later cohorts. This suggests the need to look at how the transition from one funding cycle to another can be managed smoothly while continuing to adapt and learn.

10. While the timeframes are longer than expected, the initial learning suggests that the approach promotes inclusive policy dialogue which is highly appreciated. Also, the partnership compact helps to bring key discussions further upstream than in the past and promotes much deeper conversations about gender equality. The compact has also shown promise in reducing fragmentation at country level – which is of particular concern to partner countries - by bringing all partners together around evidence-based priorities to sustainably strengthen education systems. The challenge for GPE now is to simplify and speed up while not undermining the key strengths of the system transformation approach including inclusive policy dialogue, country ownership, mutual accountability, and hardwiring gender equality.

11. The second phase of the system transformation approach which is the actual grant application process following approval of strategic parameters by the Board is progressing well. Most countries that have navigated this phase are within targeted timeframes. Adaptations already implemented include starting the grant agent selection at the draft partnership compact stage (instead of after compact approval) and streamlining the quality assurance processes for smaller grants.

12. **Grant performance or the risk that existing grants do not achieve results in their intended timeframe remains high given the higher number of off-track grants than acceptable in the current grant portfolio.** 70% of active grants are on track with

\textsuperscript{1} It is however important to note that this is the first-time data is collected for this indicator, given the time needed for grants to go through the different stages of grant applications, and that this data point was expected.
implementation, which is a marginal improvement from six months ago. The time taken to catch up on implementation due to the delays incurred during the COVID-19 pandemic, as well as other exogenous factors including political crisis, changes in government leadership, and natural disasters are cited as causes for delays. 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). Actions are implemented to tailor support to countries and escalate grants facing challenges. Regular engagement continues with grant agents to understand the bottlenecks and to support restructurings, including LEG-endorsed agreement to change grant agent where necessary.

13. **The risk of delayed rollout of the operating model combined with a higher number of off-track grants impact on approval and disbursement rates by increasingly backloading them.** This makes it challenging to keep the Secretariat’s operating expenses budget within the 5–7% range of total disbursements, and also impacts on results and resource mobilization efforts. However, delayed approvals and disbursements can be addressed through a concerted effort from all partners, and it should be noted that disbursements for 2022, while still low, significantly exceeded estimates from earlier in the year. 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 the relatively recent grant approvals which require more time in some cases to start implementation. The GPE CEO is engaging directly with the World Bank at senior levels on the issue of slow disbursements.

14. **Regarding grant management compliance, risk exposure has been downgraded from very high to high after a qualitative assessment.** While the percentage of late audit and completion reports (respectively 69% and 50%) remains very high, the data must be contextualized looking at the size of the samples for data collection, the length of time after the due date, and the potential impact, which suggests a lower risk level. The 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 in 2023. Risks 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.

15. **Risk exposure has remained high for the risk of fraud and misuse of funds, with 74.5% of misuse cases being satisfactorily addressed within an appropriate timeframe.** It is however important to contextualize data: out of 7 cases reported, 3 were already closed.
at the time of the December report, and an extra 2 have been closed since then. Of the 2 cases that are deemed to not yet have been satisfactorily addressed, the issues raised are not expected to be material in nature. 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 all 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 stage, and reviews all submitted reports, following up when necessary to ensure significant issues are addressed satisfactorily. The Secretariat engages regularly with grant agents and reports to the Finance and Risk Committee and Board on all credible misuse cases.

16. **A particular attention is given to Gender Risk, or the risk that gender equality is not hardwired during the implementation of the GPE2025 operating model.** Although concrete data from the system transformation approach remains at the process level, of the 13 countries to have developed their partnership compacts in 2022, all considered how their choice of a priority education reform would advance gender equality. GPE is also learning more about how to improve its support to countries as they seek a deeper understanding of the challenges of gender inequality. In developing their partnership compacts, countries shared the need for obtaining more and better data and evidence about the nature of inequalities in education systems. In response to these and other demands, GPE created a dedicated Gender Hub within the Secretariat to better coordinate efforts to develop additional resources, provide staff training and explore new ways to ensure partner countries can access specialized support and expertise. Going forward, an update on gender is now included as part of the agenda of every GPE Board meeting and data for the risk indicator will be collected from S2 2023.

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

17. **The most significant risk in this category is liquidity risk, which has continued to be 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. This is primarily due to the expected backloading of disbursements as the approval of new grants in 2022 was not as high as initially hoped. If the currency hedging management approach is approved in June 2023 by the Board, the recommended cash balance will rise to 12–15 months’ worth of disbursement, given the need to hold more cash as collateral. With a continued focus on increasing disbursements, it is expected that cash balances will fall back in line over the outer years of this strategic plan period, and it
should be recognized that GPE’s cash level targets are highly ambitious compared to similar funds who tend to hold several years’ worth of disbursement cover in cash.

18. **GPE’s exposure to foreign exchange risk has decreased from very high to high risk, as the level of outstanding non-USD contributions that are not hedged as a percentage of the total replenishment resources for 2025 continues to fall** as donors make payments to the GPE Fund, lowering the outstanding amount of funds subject to further foreign exchange risk. Considering 65.4% of total unpaid donor pledges are still in non-US dollar currencies, this risk remains a concern. Small movements in the US dollar can have a significant positive or negative impact on the overall financial position.

19. **One of the solutions to reduce this volatility in the future is through currency hedging.** The GPE Board approved the pilot foreign exchange management approach in June 2022 ([BOD/2022/06-04](#)) and the World Bank has now developed the operational details which was considered by the FRC in April 2023 and will be for Board decision in June 2023 with the aim to be operational shortly after this decision. The pilot will run for two years with a review after 18 months of implementation which may result in adaptations.

### IV) GPE business continuity risk remains moderate

20. **The risk of operating expenses exceeding the target range remains 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 and continues to make savings in FY23 notably on staff costs, lower than projected utilization of funds by the World Bank on its existing GPE grant portfolio translated into lower disbursement needs in 2022. As a result, cumulative operating expenses from FY21 through the first six months of FY23 amount to 7.6% and given demands on the Secretariat and the pace of disbursement growth, the range will continue to be exceeded in FY23 but will start trending downwards by the end of FY24. Discussions with the World Bank on cost recovery rates should be concluded shortly and a positive outcome would alleviate some of the pressure on this indicator.

21. **With regards to Human Resources Risk or the risk that people, culture, or governance factors that cause uncertainty in the business environment could adversely affect operations, risk exposure has increased from low six months ago to moderate, as the result of a qualitative assessment.** While HR risk level remains low from the process design side, with a Secretariat Services team fully constituted and operational, there is a significant number of GPE staff coming to the end of their Extended Term Consultant (ETCs) assignments during the course of 2023, whose two- and three-year contracts cannot be further extended based on World Bank policy. The loss of skilled staff and the
effort to replace them and train up new colleagues will create additional HR risk. Mitigation actions will include surge capacity for the HR team and overlap of new ETCs being brought on board to enable effective transfer of skills. In addition, there is a growing salary disparity within the GPE Secretariat for staff performing the same roles. Staff based in Paris and Brussels received a lower salary on transfer from DC and have also received substantially less salary increase over recent years compared to DC based staff.

22. With regards to Diversity, Equity, and Inclusion (DEI) within the Secretariat, a DEI Advocates Group was constituted in January 2023 following on from the work of an internal Diversity and Inclusion Task Force. The group is leading the process to develop a risk indicator that reflects the Secretariat’s commitment to be a safe, diverse, and fostering environment to work. This indicator should be finalized within the first half of 2023, and subsequent data will be collected and reported.

23. With regards to GPE’s technological environment, the risk level is moderate given GPE’s IT infrastructure is not adequate to GPE’s business needs and requires significant investment and expansion. Until the previous risk report, this risk area focused on the execution of the IT strategy and the biggest risk was that GPE’s growing needs weren’t fully consistent with World Bank IT requirements and priorities. Following an Enterprise Architecture Review completed by the World Bank in November 2022, GPE adopted a hybrid IT services delivery model, to ensure more flexibility in adopting modern IT platforms and solutions specifically optimized for mid-sized grant-making organizations with strong advocacy and country engagement profile. The implementation of the hybrid IT services delivery model should help decrease this risk over time. It will however bring its own risks in terms of new IT systems being introduced by outside contractors and GPE will be the only World Bank hosted Financial Intermediary Fund to adopt a hybrid IT model. Mitigation actions include a high-level steering group chaired by the COO and a cross-Secretariat IT working group.

V) Reputational risk remains moderate

24. The risk around GPE’s reputation is moderate, as the result of a dense global education ecosystem, with multiple organizations competing for the same sources of funding. While the chance of occurrence is low, any reputational damage is likely to have a commensurate impact on GPE’s ability to mobilize funds. The most significant reputational risk is 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 on existing approved grants. Furthermore, the continued work to make the operating model agile and increase disbursements within GPE2025 is critical to ensuring results demonstrate need for added investment. 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.