1. PURPOSE

1.1 The purpose of this paper is to summarize the deliberations of the Governance, Ethics, Risk and Finance Committee (“GERF”) during its face-to-face meeting, which was held in Washington DC from May 3 through 5, 2016. The agenda and detailed information on each topic is contained in the document submitted to the GERF as referenced below and posted on the ETeam site.

1.2 This paper does not contain a summary of discussions and GERF recommendations to the Board of Directors which are presented in the following Board Documents:

- Financial Forecast: (BOD/2016/06/DOC 12)
- Risk Management Report: (BOD/2016/06/DOC 13)
- Governance Review (BOD/2016/06/DOC 21 and GERF/2016/06/GERF 04 Attachment 1)
- Financial Procedures Agreement (BOD/2016/06/DOC 10)
- Revisions to the Charter - Mutual Accountability and Governance Review (BOD/2016/06/DOC 22)
- Strategic Financing (BOD/2016/06/DOC 15)
- Knowledge and Good Practice Exchange (BOD/2016/06/DOC 16)
- CEO Report – Misuse of Funds (BOD/2016/06/DOC 11)
- Secretariat Budget and Workplan (BOD/2016/06/DOC 23)

2. DIRECT ACCESS – REVIEW OF CONSTRAINTS/OPPORTUNITIES TO ACT WITHOUT GRANT AGENTS (GERF/2016/05/DOC 07)

Summary of discussion

2.1 The GERF noted that GPE could not operate without a grant agent unless it had legal personality. GERF noted that creation of a legal entity for GPE which the World Bank could potentially continue to provide hosting services to, is an issue that the Strategic Financing Working Group may need to consider as part of their work following June Board meeting (including...
integration of Education Crises Platform) and recommends it be integrated into the work of the external firm.

2.2 The Board’s appetite for direct access itself (i.e. funding directly to governments) should continue to be tested as part of an ongoing dialogue but there are no specific GERF recommendations on this issue for now.

2.3 The Chair of the GERF will orally report to the Board on the outcome of this discussion.

3. MINIMUM STANDARDS REVIEW OF GRANT AGENTS (GERF/2016/05 DOC 08)

Summary of discussion

3.1 The GERF noted that all grant agents have policies/procedures that meet GPE minimum standards based on Secretariat’s review.

3.2 It was noted that compliance however with grant agent’s own policies was an issue in one particular case as evidenced by their own external audit. As compliance was not part of the scope of the review requested by the Board, the GERF recommends to the Secretariat to pay due attention to grant agents compliance with their own policies/procedures when it considers grant risk as per the Operational Risk Framework process.

3.3 The Chair of the GERF will orally report to the Board on the outcome of this discussion.

4. NEXT MEETING – MEETING PARTICIPANTS

Next meeting

November 2-3, 2016 in Paris, France

Meeting participants

Committee member participants: Nesmy Manigat (Chair), Charles Aheto-Tsegah, David Baysah, Aida Liha Matejicek, Terri Sach, Silviu Dragan

Secretariat Participants/Observers: Alice Albright, Padraig Power, Charles Tapp, Margarita Focas Licht, Karen Mundy, Jean-Marc Bernard, Christine Guétin, Ian McPhersen.

Independent Expert

Tim Nielander

Apologies:

Cheikh Mbow, Julie Shouldice

5. ANNEXES

Annex 1: Direct access

Annex 2: Minimum standards review of grant agents
ANNEX 1 – DIRECT ACCESS

1. STRATEGIC PURPOSE

1.1 This paper responds to the Board’s request in May 2015 to examine the constraints/opportunities in which GPE funding could be provided directly to national entities rather than through a Grant Agent (i.e. “Direct Access”) including whether a legal entity for GPE would be needed for such a purpose. The GERF are asked to consider the issues involved and advise the Secretariat and the Board on next steps.

2. BACKGROUND

2.1 In May 2015 as one part of its decision to strengthen GPE’s operational model, the Board requested the following:

“by Q2 2016, conduct an initial review of current constraints/opportunities for operating without an SE/ME, including the potential need for establishing a legal entity for the Global Partnership”

2.2 Prior to December 2013, eligibility to act as a Grant Agent (formerly known as a Supervising Entity (SE) or Managing Entity (ME)) was restricted to multilateral and bilateral development partners. In December 2013, the Board of Directors expanded eligibility to International Non-Governmental Organizations (INGOs) on the basis that they were assessed as meeting GPE’s minimum standards primarily with the aim to increase the options available for GPE work particularly in fragile and conflict affected states.

2.3 As of the date of this report, GPE currently has the following active Grant Agents

| Bilaterals: | DFID (UK), AFD (France), SIDA (Sweden), BTC (Belgium), SDC (Switzerland) |
| INGOs: | Save the Children, Global Campaign for Education (CSEF only) |

2.4 National Entities (Governments or Local Civil Society Organizations) currently cannot receive funding directly from the GPE Fund and therefore funds must be channeled to them from one of GPE’s Grant Agents.

2.5 The next sections explores the circumstances in which direct access may be suitable and the issues that would need to be considered.
3. SITUATIONS WHERE DIRECT ACCESS MAY BE SUITABLE FOR GPE AND IMPLICATIONS

3.1 As an organization with a lean Secretariat and no field presence, the existing approach of using grant agents to supervise and/or implement GPE grants is critical and would need to be maintained in the majority of cases.

3.2 However, there may be circumstances where the risks are sufficiently low and there are benefits in terms of reducing administrative costs and promoting national ownership and use of country systems such that direct access could be considered. If GPE were to adopt this approach, then initially it would make sense to restrict eligibility to Government entities considering that in the event of misuse, there is substantially less risk that funds will not be repaid and it would also promote greater use of national systems.

3.3 The circumstances that could be considered may include:

**Education Sector Plan Development Grants** – Currently capped at US$500,000, the financial risk is relatively small if provided directly to a Ministry in a country where there is strong public financial management (PFM) systems (as evidenced by a recent Public Expenditure and Financial Accountability (PEFA) assessment).

**Education Sector Program Implementation Grants** – While grants can range from US$1 million to US$100 million, direct access could be suitable for small grants in countries with strong PFM (i.e. those with a value of less than US$5 million) and for grants implemented through an existing Common Funding Mechanism used already by GPE development partners.

   A) In countries with strong PFM. The savings on agency fees and grant agent costs (approximately 17% in small grants) could be used to outsource reputable audit firms to conduct a capacity assessment of the unit responsible for implementation during the quality assurance phase and to cover annual independent verification missions to spot check implementation of the program and expenditure at a lower cost. As the overall grant amount is still relatively small, the financial risk may be acceptable.

   B) In countries with an existing well-functioning Common Funding Mechanism (CFM) that GPE partners are already channeling funding through, then an assessment could be performed (or one recently completed by a reputable partner relied upon) as to whether the controls and procedures for managing funds are sufficiently robust. If so, then GPE funds could be channeled directly through the same mechanisms as other partners and reliance would be placed on the existing controls and processes.
3.4 If GPE was to move to a direct access approach then the following would need to be applied:

1. There would need to be a set of minimum standards developed (similar to the standards for existing Grant Agents adopted in 2013 but adapted for a Government Entity e.g. consideration of Public Expenditure and Financial Accountability assessment)

2. There would need to be a credible assessment process to determine if they meet those standards (most likely outsourced to a reputable audit firm or reliance on a similar assessment by a partner)

3. There would need to be a process in place for monitoring implementation (e.g. independent verification of results and expenses - most likely outsourced to an audit firm)

4. The GPE Board would be responsible for approving each Government Entity that could receive GPE Funds

5. The World Bank as Trustee would not be responsible for the funds once transferred. The misuse of funds policy and Financial Procedures Agreement (FPA) with the Government would most likely be adapted to place responsibility with the Government for facilitating access to independent audit firms to conduct verifications or investigate cases of misuse. They would have to agree to repay funds in the event of a finding, and in the event of a breach of the FPA, then the contributors to the GPE Fund would continue to have the right to seek recourse directly against the Government (as is currently the case for Grant Agents)

3.5 While there are advantages to a Direct Access approach, there are also a number of disadvantages

A) While the supervisory functions of a Grant Agent could be partially replaced by outsourcing auditing to firms and by channeling funds only to countries with stronger capacity requiring less supervision, it would be difficult to replace the implementation support that is provided through a Grant Agent.

B) In the event of a misuse of funds situation, GPE would not be able to rely on the Grant Agent to apply its own procedures and therefore as GPE does not have its own audit/investigative function, it would need to contract in a team to investigate or place reliance on the findings of the national bodies responsible. In these cases, the risk that contributors may have to exercise their rights to seek recourse against a government directly may increase and the reputational risks for GPE may increase.
C) While cost savings are likely to occur, they could be quickly eroded as the Secretariat would need to strengthen its support and monitoring of direct access countries either directly or through outsourcing, and depending on the issues that arise during implementation, the costs could escalate (particularly if there was a misuse of funds case).

D) The potential to achieve synergies through co-financing GPE funding with funding from the Grant Agent may reduce if GPE were to fund a government directly rather than as part of a larger program.

4. CURRENT CONSTRAINTS TO DIRECT ACCESS

4.1 As GPE does not have separate legal personality from that of the World Bank, any Board decision to extend Grant Agent eligibility to National Entities such as a Ministry of Education or Finance would require the approval of the World Bank, as the World Bank would sign any legal or administrative agreement with these entities on behalf of the GPE. The World Bank is currently undergoing a process to review and consult on its approach to the issue of direct access.

4.2 The current position and likely outcome of this review is that the World Bank is unlikely to be able to facilitate a direct access approach for national entities in a situation where a hosted organization like GPE is legally part of the World Bank due to the significant reputational risks to the Bank of such an approach.

4.3 GPE has previously explored the issue of ending its hosting relationship with the World Bank to become an autonomous entity, however the cost and disruption of such a process for an organization of GPE’s size was viewed as prohibitively expensive and disruptive when this was considered in 2011/2012.

4.4 An area however that could be explored if the GERF and Board believed that direct access to national entities should be pursued would be to consider the creation of a legal entity that had the power to enter into a legal agreement with the Government to facilitate funding but where the Secretariat itself continued to be hosted by the World Bank, thus avoiding the significant cost and disruption of establishing a fully autonomous legal entity.

4.5 A comparable situation would be the Global Fund to Fight AIDS, Tuberculosis, and Malaria which prior to becoming a fully autonomous organization in 2009 already had legal personality as a Swiss Foundation. It could enter into legal agreements with national entities but continued to have the World Health Organization (WHO) provide it with administrative services including hosting the Secretariat (i.e. all employees were on WHO contracts but assigned to The Global Fund). In this
situation, the World Bank as Trustee transferred funds to governments, multilaterals, INGOs, and national CSOs based upon the instructions of The Global Fund, a separate and distinct legal entity with the ability to enter into its own legal agreements.

4.6 If GPE was to consider exploring these issues, it would be important to note that this would require external expertise that would need to be sourced and paid for, along with the agreement of the World Bank to explore such a scenario.

4.7 If GPE were to proceed down this road, the actual creation of a legal entity that would have sufficient privileges and immunities to enter into legal agreements with government entities would take time and require a host country to agree to provide such privileges and immunities. In addition, the World Bank may need to agree to provide hosting arrangements to a separate legal entity and this would require revision of the existing hosting arrangements. The additional costs of compliance with legal and regulatory requirements of the host country would also need to be carefully considered and weighed up against the benefits of having a separate legal personality.

5. **NEXT STEPS**

5.1 In advising the Board on next steps, the GERF could consider the following:

1. Should GPE seek to pursue a path to direct access?
2. If yes, does the overall approach outlined in Section 3 make sense?
3. Given that direct access would likely require creation of a separate legal entity, should the Board pursue exploration of this issue, and if so, over what timeframe?

5.2 Based on the GERF's deliberations on these issues, the paper can be adapted into a paper for Board decision if the GERF believes we should further explore these issues. Alternatively, it can be presented to the Board as an item for information with no further action envisaged at this point.

6. **PLEASE CONTACT:** Padraig Power at ppower@globalpartnership.org for further information.
ANNEX 2 - MINIMUM STANDARDS REVIEW OF GRANT AGENTS

1. STRATEGIC PURPOSE

1.1 The purpose of this paper is to summarize the findings of the Review of the GPE Grant Agents’ minimum standards conducted by the Secretariat and to report to the Governance, Ethics, Risk, and Finance Committee (“GERF”) at its meeting in Washington DC on May 3-5, 2016.

2. BACKGROUND

2.1 Per the Final Decisions of the Board of Directors’ Meeting of October 16, 2015 held in Washington D.C. (BOD/2015/10-02 – GPE Operational Model and BOD/2015/10 Doc 06-Decision), the Board determined as one of a number of decisions to strengthen GPE’s operational model that all Grant Agents should meet the minimum standards approved by the Board. These standards were approved by the Board in 2013 but were only applied to International NGOs and not to Bilateral or Multilateral agencies.

2.2 In line with the Board Decision, the Secretariat conducted a desk review of the nine existing bilateral and multilateral Grant Agents1 which had not yet been reviewed against the standards. The Secretariat used as much publicly available information as possible to reduce the burden of this review on partners, and then requested the Grant Agents to review, and confirm or correct the information available to the Secretariat, and provide supplementary documentation and information when necessary.

2.3 The analysis of the review shows that all nine Grant Agents meet GPE’s minimum standards. The findings from the reviews are compiled into a summary presented in Annex 1 and the individual review documents on which the assessments were made for each agency are available on the GERF Eteam site.

3. NEXT STEPS

3.1 As all existing Grant Agents meet the standards. The Secretariat will continue to apply the standards to any new entity that is nominated to be a Grant Agent going forward.

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1 Agence française de développement (AFD), Asian Development Bank (ADB), Belgian Development Agency (BTC), UK Department for International Development (DFID), Swiss Agency for Development and Cooperation (SDC), Swedish International Development Cooperation Agency (Sida), UNICEF, UNESCO and the World Bank Group (WBG). The more recently accredited INGOs - Grant Agents, such as Save the Children, UK, Save the Children, US and Concern Worldwide have been exempted from this review as they underwent a full assessment in 2014.
3.2 A follow up action is required with AFD within the next 6 months on its plans to enhance the existing Whistle-blower mechanism by introducing confidentiality measures in handling allegations of misuse and a dedicated website with email address to file complaints.

4. **PLEASE CONTACT:** Padraig Power ([ppower@globalpartnership.org](mailto:ppower@globalpartnership.org)) or Valentina Toma ([vtoma@globalpartnership.org](mailto:vtoma@globalpartnership.org)) for further information.

5. **ANNEXES/ ATTACHMENT**

Attachment 1: Summary of findings on Grant Agents compliance with the GPE minimum fiduciary standards.

Attachment 2: GPE Minimum Standards for Grant Agents.
### ATTACHMENT 1 – SUMMARY OF REVIEW OF COMPLIANCE WITH MINIMUM STANDARDS

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<th>Standards</th>
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Note: UNICEF is subject to a Single Audit Principle.
Note: UNESCO is subject to a Single Audit Principle.
Note: AFD’s Compliance Office might amend the Misuse of Funds Guidelines to introduce confidentiality measures in handling allegations of misuse.
ATTACHMENT 2 - GUIDELINES FOR ASSESSMENT OF NEWLY ELIGIBLE GRANT AGENTS

1. CORE PRINCIPLES

1.1 All Global Partnership for Education Grant Agents should have sound financial management practices and procedures. Internationally recognized fiduciary standards should be utilized and met, where possible (such as International Accounting Standards). In addition, Grant Agents should conduct appropriate due diligence of the financial and procurement systems of a developing country partner government or other entity receiving funds under a Grant Agreement as per the Proposal approved by the Board.

- Practices and procedures are measurable and transparent. Policies and procedures are written and well understood by staff.
- Fiduciary review functions (such as internal audit and investigation units) are appropriately independent and objective in the execution of their respective duties.
- Procedures are in place that establish periodic monitoring and ensure that issues raised in reviews are dealt with effectively.
- Procedures focus, as appropriate, on ensuring that value for money, for the resources expended, has been obtained from goods and services acquired or provided.

2. STANDARDS

2.1 Financial Management

2.1.1 Financial Management and Accounting Systems

Required capability: Robust financial management and accounting systems ensure accuracy of financial management and reporting. The entity has adequate systems, including systems for cash management and production of budgets, and for the production of reliable financial statements prepared in accordance with internationally-recognized accounting standards.

Illustrative means of verification:

- The entity produces reliable charts of accounts, which are prepared in accordance with recognized accounting standards, and provide the necessary level of detail to monitor expenditure.
- Robust and reliable accounting systems are integrated with other Financial Management systems, in order to facilitate reconciliation with budget, and reporting requirements.
Budgeting procedures are robust, and provide donors with assurances related to appropriate expenditure.

✓ Banking arrangements provide for effective cash management.

Based on available information, the entity’s credit risk is acceptable.

2.1.2 External Financial Audit

**Required capability:** The external financial audit function ensures an independent (if possible, as defined by the International Federation of Accountants (IFAC)) review of financial statements and internal controls. An independent auditor audits the entity’s financial statements according to internationally recognized auditing standards on an annual basis.

**Illustrative means of verification:**

✓ The entity has appointed an independent external audit firm or organization.

✓ The work of the external audit firm or organization is consistent with recognized international auditing standards.

✓ There is a transparent and competitive process for the selection of a suitable external auditor.

2.1.3 Control Frameworks

**Required capability:** An internal control framework (if possible, as defined by internationally recognized frameworks such as COSO, Cadbury and CoCo) is a risk-based process designed to provide reasonable assurance and feedback to management regarding the achievement of financial management objectives. The entity’s control frameworks are in place, documented, and have clearly defined roles for management, internal auditors, the governing body and other personnel.

**Illustrative means of verification:**

✓ The entity's accounting and finance organizational structure of is clearly defined, with documented roles and responsibilities and sufficient segregation of duties, including for implementing any Global Partnership for Education grants.

✓ The entity has adequate policies and procedures in place for risk assessment and management.

✓ There are adequate policies and procedures in place to guide activities and ensure staff accountability.

2.1.4 Internal Audit
Required capability: Internal auditing is an independent, objective activity designed to add value and improve an organization’s operations. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. The entity demonstrates capability for functionally independent internal auditing in accordance with internationally recognized standards (such as International Standards on Auditing (ISA)).

Illustrative means of verification:

✓ The entity has an internal audit mechanism in place and its activities are subject to review by an internal audit unit.
✓ The internal audit function is independent and objective, has a risk based methodology for preparing its annual plan, and its findings are disseminated to management, who follow up on recommendations.

2.2 Institutional Capacity

2.2.1 Legal Status

Required capability: The entity must have the appropriate legal status and legal authority to enter into contractual arrangements with GPE and other third parties, and must have the legal authority to receive funds.

Illustrative means of verification:

✓ The entity is a legally registered organization.
✓ The entity has the authority to enter into legal agreements and receive funds.

2.2.2 Project Appraisal

Required capability: The entity has the ability to identify, develop and appraise projects. Project appraisal functions include the establishment of standards and appropriate safeguards that are used to determine whether projects and activities will meet their development goals before funds are disbursed.

Illustrative means of verification:

The entity has a good track record for timely implementation of similar projects, and has a good track record of achieving appropriate programmatic results.

2.2.3 Management and Organization
Required capability: The entity’s organizational structure and quality of management enables it to competently manage or oversee the execution of funded projects, including through management of sub-recipients.

Illustrative means of verification:

✓ The entity has a board of directors that meets regularly and has statutes or terms of reference for its functions.
✓ The entity has an independent Audit Committee which reviews the integrity of the financial statements, has oversight of internal controls and reviews the effectiveness of internal audit.
✓ The entity has a management structure that is suitable for undertaking funded projects.
✓ The entity is well acquainted with the work of the Global Partnership for Education and the grant work involved
✓ The entity's staff—at all levels—have the requisite skills and experience to undertake funded projects.
✓ The entity's physical assets—including IT systems—are adequate to undertake funded projects.

2.2.4 Oversight of Sub-recipients

Required capability: The entity’s organizational structure and quality of management enables it to competently manage or oversee the execution of funded projects through management of and program delivery and implementation support to sub-recipients.

Illustrative means of verification:

✓ There are adequate procedures and criteria in place for a transparent selection of sub-recipients.
✓ The entity has adequate plans and resources in place to ensure sub-recipients have the capacity to implement the proposed activities and safeguard grant funds.
✓ The entity has had previous experiences with managing sub-recipients and disbursements of similar magnitude.
✓ The entity has Operational Procedures and plans in place for managing sub-recipients, including for monitoring the program implementation at sub-recipient level, reviewing sub-recipients’ financial and program reports for completeness and technical soundness and ensuring the safeguarding of assets held by sub-recipients.

2.2.5 Procurement Procedures
Required capability: The entity’s procurement procedures, covering both internal/administrative procurement and procurement by recipients of funds, include written standards based on widely recognized processes and an internal control framework to protect against fraud, corruption and waste.

Illustrative means of verification:

✓ Documented procurement processes include the following: (1) A code of conduct to avoid occurrence or perceptions of conflicts of interest; (2) Methods of procurement and when different methods should be applied; (3) Procedures for requests for tenders; (4) Procedures for bid evaluation; (5) Procedures that are transparent and competitive.

✓ Procurement approval systems are in place, with certifying and approving officers; and there are appropriate segregation of duties and levels of delegation.

✓ Procedures are in place to ensure that the goods/services delivered are of an acceptable quality.

2.2.6 Monitoring, Evaluation and Project-at-Risk Systems

Required capability: The entity can demonstrate existing capacities for monitoring and independent evaluation of projects and evidence that a process or system, such as project-at-risk system, is in place to flag when a project has developed problems that may interfere with the achievement of its objectives, and to respond accordingly to redress the problems.

Illustrative means of verification:

✓ The entity has Operational Procedures and plans in place for monitoring the program implementation at both the entity and sub-recipient levels and reviewing entity and sub-recipients’ financial and program reports for completeness and technical soundness.

✓ The entity has systems in place for early identification of problems/capacity gaps at the entity and sub-recipient levels and for initiating effective remedial actions.

2.3 Transparency, Self-Investigative Powers and Anti-Corruption Measures

2.3.1 Misuse of Funds Procedures

Required capability: In accordance with GPE’s Policy on Misuse of Trust Funds, which requires that the Board only choose agencies with robust policies and procedures for addressing Misuse to act as Grant Agent, the entity can demonstrate competence to deal with financial mis-management and other forms of malpractice.

Illustrative means of verification:
✓ The entity has clear written policies and procedures regarding issues of misuse of funds. There is a system of adequate safeguards to provide reasonable assurance as to the protection of assets, including the Global Partnership for Education grant, from loss, fraud, waste and abuse at every step of the grant life cycle.

✓ The entity has publicly available avenues to confidentially report suspected fraud or misuse of funds.

✓ The entity has the ability to ensure independent and objective investigation of allegations of misuse.

✓ The entity has terms and conditions in its agreements with sub-recipients and contractors in relation to the ability to recover funds in cases of misuse.

2.3.2 Protection of Whistle-blowers

Required capability: The entity protects individuals from retaliation due to providing information in relation to misuse.

Illustrative means of verification:

✓ The entity has policies and procedures in place in relation to whistle-blowing and the protection of employees or contractors.