GLOBAL PARTNERSHIP for EDUCATION

**BOD/2018/06 DOC 08**
**Meeting of the Board of Directors**
**June 12 – 14, 2018**
**Brussels, Belgium**

## FINANCIAL FORECAST

**For Decision**

*Please note: Board papers are deliberative in nature and, in accordance with the GPE Transparency Policy, are not public documents until the Board has considered them at the Board meeting. It is understood that constituencies will circulate Board documents among their members prior to the Board meeting for consultation purposes.*

*Summary of FRC Committee Deliberations:*

*Maximum Country Allocations:*

- The committee noted that there is a proposal to the GPC which recommends that countries with an existing allocation who can receive a 'top up' under the new MCAs, do a costed restructuring rather than submitting a new grant proposal.
- The committee noted that guidelines are currently being developed on providing GPE funding to small states.
- Overall, the committee was supportive of the proposal

*KIX/ASA:*

- The Committee Chair provided an overview of her conversation with the SIC Chair. For KIX, their recommendation was that the FRC maintain the provisional allocation of $60 million as originally planned and then request that the SIC assess demand and progress on implementation in a year to decide if the additional $20 million requested should be allocated. Similarly, on ASA they recommended to maintain the proposed $60 million allocation and allocate the additional $10 million after a review of progress.
- Committee members generally agreed with this approach, noting that some constituencies felt very strongly it was not appropriate to increase the proposed allocation amount until the design was finalized.
- Some committee members wanted more clarity on where the $60 million would be coming from- core or targeted funds. In response, the Secretariat noted that it would be $59 million from core funds and $1 million from targeted based on financing conference pledges

*Currency hedging:*

- The committee noted and welcomed the progress made on currency hedging, but also raised the concern that many donors won't be able to sign legally binding contribution agreements that are required by the World Bank to put the currency hedging provision in place.
- The FRC asked the Secretariat to explore with all donors what is possible from their perspective, and then revisit this issue with the World Bank and examine if there are ways to hedge that don't require legally binding agreements; and requested an update in October.

*Euro Grants:*

- Committee members were supportive of the proposal to introduce an option to have grants in either euros or dollars based on benefits in managing FX risk, interest from DCPs, and noting that euros represent the largest share of GPE donor pledges.
- One committee member noted that from a grant agent perspective, signing a euro-based grant is possible but not preferable due to their us dollar based systems and policies.

*Investment Strategy*

- The committee was supportive of the approach welcoming the proposal from the World Bank noting the potential benefits of diversification and increased investment returns.
- The committee noted that investing in equities does pose a reputational risk for GPE as there may be some ethical concerns with respect to some companies. The Secretariat noted that the funds are invested to mirror the MSCI index that covers over 1,600 companies in 23 countries and there's no active decision to invest in one individual company over another. The Secretariat would consult with the World Bank and try to provide any additional information on how the Bank considered the ethical aspects of the proposal.
- Additionally, committee members asked to better understand how the 5-year prospective for investment fits within the 3-year GPE horizon of replenishment, and noted the Secretariat's explanation that as the expectation was GPE would continue beyond 2020 and hopefully at least at current levels that the risks were low.

## 1. STRATEGIC PURPOSE

1.1 The financial forecast is designed to provide the Board with sufficient information on the expected financial position of GPE. This information is critical for the Board to determine how to allocate its financial resources in support of implementation of GPE strategic objectives.

1.2 This paper covers the following key issues:

- An assessment of progress and options with respect to mitigating foreign exchange risk including currency hedging, the possibility of introducing the Euro as a second Holding Currency of the GPE Fund, and euro grant allocations (below).
- An update on the current investment strategy of the GPE Fund balance, and a recommendation on a modification of this strategy.

- Recommendations for the announcement of maximum country allocations for remaining eligible ESPIG countries, provisions for KIX, ASA, and an expansion of the Multiplier (see paper BOD/2018/06 DOC 02).
- The standard semi-annual financial forecast and related annexes (Annex 6-11)

## 2. EXECUTIVE SUMMARY

2.1 The forecast is a projection of future events and is therefore subject to change.

2.2 With the announcement of significant financial pledges at the GPE financing conference, GPE's overall financial position is stable and the Secretariat notes that there are sufficient funds for the FRC to consider making recommendations to the Board for the announcement of remaining allocations for ESPIG eligible countries, the expansion of the GPE Multiplier, provisions for KIX, and ASA. In addition, the Secretariat forecasts that there are sufficient funds available for the Board to approve upcoming ESPIG grant applications as recommended by the Grants and Performance Committee (GPC).

2.3 For the GPE Multiplier (BOD/2018/06 DOC 09), an expansion from US$100 million to US$300 million is up for consideration. For KIX, a minimum US$60 million was envisaged with potentially up to 5-6% of overall resources (which would exceed US$100 million). The SIC and the FRC have recommended that the Board make US$60 million available now, with an additional $20 million to be allocated following a review of progress on and demand for KIX by June 2019 (or as soon as possible thereafter). For ASA, between US$60 million and up to US$100 million was envisaged in the FFF. The SIC and the FRC recommend that an allocation of US$60 million be considered by the Board, with an additional $10 million to be allocated following a review of progress on and demand for ASA by June 2019 (or as soon as possible thereafter).

2.4 The FRC under delegated authority from the Board has already announced Maximum Country Allocations (MCAs) for 26 countries in February. For the remaining 41 eligible countries, the Secretariat proposes that 4 countries receive an MCA that would be valid for applications from 2020 (factoring in timing of existing grants). The remaining 37 countries all have an existing MCA or have a recently approved grant (from July 2017). For 8 of these countries, that would have received a lower allocation under the new allocation formula, it is proposed that they retain their existing MCA and that the validity be extended through the end of 2020. For IDA eligible small island or landlocked developing states, it is proposed that the new MCA be added to their existing allocation, subject to a maximum allocation of US$2.5 million (the proposed floor under a high resource scenario approved by the Board in December

2017). For the remaining countries, where their MCA would be higher than the current MCA, it is proposed to top up their MCA to the higher level.

2.5 GPE's financial position continues to be exposed to any significant strengthening of the US dollar over the 2018-2020 period. Considerable progress has been made by the World Bank on options that may be applicable for GPE in relation to currency hedging that may substantially help to mitigate this risk (See Annex 1). While a technical solution that would be highly beneficial to GPE is possible, it will require **all** donors to commit to legally enforceable contribution agreements as well as make unqualified contributions. This is a change from the current types of agreement contributors sign and each contributor will need to explore whether they are willing and/or able to facilitate this. The Board will also need to formally request the World Bank if it wishes to proceed with exploring the currency hedging option further. FRC members thought it would be difficult to get all donor governments to sign legally binding agreements related to their pledges. As such, they requested that the Secretariat explore other options for hedging and continue to explore options with the World Bank.

2.6 Arising from the financing conference, the percentage of the overall pledges made in euros has now significantly increased with 36% of the value of all pledges in euros. This is over double the value of the next largest currency. To offer greater flexibility and choice to developing country partners and to reduce FX exposure by matching the currency of assets with liabilities, introducing the Euro as a second Holding Currency of the GPE Fund and a euro grant option are proposed in addition to the existing USD grants. This will entail some additional trustee fees to facilitate implementation and will also require some administrative changes to donor contribution agreements, financial procedures agreements, and related GPE governance documents. It will also entail careful planning to ensure cash balances in euro and dollars are optimally managed. While it is difficult to estimate demand for euro allocations for GPE, experience from the Global Fund to fight AIDS, Tuberculosis, and Malaria shows about 10% of its grant value are provided in euros.

2.7 The average cash balance of the GPE Fund represents about 9 months' worth of disbursements (i.e. cash balances rarely drop below $375 million and should rise following the financing conference). The funds are invested by the World Bank across three investment Model Portfolios comprising entirely of investments in high quality fixed income securities as well as cash and cash equivalent securities for liquidity purposes. The investment returns are credited to the GPE fund and are available for allocation. The current market environment continues to pose challenges for investors in conservative fixed income portfolios as yields on fixed-income instruments remain at historically relatively low levels and rising interest rates could result in unrealized or realized losses for fixed-income holdings. Considering these market conditions, the World Bank has developed a fourth Model Portfolio, Model Portfolio 4, to

provide additional investment options to trust funds that have liquidity levels that are significant in size and stable over a period of at least five years. Model Portfolio 4 has been designed to potentially enhance the risk/return profile of funds through added diversification benefits, while retaining the conservative approach to risk that overarches the World Bank's investment of donor funds. Model Portfolio 4 introduces a small allocation to equities which would be achieved through replication of the MSCI World index, a common benchmark providing exposure to over 1,600 large- and mid-cap stocks across 23 developed market countries that has been shown to provide diversification and return enhancing benefits to a fixed income portfolio. GPE may avail of the opportunity to invest in this portfolio if the Board agrees. Further details are outlined in Annex 2.

2.8 The Secretariat notes that as we are still early in the replenishment period, that additional donor contributions may be expected along with additional resources should GPE satisfy donor imposed conditions attached to their pledges. Therefore, the Board may be in a position to increase allocations for ESPIGs, Multiplier, KIX, and/or ASA at future meetings, and this will be monitored at each semi-annual financial forecast.

## 3. RECOMMENDED DECISION

3.1 The FRC requests that the Board of Directors approve the following decision:

**BOD/2018/06-XX—Financing Options:** The Board of Directors:

1. Requests the World Bank as Trustee to make the appropriate arrangements to introduce the Euro as a second Holding Currency of the GPE Fund, and agrees to provide euro grant allocations in addition to US dollars and further:
    a. Notes there will be an increase in Trustee fees to be incorporated within the annual trustee budget request.
    b. Delegates authority to the Secretariat in consultation with the Trustee to approve the necessary administrative changes to GPE's governance documents, donor contribution agreements, and financial procedures agreements to facilitate this approach noting that the timing of such changes may be aligned with any changes required to facilitate currency hedging.
    c. Delegates authority to the Secretariat to instruct the Trustee as to which currency donor contributions should be held in/converted to and to authorize currency conversion from euro to dollar and vice versa to facilitate liquidity management.
    d. Determines that the us dollar maximum country allocations or grant ceilings may be converted to euros upon request to the Secretariat, provided the notification has been

received prior to submission of the grant application and with the agreement of the grant agent.

e. Agrees that the exchange rate used to determine the euro equivalent of a us dollar maximum country allocation or grant ceiling shall be the official world bank exchange rate in effect on the date the request is received by the Secretariat.

2. Agrees that in addition to investing GPE Funds in the existing model portfolios, that the Trustee is also authorized to invest GPE Funds in Model Portfolio 4 as outlined in BOD/2018/06/DOC 02 which includes investments in equities, based on the current practice of liquidity projections provided by the GPE Secretariat as part of quarterly trust fund rebalancing exercises.
3. Approves the new and/or revised maximum country allocations for education sector program implementation grants as set out in Annex 3. The allocation for these countries will remain valid through the final application round of 2020 unless otherwise adjusted by the Board, and will be subject to the requirements of the GPE funding model.

**BOD/2018/06-XX—<u>Financing Options- KIX and ASA</u>:** The Board of Directors:

***KIX allocation: The Board of Directors:***

1. confirms that the initial allocation of US$60 million for the Knowledge and Innovation Exchange Mechanism be maintained over the period of 2018-2021. Given that targeted financing pledges of US $1 million have been made to date, $59 million will be made available from unrestricted funds.
2. determines that it will consider an increase in the level of funding of approximately $20 million based on a recommendation from SIC by June 2019 or as soon as possible thereafter to factor in initial progress with the implementation of KIX, demand for the mechanism, and confirmation from the FRC through the semi-annual financial forecast that there continues to be sufficient unallocated funds available to facilitate any increase.
3. notes that the allocations for KIX are to facilitate the financing of 6 themes over three years, the Learning Exchange, the costs of the grant agent for the management of the thematic funding, and any related Secretariat administrative costs for the overall management of KIX (including the US1.5 million already approved).
4. notes that the initial allocation for KIX is below the aspiration of reaching 5-6% of GPE's overall portfolio to support Knowledge and Innovation Exchange. The Secretariat is strongly encouraged to proactively seek to raise targeted financing that could be additional to bring overall financing for KIX closer to 5% of overall expenditures.

***ASA allocation: The Board of Directors:***

1. confirms that the initial allocations of US$60 million for the Advocacy and Social Accountability Mechanism be maintained over the period of 2018-2021.
2. determines that it will consider an increase in the level of funding of approximately $10 million based on a recommendation from SIC by June 2019 or as soon as possible thereafter to factor in initial progress with the implementation of ASA, demand for the mechanism, and confirmation from the FRC through the semi-annual financial forecast that there continues to be sufficient unallocated funds available to facilitate any increase.
3. notes that the allocations for ASA is to facilitate the financing of the three operational components of ASA; as well as the administrative costs of grant agent management of ASA funding and the costs of learning partners that are contracted to support ASA grantees.

## 4. BACKGROUND

4.1 As communicated in previous financial forecasts, it is important to note that the forecast is a projection of future events and is therefore subject to significant change that could both positively and/or negatively affect the forecast.

4.2 These changes can be permanent in nature, for example a reduction in donor contributions or an increase in commitments required. Alternatively, they can also be temporary in nature such as a shift in the timing of a donor contribution from the end of one year to the start of another.

4.3 The assumptions used to develop the financial forecast and associated recommendations are outlined in the explanatory notes in BOD/2018/06 DOC 08 - Annex 11.

4.4 The resources available for allocation are presented in both Annex 6 (calculation of the overall amount for allocation and impact on Maximum Country Allocations), and BOD/2018/06 DOC 08 - Annex 7 (Forecast of available resources to the end of 2020).

## 5. REASONS FOR RECOMMENDATION

5.1 Since the last forecast was prepared in December 2017, the financing conference has secured significant new pledges to the GPE Fund enabling the Board to consider a forecast of projected available assets for allocation for the purpose of announcing new maximum country allocations.

5.2 Annex 3 – provides a calculation of the resources expected to be available. It takes into account the remaining commitments to be made on previously approved allocations, provisions for ongoing activities to the end of 2020, and the expected cost of providing allocations to countries with an indicative Maximum Country Allocation (MCA) already announced by the FRC in February 2018.

5.3 The Secretariat notes that based on the comprehensive funding guidelines, the Board will be in a position to approve any and all proposals recommended by the Grants and Performance Committee for approval over the next two funding rounds. The calculations per the comprehensive funding guidelines are disclosed in Annex 8.

**Currency Hedging**

5.4 Significant progress on currency hedging has been made although further technical details specific to GPE would need to be explored. It has been determined that the most feasible option for currency hedging is to access capital markets as part of the IBRD's Trust Fund Pool. The attached note (Annex 1) from the Trustee lays out more details on the hedging program, however, the following is a summary of the points made in the note and, if the Board determines that they would want to move forward with hedging and **all** contributors are willing and able to change the nature of their contribution agreements such that they are unqualified and irrevocable, the Trustee will prepare a detailed analysis on the exposure, fees, mechanics, and framework for the boards sign off. While there are costs and certain collateral requirements, the Board will need to weigh this against the risks that GPE incurs by not hedging considering that adverse FX movements in the 2014-2017 period resulted in a close to US$400 million reduction in available funding compared to the USD value of pledges when initially made.

- **Collateral and Access to the Capital Markets:** Gaining access to the capital markets by using the Trust Fund pool allows for a larger pool of funds on which the collateral can be based. The current balance of the trust fund pool is about $29 billion. The entire pool of funds, not just those who choose to enter into hedging arrangements, would be used to determine the capital requirements, and the actual hedges would be entered into using the World Bank's existing Trust Fund ISDA Master Arrangements signed with market counterparties. This would allow the fund to leverage the World Bank's existing infrastructure, relationships, and experience. Additionally, this would allow for the potential to lower the collateral requirements. Current estimations of collateral requirements are thought to be between 10 and 20%. This figure is subject to change based on the additional analysis to be conducted by the World Bank.
- **Cost: The cost of implementing** an FX Hedging Program comprises two components:
    - Administration/transaction costs. Annually, these costs are currently estimated to be in the range of 3 – 4 basis points (0.03 or 0.04 percent) of the outstanding exposure. As the hedging strategy develops, there may be additional costs for the development of new systems to manage, monitor and report on the hedging strategy, which would vary with the complexity of hedging instruments employed. As an example, if GPE expected to

hedge EUR100m to ensure that it received a fixed exchange rate in the future of 1.24 to allow it to receive US$124 million in exchange, then based on current cost estimates, the amount paid in administrative fees would be between US$37,200 and US$49,600 per annum; and

  - External trading cost. The external trading cost is a factor of market price of individual trades on a rolling basis. The cost of hedging is dependent on many factors, including – but not limited to – the final hedging structure and nature and size of instruments employed under the hedging framework.

- **Changes to the Contribution Agreement:** The current nature of the contribution agreements allows for contributors to cancel or withhold payments as the agreements are not legally enforceable. In order for hedging arrangements to be put into place, the contribution agreements would need to be made irrevocable and the contributions unqualified. An example will be prepared for contributors showing the changes required to the agreements. Additionally, there would potentially be a written requirement for the relevant governments to be provided stating that they understand that the agreements are irrevocable and must be paid by the date listed in the agreements. The payment schedules must be adhered to in order to avoid the unwinding of the hedging transaction and the associated cost, which would likely be borne by the GPE. Detailed information provided by the Trustee can be found in Annex 1.

**Euro as a Second Holding Currency and Euro Grant Allocations**

5.5 The option to introduce euro grants was deferred at the last meeting of the FRC until consultations on potential demand with developing country partners took place, and until the outcome of the financing conference analyzed the overall levels of euro funds. At the December 2017 DCP constituency meeting, it was clear that there was interest in having this option from several DCPs. In addition, based on pledges made at the financing conference, some 36% of the value of all pledges were made in euros more than double the size of the next currency. This is an increase from the previous replenishment and therefore introducing euro grants in addition to us dollar grants could help reduce the mismatch between donor contribution currencies and grant allocation currencies. However, there are some issues to be considered before proceeding.

- **Required Changes to Fund and Documents:** governance documents, contribution agreements, and financial procedures agreements would need to be updated to reflect the option to grant in euros. Structurally, there would be no changes to the management of the GPE Trust Fund as it currently operates. The euro would be held in the same fund as the dollar contributions, so there would be no additional costs associated with setting up an additional

trust fund or sub-account. The euro funds would, however, be invested in a euro tranche for investment management purposes. In the current market environment, this would have an adverse impact on investment performance given that the euro rates are negative, therefore sound liquidity management would be required in this environment to ensure that only the minimum amount of funds required to meet demand were kept in euros.

- **Costs:** There would be an increase in operating expenses for the Trustee, along with level of effort from the Secretariat. From a Secretariat perspective, there would need to be strong management of the project pipeline in both currencies to ensure there is sufficient liquidity in both currencies. For the Trustee, there is a need to maintain both US dollar commitment authority and euro commitment authority, both in application and for reporting. This would lead to an increase in the financial management and accounting costs of the Trustee budget. For FY19, there would be additional one-time costs incurred during the transition period related to legal work (revision of agreements, etc.), which is also part of the Trustee budget. The volume of work for the Trustee and Secretariat will be dependent on how the GPE manages the euro contributions. While there is no ability to provide precise estimates on a cost increase implication without knowing the parameters of the fund, the rough estimates provided by the Trustee are an expected per annum increase between $100,000 and $200,000. As a comparator, the Trustee budget for the last three years are: FY16 - $480,000, FY17 - $399,000, and FY18 - $441,000. Additionally, the investment returns for a euro fund could be negative due to the current market conditions in European interest rates, therefore the need to balance the flow of funds appropriately is critical as any overestimation in demand for euro would likely require the Trustee to sell the surplus balance and covert the euros into US dollars or vice versa, which could possibly incur an FX loss.
- **Financial Reporting Implications:** The Trustee would be able to design and produce the reporting as requested by the GPE Board. This includes the possibility for the Trustee to convert a balance denominated in euro to US dollar at the exchange rate for that current date, which allows for the expression of funds to be reported in dollars for consistency. Alternatively, the Trustee could also report the euro balance separately from the US dollar balance in the Trustee Report. This option would require the presentation of two currencies in relevant sections and would lengthen the Trustee Report. The Secretariat would also have to develop a method for reporting funds which would match the same approach as the Trustee. Grant agents will have to be consulted to determine what methods of reporting could be feasible based on their respective policies.
- **Process Issues:** To ensure sound liquidity management, it would be necessary to be notified in advance of submission of the grant request if a euro allocation was required so that the

appropriate amount of euros could be held in the fund. The request should also have the agreement of the grant agent to ensure that the selected grant agent can facilitate a euro allocation. The Secretariat would use the official World Bank exchange rates on the date the notification was received to establish the euro equivalent of the us dollar allocation.

**Changes to GPE Fund Investment Portfolio**

5.6 Currently, the investments for the funds awaiting disbursement are held in Trust by the Trustee as a commingled investment portfolio for all Trust Funds administered by the World Bank. These investments are a mix of holdings that are intended to be invested for a short and medium-term horizon. The current portfolio consists of investments in government bonds and money markets with an investment horizon of up to three years.

5.7 This conservatively built portfolio poses challenges for the long term as yields on fixed-income instruments continue to remain low and, with interest rates poised to rise, could create a potential situation where the underlying investments lose value. Given these conditions, the World Bank has developed a fourth Model Portfolio (Model Portfolio 4, or MP4) which will provide additional investment options to funds with liquidity levels which are significant in size and stable over a minimum of a five-year period. This portfolio has been designed to potentially enhance the risk return profile of the funds through added diversification, but still maintaining a conservative approach to risk that overarches the World Bank's investment of donor funds.

5.8 Model Portfolio 4 would feature a five-year investment horizon with a capital preservation constraint, and a broader investment universe including a limited allocation to developed market equities. The equities exposure within Model Portfolio 4 would be achieved through replication of the MSCI World index, a common benchmark providing exposure to over 1,600 large- and mid-cap stocks across 23 developed market countries[1] that has been shown to provide diversification and return enhancing benefits to a fixed income portfolio. Model Portfolio 4 has been endorsed by the World Bank's Board, pursuant to receipt of written instruction from the relevant governing body, which in this case would be the GPE Board. Detailed information provided by the Trustee can be found in Annex 2.

5.9 A key consideration for GPE would be the five-year investment horizon and the need to have reasonable certainty that cash balances would not drop too low. At present, GPE's average cash balance is in the order of $375m or about 9 months' worth of annual disbursements. With the successful

[1] Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and US.

financing conference, the average cash balance is likely to continue at around 9 months' worth of disbursements but with a much higher disbursement rate. Therefore, it should be possible to allocate a reasonable level of funds into model portfolio 4 without causing a liquidity challenge. Currently the Secretariat and Trustee review liquidity projections quarterly and funds are rebalanced where necessary across the existing investment portfolios.

**Allocations for the GPE Multiplier**

5.10 Please refer to separate paper proposing an expansion from US$100 million to US$300 million.

**Allocations for KIX**

5.11 The Board has made US$60 million available for KIX with an expectation that up to US20 million may come from targeted finance. At the financing conference, only US$1 million in targeted financing was raised. The March 2017 Board decision on the FFF stated the following (BOD/2017/03-07) – "Given the integrality of the Financing and Funding Framework, the Board determines that a minimum level of resources shall be made available to operationalize the Leverage Fund, and the Reinforcing Funding Mechanisms as set out below:

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

The Board notes that these amounts are minimum levels and may be increased if resources are available, and based on approved prioritization criteria to be developed. As a guide for potential future growth, the Board notes that the size of the Leverage Fund should be guided by factors including early interest and progress. For Knowledge and Innovation Exchange, the aspiration should be to reach **approximately 5-6%** of total expenditure. For Advocacy and Social Accountability, it is not expected that an upper limit beyond US$100 million would be required. It is further noted that the source of financing from the GPE Fund may be from both unrestricted and targeted financing subject to the provisions of the Contributions and Safeguards Policy."

5.12 At present, the Board mandated 6 thematic areas of work for KIX and a 20% set aside for the learning exchange. Based on similar thematic funding initiatives, a minimum of US$10 million per thematic area appears to be desirable allowing for 6-8 grants per theme of between US$500k – US$2.5 million each. With a learning exchange of 20% of total, and the need to cover grant agent costs, an initial allocation of US$80 million was proposed by the GPE Secretariat.

5.13 Based on FRC and SIC review, it was determined to recommend maintaining the existing US$60 million allocation and revisiting KIX allocations in 2019 with a view to increasing the amount to US$80 million based on initial progress and demand.

**Allocations for ASA**

5.14 The Board initially set aside US$60 million for ASA with an expectation that no more than US$100 million would be required. Given the established good practice that civil society grants support activities for no less than 3 years, to enable longer term planning, capacity building and sustainability efforts, it is recommended that the successor to the Civil Society Education Fund comprise a three-year program beginning in 2019. In addition, the expansion in a number of GPE member countries envisaged over the next three years expands the potential footprint of GPE support for civil society. Therefore a US$70 million allocation was proposed by the GPE Secretariat to allow for a modest increase in the ASA grant portfolio.

5.15 Following FRC and SIC input, it was agreed to recommend maintaining the US$60 million allocation and to revisit this issue in 2019 with a view to increasing the allocation to US$70 million based on initial progress and demand.

**Allocations for ESPIGs**

5.16 26 MCAs for ESPIG eligible countries have already been announced by the FRC under delegated authority in February 2018.

5.17 4 countries are expected to be ready to apply for a new allocation in 2020 based on current implementation progress, and therefore its recommended that these countries receive a new MCA valid for application from 2020.

5.18 8 countries have existing MCAs or have been recently approved (i.e. since July 2017) and their new allocation would be lower than their existing MCA. It's therefore proposed to avoid disruption that their existing MCA should be retained through the end of 2020.

5.18 It's proposed that for the IDA eligible small island or landlocked developing states that have an existing MCA, that their new MCA be additional to this subject to a cap of US$2.5 million. This factors in that these allocations are extremely small to begin with and significant work is required to successfully meet ESPIG requirements. The US$2.5 million factors in the that the Board had agreed in December 2017 to put a minimum floor on allocations of US$2.5 million in a high replenishment scenario. The overall impact on the financial forecast is negligible, although it's expected that the higher allocations

will encourage more prospective grant agents to offer their services to these countries to assist them in accessing funds.

5.19 For the remaining countries with an existing MCA or recently approved grant, it's proposed to top up their allocation to reach the new MCA amount. A separate paper to GPC and FRC outlines how the increased funds could be factored into existing or planned programs to significantly reduce the transaction costs and burden for countries, grant agents, the Secretariat, and GPC/Board in accessing the funds.

## 6. RISK

6.1 The key risk to GPE's financial position moving forward relate to any strengthening of the US dollar against major donor currencies. Annex 1 outlines that significant progress has been made on currency hedging, although further technical analysis will be required before a solution is ready. A lack of willingness or ability from all contributors to sign legally enforceable agreements will however prevent a solution from being developed for GPE with the World Bank.

6.2 In addition, it will be important to convert from donor pledges into actual contribution agreements in a timely manner, and then ensure donors contribute on schedule.

## 7. NEXT STEPS

7.1 The Secretariat will continue to monitor the financial position and report to the FRC and Board semi-annually with an updated financial forecast.

7.2 Depending on FRC recommendations, the Secretariat will work with the Trustee to facilitate implementation of currency hedging, euro grants, and the new investment portfolio.

## 8. PLEASE CONTACT: Padraig Power at ppower@globalpartnership.org for further information.

## 9. ANNEXES OR INFORMATION

9.1 The following Annexes are included in this paper

Annex 1 – Update on Currency Hedging Options

Annex 2 – Asset Allocation and Investment Strategy

Annex 3 – Calculation of the Available Resources for Maximum Country Allocation

Annex 4 – Forecast of Available Resources to the end of 2018

Annex 5 – Forecast for the Purpose of Program Implementation Grant Approvals

Annex 6 – Status of Third Replenishment Pledges and Contributions

Annex 7 – Current Status of Grant Portfolio

Annex 8 – Explanatory Notes and Assumptions for Forecast of Available Resources

## ANNEX 1 – CURRENCY HEDGING

### GLOBAL PARTNERSHIP FOR EDUCATION (GPE) TRUST FUND: FOREIGN EXCHANGE RISK MANAGEMENT

(Prepared by the Trustee)

### I. Background

1. Some Financial Intermediary Funds (FIFs) administered by the World Bank, like the GPE Trust Fund, are exposed to fluctuations in foreign exchange (FX) rates because the holding and operating currency of the Trust Fund is the USD while donor pledges are primarily made in national currencies.

2. To facilitate a comprehensive FX risk management solution, the World Bank in its capacity as Trustee of these assets, has explored measures to manage the FX risk including the establishment of an FX hedging program within an overarching FX Exposure Management Framework. The review of a hedging program included examination of anticipated costs, possible collateral requirements, and the legal implications and challenges to gaining capital market access. Among the options examined, the most viable for further pursuit is for a Trust Fund to access the capital markets as part of the IBRD's Trust Fund Pool. This option would involve using the World Bank's existing Trust Fund ISDA Master Agreements[2] signed with market counterparties to hedge currency risk, and would have the advantage of leveraging the Bank's existing infrastructure, relationships and experience. A key benefit of this approach is that the hedging Trust Fund could potentially benefit from the fact that there are other transactions with a counterparty, which may lead to reduced collateral requirements. A further benefit is that the pooled nature of the investments means that the burden of collateral payments does not generally fall on one single Trust Fund but that the pooled cash is used for any collateral requirements.

3. It should be noted that while a hedging strategy may prove effective in insulating the GPE's funding from FX volatility, potential gains from FX movements would also be eliminated.

### II. Eligibility Criteria for Consideration of a Hedging Program

4. To ensure a hedging program is practical and effective, there are several criteria that need to be met before a hedging program would be considered. These include, but are not limited to, the following:

- *Nature of receivables to be hedged.* To minimize the possibility of permanent financial losses due to non-payment by the contributors, only unqualified instruments of commitment (IoCs) or irrevocable receivables under the contribution agreements[3] would be eligible for hedging. Contributions in the form of qualified IoCs would be exposed to FX risk until such time that they are unqualified, and those in the form of Contribution Agreements would remain exposed to FX risk until such time that they are paid.
- *Timing of payments.* As the financial instruments purchased to implement the hedges will be aligned with the payment schedules of individual donors, any changes to payment schedules,

[2] An ISDA (International Swaps and Derivatives Association) Master Agreement is a standardized agreement negotiated and signed between counterparties that sets out the legal and administrative terms that apply to all derivative transactions entered into between those parties. The ISDA Master Agreement is an industry-wide accepted form agreement aimed at reducing credit risk between the parties mainly by payment- and close-out netting of the values mutually due by the parties. The ISDA Master Agreement negotiated by IBRD as trustee of the Trust Funds was established not for individual Trust Funds, but for the TF Pool as a whole.

[3] Whether the receivables under the GPE contribution agreements can be made "irrevocable" or not would need to be discussed with a GPE lawyer.

including delays and instances of non-payment, may result in hedging transaction being unwound with the cost being borne by the FIF and ultimately the donors. It would therefore be paramount to receive a finalized payment schedule at the time the Contribution Agreement is signed, and to receive payments in a timely manner to avoid unnecessary costs.

- *Liquidity*. A FIF should have sufficient liquidity available to make hedging practical or efficient.
- *Demand from the relevant governing body*. The World Bank as Trustee would need to receive a formal request from the governing body to explore the option of a FX hedging program.

5. In cases where the above criteria are met, the World Bank as Trustee would be able to work with the relevant governing body to meet its FX management objectives. It should be noted, however, that the World Bank is not currently authorized to perform hedging services for Trust Funds and would need to obtain the necessary internal approvals to do so, including approval from the World Bank's Board of Executive Directors.

## III. Key Components of a Hedging Program within an FX Exposure Management Framework

6. A successful FX Exposure Management Framework defines an FX policy, determines the governance framework, assesses risk positions, develops an FX hedging strategy, and evaluates and monitors the hedging strategy as well as the remaining exposures. An FX Exposure Management Framework would include the following key components:

- *Receivables to be hedged.* Only unqualified IoCs and irrevocable receivables under the Contribution Agreements would be eligible for hedging.

  Some contribution currencies may not have sufficiently liquidity in the capital markets to make hedging practical or efficient. Assessments of the viability of hedges for all the contribution currencies will be made by the Trustee and hedging decisions will be made considering several factors such as overall market conditions, contribution volumes, associated costs for entering into transactions and liquidity of the currency in the market.

- *Financial instruments to be employed.* The hedging objectives should be achieved by employing a strategy with the highest efficiency given the prevailing market conditions. In the simplest form, this could mean employing a strategy of buying USD forward using FX Forward Over-The-Counter (OTC) derivative contracts with maturity dates equal to installment/encashment dates.

- *Timing of hedging.* Hedges would likely be executed once unqualified IoCs or the Contribution Agreements with irrevocable receivables are received.

- *Collateral arrangement.* Almost any solution that involves the use of capital markets to hedge FX exposure with market counterparties would result in the need for collateral posting. When the mark-to-market valuation of GPE hedges drops below the original value of the hedge, posting of collateral may be required. The size of the collateral will depend on the nature of the

hedges undertaken (size, maturity etc.), the volatility of the currencies being hedged[4] and the terms of the ISDA Master Agreement.

- *Risk Management*. An FX Risk Management Framework will clearly articulate the risks and the associated mitigation measures related to the FX hedging program.

[4] Hedging done within the TF Pool may have lower collateral requirements as the hedging transactions will form part of a far larger set of financial transactions, some of which may be offsetting.

## ANNEX 2 – ASSET ALLOCATION AND INVESTMENT STRATEGY

### INVESTMENT STRATEGY REVIEW OF THE GLOBAL PARTNERSHIP FOR EDUCATION (GPE) TRUST FUND

(Prepared by the Trustee)

**Executive Summary**

i. The World Bank as Trustee for the Global Partnership for Education (GPE) Trust Fund manages the GPE Trust Fund assets under the provisions of IBRD's and IDA's General Investment Authorizations[5], which are approved by its Board of Executive Directors and determine the framework under which the Trustee provides investment management services to the GPE Trust Fund.

ii. All trust fund assets administered by the World Bank, including those of the GPE Trust Fund, are maintained in a commingled investment portfolio (the "Pool"). To accommodate varying investment horizons and risk tolerances of individual trust funds, the Pool comprises of sub-portfolios, called Model Portfolios, in which trust fund liquid assets can be invested. The liquid assets of the GPE are currently invested across three investment Model Portfolios comprising entirely of investments in high quality fixed income securities as well as cash and cash equivalent securities for liquidity purposes.

iii. The current market environment continues to pose challenges for investors in conservative fixed income portfolios as yields on fixed-income instruments remain at historically relatively low levels and rising interest rates could result in unrealized or realized losses for fixed-income holdings. In coming years, the investment income earned by the Pool is expected to remain at low levels compared to historical averages within the current asset universe.

iv. Considering these market conditions, the World Bank has developed a fourth Model Portfolio, Model Portfolio 4, to provide additional investment options to trust funds that have liquidity levels that are significant in size and stable over a period of at least five years. Model Portfolio 4 has been designed to potentially enhance the risk/return profile of funds through added diversification benefits, while retaining the conservative approach to risk that overarches the World Bank's investment of donor funds[6].

v. Model Portfolio 4 would feature a five-year investment horizon with a capital preservation constraint, and a broader investment universe including a limited allocation to developed market equities. The equities exposure within Model Portfolio 4 would be achieved through replication of the MSCI World index, a common benchmark providing exposure to over 1,600 large- and mid-cap stocks across 23 developed market countries[7] that has been shown to provide diversification and return

[5] General Investment Authorization for IBRD (Resolution No. 97-1, adopted on April 18, 1997); General Investment Authority for IDA (Resolution No. 2001-1, adopted on January 23, 2001).

[6] The risk framework defines the risk tolerance as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio's investment horizon, not to exceed 1% at portfolio's investment horizon, with 95% confidence.

[7] Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the UK and US.

enhancing benefits to a fixed income portfolio. Model Portfolio 4 has been endorsed by the World Bank's Board, pursuant to receipt of written instruction from the relevant governing body, which in this case would be the GPE Board.

vi. This paper provides background information on the World Bank investment management of Trust Fund assets (Section I); reviews the current investment management strategy and investment performance for the GPE Trust Fund (Section II); reviews the current market environment and investment climate (Section III); discusses the additional investment options available for Trust Funds (Section IV); and presents an analysis of GPE's participation in additional investment portfolios (Section V) and conclusion (Section VI).

## I. Background

1. The World Bank manages liquid assets of the GPE Trust Fund according to the provisions of IBRD's and IDA's General Investment Authorizations (GIAs)[8] which are approved by the World Bank's Board of Executive Directors. These GIAs determine the framework under which the Trustee provides investment management services to the GPE Trust Fund, and specify the types of transactions and eligible investments in which the World Bank is authorized to transact.

2. All trust fund assets held in trust by the World Bank, including those of the GPE Trust Fund, are maintained in a commingled investment portfolio (the "Pool"). The Pool is comprised of Model Portfolios with differing investment characteristics to accommodate the specific investment objectives and risk tolerances of individual trust funds. Model Portfolio 0 comprises bank deposits and money market instruments with an investment horizon of three months; Model Portfolios 1 and 2 employ a greater selection of fixed income instruments with investment horizons of one and three years respectively. An illustration of these Model Portfolios' asset composition, investment horizon and eligibility criteria is presented in Annex 1. Overall, all assets in the Pool are invested in a liquid and highly rated spectrum of eligible fixed income instruments.

3. A trust fund can have its total liquidity allocated to one or several of the available Model Portfolios subject to the fund's investment objectives, operational requirements, risk tolerances and investment horizons as well as being subject to the eligibility criteria.

4. Over long periods of time, returns generated by the longer horizon Model Portfolio 2 are expected to be higher than those generated by the shorter horizon Model Portfolios 0 and 1 due to the ability to invest in broader range of fixed income assets afforded by the longer investment horizon. For example, over the last five years, a trust fund which invested in Model Portfolio 0 would have seen an annualized absolute return of 0.54% whereas the same investment in Model Portfolios 1 and 2 would have seen annualized returns of 0.69% and 1.05% respectively[9].

[8] General Investment Authorization for IBRD (Resolution No. 97-1, adopted on April 18, 1997); General Investment Authority for IDA (Resolution No. 2001-1, adopted on January 23, 2001).

[9] These returns are based on historical actual returns as of February 28, 2018 and may not be indicative of future returns.

## II. Investment Management and Historical Performance of the GPE Trust Fund

5. The investment objectives of the GPE Trust Fund are to optimize investment returns subject to preserving capital and maintaining adequate liquidity to meet foreseeable cash flow needs, within a conservative risk management framework[10].

6. The GPE Trust Fund's liquid assets are invested in Model Portfolios 0 and 1 for liquidity purposes, and in Model Portfolio 2 to maximize investment returns. On a quarterly basis, the World Bank as Trustee reviews the balances in each Model Portfolio against projected cash flows and rebalances these amounts to ensure adequate liquidity is available to meet projected cash flow needs. The investment characteristics of the three Model Portfolios are shown in Figure 1 below.

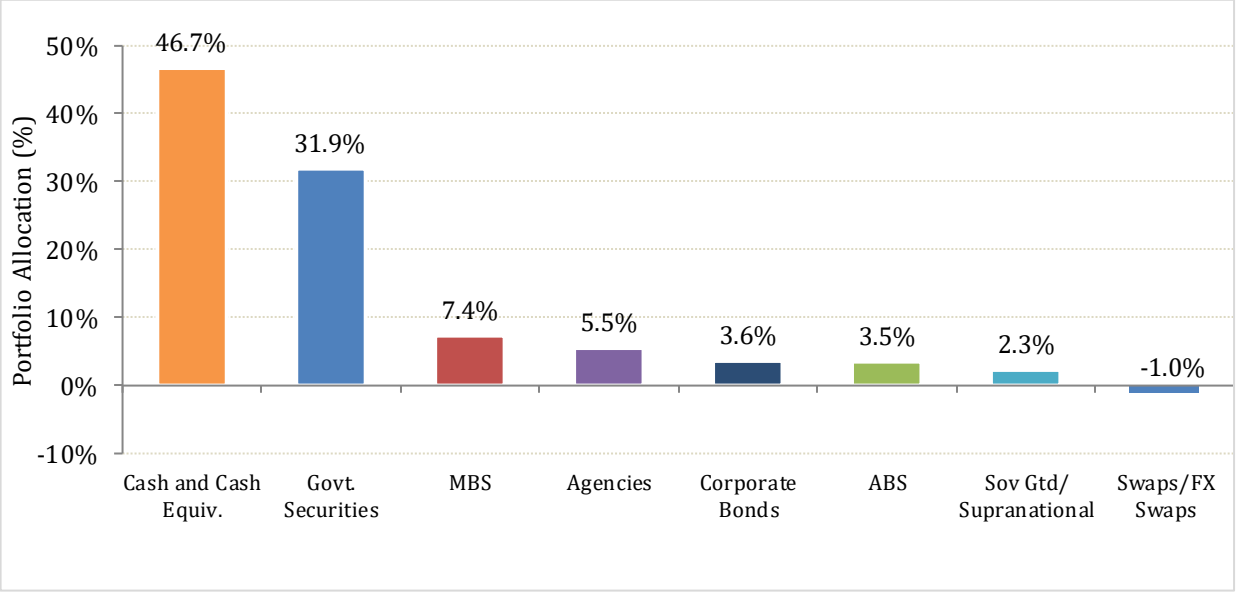
Figure 1: Investment Characteristics of the Model Portfolios in which the GPE TF Invests

| Model Portfolio | Model Portfolio 0 | Model Portfolio 1 | Model Portfolio 2 |
|---|---|---|---|
| Investment Objective | Ensure timely availability of liquidity | Enhance returns subject to preservation of capital and the risk tolerance over the investment period. | |
| Investment Horizon | 3 months or less | 1 year | 3 years |
| Eligible Trust Funds (TFs) | All TFs | Funds with limited appetite for investment return volatility on a year to year basis | Larger TFs with relatively predictable cash flow projections and stable liquidity over 3 years |
| Eligible Investment Products | Cash | Cash, short – intermediate government bonds | Cash, short – intermediate government bonds, US Agency MBS |

7. The overall asset allocation of the GPE Trust Fund's investment across Model Portfolios 0, 1 and 2 as at February 28, 2018 are shown in Figure 2.

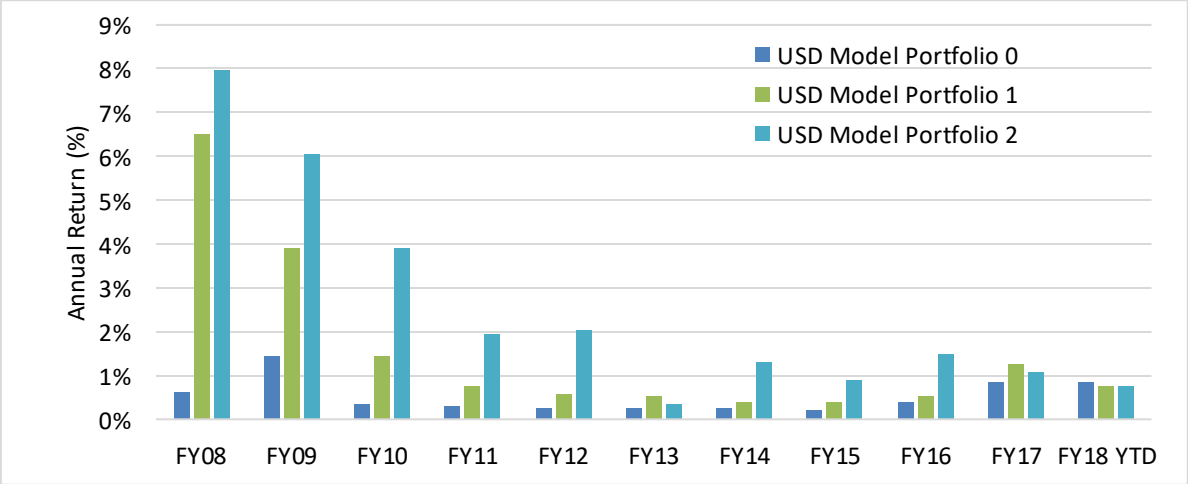
Figure 2: GPE Trust Fund Asset Allocation (as of February 28, 2018)

[10] Risk tolerance is defined as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio's investment horizon, not to exceed 1% at portfolio's investment horizon, with 99% confidence.




8. The historical investment returns of the individual Model Portfolios are representative of the prevailing market conditions of each period. Numerous factors negatively affected investment returns in recent years – firstly, historically low fixed-income yields continued to suppress the interest income, and secondly, increased volatility in interest rates led to unrealized price losses that impacted the net investment income (refer to Figure 3 below).

Figure 3: Historical Annual Returns by Model Portfolio (July 1, 2007 – February 28, 2018)




## III. Current Market Environment and Investment Climate

9. The current market environment continues to pose challenges for investors in conservative fixed income portfolios. The yields on fixed-income instruments remain at relatively low levels, compared to history, which indicates asymmetric risks for the interest rate outlook going forward. Rising interest rates could result in unrealized or realized losses for fixed-income holdings. Accordingly, the investment income earned by the Trust Fund Pool in coming years is projected to remain at low levels compared to historical averages under the current asset allocation framework.

10. In illustrate what the GPE Trust Fund's current investment portfolio might look like in three years, a portfolio similar in asset composition to that of the GPE was examined at the 3-year horizon. As the portfolio's risk/return profile is dependent on the trajectory of interest rates over the next three years, the expected annual returns, volatility in annual returns and probabilities of negative returns under the current asset allocation framework were examined under the following scenarios:

i. *Current* scenario under which interest rates remain at their current levels.

ii. *Forward* scenario under which interest rates are expected to gradually converge towards the forward rates over a five-year horizon, as implied by the current market rates.

11. Under these scenarios, the expected annual return would be between 2.2% and 2.6%, the volatility of returns would be around 1.1% and the probability of incurring negative returns in all cases remains low at the 3-year horizon. This analysis is set out in Table 1 below.

Table 1: Projected Risk/Return Scenarios for a Portfolio Similar in Composition to GPE[11]

| **3 Year Horizon – Fixed Income Portfolio similar to the GPE TF** | **Scenarios** | |
|---|---|---|
| | **Current Rate** | **Forward Rate** |
| Expected Annual Return | 2.2% | 2.6% |
| Horizon Volatility | 1.1% | 1.1% |
| CVaR Return (99%) | 4.5% | 5.6% |
| Probability of Negative Return | <0.1% | <0.1% |

## IV. Presentation of Additional Investment Options

12. In accordance with the conservative nature of the World Bank trust fund portfolio's investment objectives, the existing Model Portfolios are invested in high quality fixed income assets. While this asset allocation helped the trust fund investment portfolio weather the global financial crisis in 2008, the portfolio is exposed to low (and potentially negative) returns in the current environment.

13. Considering the continued low interest rate environment, the World Bank has developed a new model portfolio, Model Portfolio 4, to provide additional investment options to trust funds that have liquidity levels that are significant in size and stable over a period of five years or longer.

14. Model Portfolio 4 is designed to potentially enhance the risk/return profile of funds through added diversification benefits while retaining the conservative approach to risk that overarches the World Bank's investment of donor funds[12]. Model Portfolio 4 features a five-year investment horizon and comprises a broader investment universe which includes developed market equities.

[11] Analysis performed using data as of February 28, 2018.

[12] The risk framework defines the risk tolerance as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio's investment horizon, not to exceed 1% at portfolio's investment horizon, with 99% confidence.

15. The investment characteristics of different asset classes and their respective diversification benefit relative to US Treasuries are summarized in Table 2 below. This table shows that developed market equities exhibit favorable characteristics with respect to liquidity risk, return enhancement and diversification compared to other fixed income instruments. At the same time, developed market equities carry relatively high market risk compared with high quality fixed income instruments; as such, the benefits they offer come at the price of higher short-term volatility. Investors in Model Portfolio 4 should therefore be prepared for higher short-term volatility in investment returns relative to the current allocation. Over the longer term, however, an allocation to Model Portfolio 4 is expected to result in higher returns relative to a broad fixed income allocation.

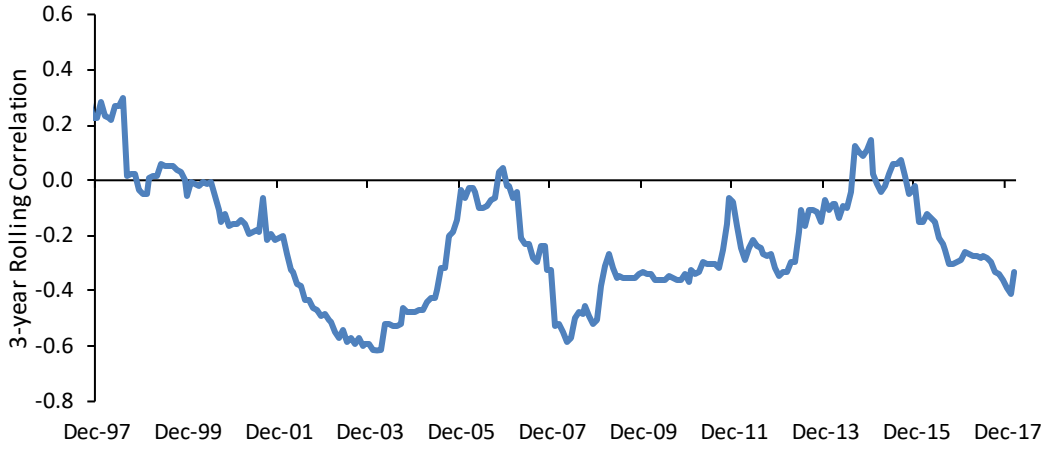
Table 2: Summary of Asset Class Characteristics

| | Market Risk | Liquidity Risk | Return Enhancing | Diversification Benefit[13] |
|---|---|---|---|---|
| Money Market Instruments | Low | Low | Low | Low |
| US Treasuries | Low/Med. | Low | Low | Low |
| US Agency Mortgage-backed Securities | Low/Med | Low | Medium | Low/Med. |
| Global Government Bonds (USD hedged) | Low/Med | Low | Low | Low/Med. |
| Emerging Market Govt. Bonds (USD hedged) | Medium | Low/Med. | Medium | Medium |
| Investment Grade Corporate Bonds | Medium | Med./High | Medium | Medium |
| Developed Market Equities | High | Low | Med./High | High |

16. In the context of a more diversified portfolio, analysis was performed on the historical risk-reward trade-offs of the asset classes listed above and on the risk/return profile of various asset mixes. The analysis demonstrated that a diversified portfolio mostly outperforms a pure fixed income portfolio over the longer term due to low and often negative correlation between fixed income and developed countries equity markets (see Figure 4 below) as performance of the two asset classes vary significantly in different stages of the economic cycle.

[13] The diversification benefit is evaluated relative to 0-5 year US Treasuries, or US Treasury indices with maturities between 1-5 years.

Figure 4: Bonds and Equities 3-year Rolling Correlations Feb 28, 1998 – Feb 28, 2018[14]




17. The eligibility requirements for participation in Model Portfolio 4 are that any participating trust fund must have readily available cash flow projections that demonstrate a minimum projected fund balance of USD 200 million over five years, and that the likelihood of needing to draw on the balances in Model Portfolio 4 over the five-year horizon is as close to zero as practically possible. To achieve this, it is imperative that the participating trust fund is able to provide accurate cash flow projections over a five-year period on a quarterly basis. In addition, the participating trust fund should have a sound financial management framework that is able to cope with the likely increased investment income volatility over the course of the investment horizon. That is, at some point over the five-year horizon, one might expect higher levels of investment gains and losses in Model Portfolio 4; however, the return after five years is expected to be higher than a similar, fixed income only, Model Portfolio in most cases. Details of the asset classes included under Model Portfolio 4 are shown in Table 3 below. The only asset class in Model Portfolio 4 that is not included in the Trust Fund investment portfolio is developed market equities. To minimize costs and limit risk, the equities exposure in Model Portfolio 4 will be gained through replication of the MSCI World index – a widely used benchmark that provides broad exposure to developed market stocks and has been shown to provide diversification and return enhancing benefits to a fixed income portfolio.

Table 3: Asset Descriptions of each Asset Class within Model Portfolio 4

| Asset Class | Asset Description |
|---|---|
| **Agency/Sovereign/Government guaranteed Securities** | Bonds or notes issued by a government agency, supranational institution or local authority, rated at least AA-. |
| **Government Securities** | Bonds or notes issued or unconditionally guaranteed by the government of a country rated at least AA- in case of foreign currency obligations, and any local currency obligations of member countries. |
| **Corporate Bonds** | AAA rated securities backed by a corporate entity. |
| **US Agency Mortgage-backed Securities (MBS)** | US Agency-guaranteed residential mortgage-backed securities. |

[14] Data Source: MSCI World Equity Index, and Merrill Lynch 1-5 Year US Treasury Index; Bloomberg.

| | |
|---|---|
| **Asset Backed Securities (ABS)** | AAA rated asset-backed securities backed by student loans, auto and credit card receivables, public sector loans or prime first lien residential mortgages. |
| **Developed Market Equities** | A publicly traded stock or any other security representing an ownership interest. |

## V. Analysis of GPE's participation in Model Portfolio 4

18. Based on GPE's projected liquidity over the next five years, an analysis was performed to illustrate the GPE's participation in Model Portfolio 4 with a limited allocation to equities. The incorporation of equities into a fixed income portfolio is designed to provide diversification benefits resulting from the often-negative correlations between bonds and stocks over the longer term. Historically, this diversification has produced slightly higher average returns for a given level of risk. Nevertheless, investing in equities adds more price volatility to a portfolio, especially over the short term. As such, Model Portfolio 4 has a five-year investment horizon to optimize the potential benefits.

19. The level of exposure to equity risk for the GPE would largely depend on the amount allocated to Model Portfolio 4. The equity allocation within Model Portfolio 4 will be no more than 20% at any time to conform to the stipulated risk tolerance over the five-year horizon. Hence, if, for example, an allocation to Model Portfolio 4 is set up to account for no more than one quarter of a trust funds aggregate liquidity, the total exposure to equity risk would be less than 5% of the fund's total assets. This is a conservative overall exposure level to equity risk for funds participating in Model Portfolio 4.

20. Over a 5-year horizon, a more diversified investment portfolio could provide relatively better risk return profile compared to the current asset allocation under the current and forward interest rate scenarios. To illustrate this, the expected returns of different asset classes at a five-year period were considered under the current and forward rate scenarios.

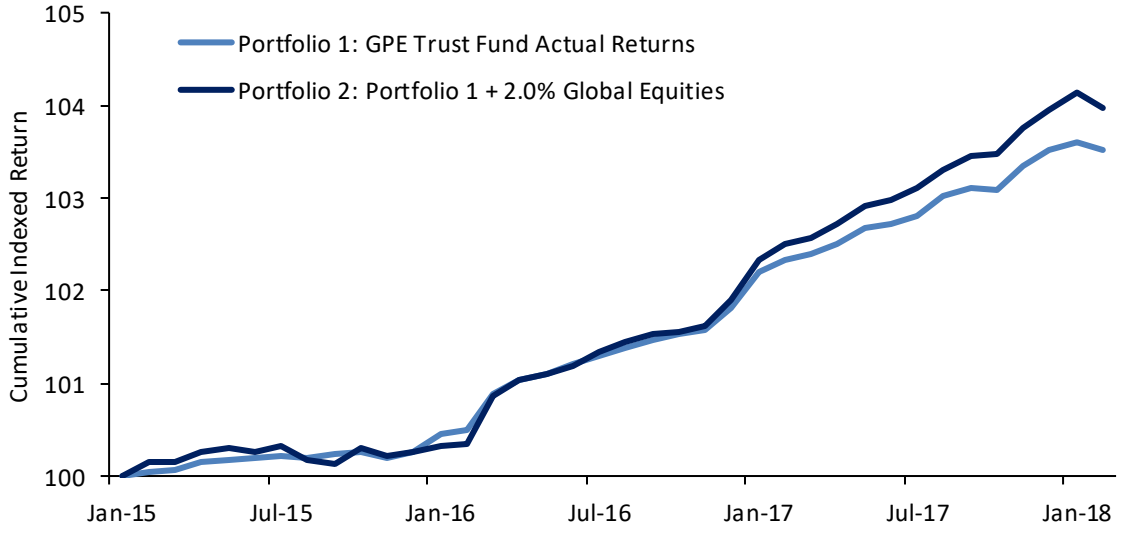
21. For the purpose of this analysis, the scenarios assume an investment portfolio allocation in Model Portfolio 4 of USD 100 million (around one quarter of current fund balance), of which 10 – 15% would be allocated to developed market equities, representing approximately 2.5 – 3.5% of GPE's total liquidity. Under selected scenarios, the expected return of the portfolio is improved by approximatively 10 – 20 basis points (USD 0.4 – 0.8 million per annum) and the 99% CVaR remains close to the current level of risk, well within the policy constraint of -1.0%) at the 5-year horizon. The horizon volatility of a portfolio with an allocation to equities is 20 – 30 basis points higher than that of a fixed income only portfolio. The two scenarios and the associated expected risk and return profiles for GPE's current portfolio compared to an alternative portfolio with a 3.0% equity allocation are presented in Table 4.

Table 4: Projected Risk/Return Profiles of the Current GPE Portfolio versus a Portfolio Comprising an Allocation to Model Portfolio 4 at the 5-year Horizon

| | Expected Annual Return | Horizon Volatility | CVaR Return -99% | Probability of Negative Returns |
|---|---|---|---|---|
| **Scenario: Current Rate - 5 Year** | | | | |
| Current GPE Fixed Income Portfolio | 2.16% | 2.3% | 6.8% | <0.1% |
| Fixed Income Portfolio with 3.0% Equity Allocation | 2.34% | 2.5% | 6.4% | <0.1% |
| **Scenario: Forward Rate - 5 Year** | | | | |
| Current GPE Fixed Income Portfolio | 2.8% | 2.4% | 9.8% | <0.1% |
| Fixed Income Portfolio with 1.5% Equity Allocation | 2.9% | 2.7% | 8.8% | <0.1% |

22. Another way to view the benefits of diversification into equities is through historical analysis, which also shows that, in general, a portfolio that includes a 2.0% allocation to global developed market equities would have equalled or outperformed a fixed income portfolio similar to that of the GPE Trust Fund investment returns over the last three years (see Figure 6 below).

Figure 6: Historical cumulative performance of a fixed income portfolio similar to GPE versus one with a 2.0% allocation to developed market equities




## VI. Conclusion

23. Analysis presented in this note shows that the low, and often negative, correlation between bond and developed market equity markets provides an opportunity to improve the risk/return profile of a fixed income portfolio, while remaining within the existing conservative risk management framework.

24. As the current low interest rate environment poses challenges for investors in fixed income portfolios, the World Bank has designed Model Portfolio 4 to potentially enhance the risk/return profile of funds through the inclusion of a limited allocation to developed market equities.

25. The GPE Trust Fund is eligible for investment in Model Portfolio 4, and therefore could potentially improve the risk return profile of its investment portfolio while remaining within its existing risk parameters. An allocation to Model Portfolio 4 is fully aligned with the GPE Trust Fund's investment objectives of optimizing investment returns and preserving capital.

26. Model Portfolio 4 has been endorsed by the World Bank's Board, pursuant to receipt of written instruction from the relevant governing body, which in this case would be the GPE Board.

## Annex 2 Sub-Annex A: Model Portfolio Composition and Risk/Return Profiles of Underlying Asset Classes

Assets held in trust by the World Bank are maintained in a commingled trust funds investment portfolio (the "Pool"), which currently comprises Model Portfolios to accommodate the varying investment objectives and requirements of participating trust funds. Figure 7 below provides an illustration of the model portfolios offered in the Pool.

Figure 7: Overview of Asset Composition of Model Portfolios in the World Bank's Trust Fund Portfolio

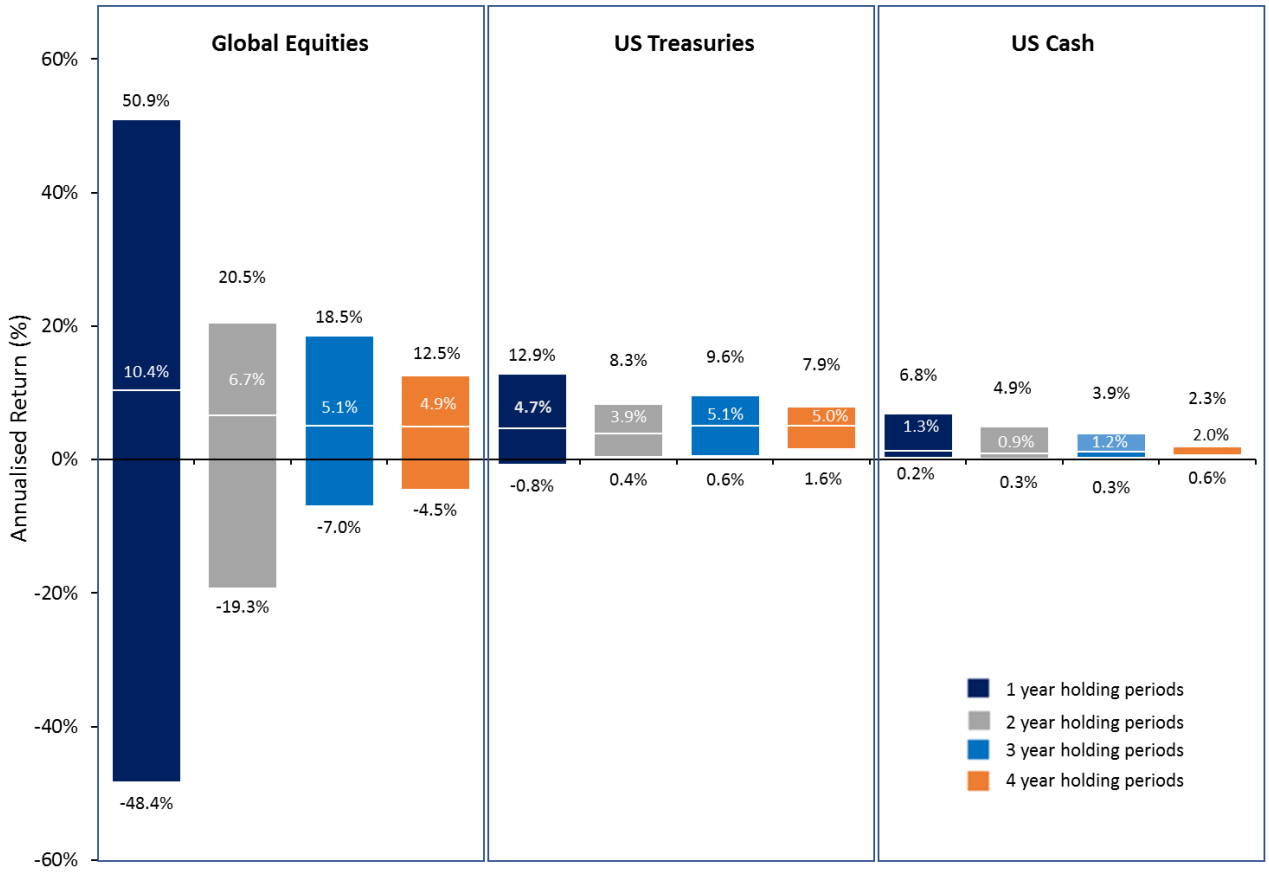
| **Asset Class** | **Model Portfolio 0:** Working Capital | **Model Portfolio 1:** 1-year horizon (short duration) | **Model Portfolio 2:** 3-year horizon (medium duration) | **Model Portfolio 4:** 5-year horizon (long duration) |
|---|---|---|---|---|
| Cash | | | | |
| Money Market Instruments | | | | |
| Agency/ Sovereign/ Government guaranteed Securities (rated at least AA-) | | | | |
| Government Securities (rated at least AA-) | | | | |
| Corporate Bonds (rated AAA) | | | | |
| US Agency Mortgage-backed Securities (MBS) | | | | |
| Asset Backed Securities (ABS) (rated AAA) | | | | |
| Developed Market Equities | | | | |

A trust fund participating in the commingled investment portfolio may participate in any of the Model Portfolios and investment products subject to meeting the eligibility criteria.

To illustrate the historical risk-reward trade-offs associated with investing in the various asset classes, Figure 8 shows the broad asset class categories of equities, US Treasury bonds and US cash/T-bills, and compares the range of returns over various holding periods.

Based on a long history of investment returns, cash and government bonds (1-5-year maturity) have seen relatively stable average returns over various holding periods. On the other hand, equities have shown the highest average returns, relative to bonds or cash, albeit with much higher volatility in returns, which declines with longer holding periods. This is consistent with the rationale for a longer investment horizon typical to equity investors. The analysis shows that higher risk-adjusted returns may be achieved over longer horizons; however, income volatility over shorter periods is considerably higher and has to be considered.

Figure 8: Historical Range of Returns for Global Equities, US Government Bonds and Cash (Feb 28, 1988 to Feb 28, 2018)[15]




[15] Source: MSCI World Equity Index, Merrill Lynch UST 1-5-year Index, Barclays USD 3-month LIBOR Index, Bloomberg, as at February 28, 2018.

**Annex 2 - Sub-Annex B: Assumptions used in the Asset Return Scenarios**

Assumptions[16] used to calculate the investment return scenarios over 3-year and 5-year periods under the current and forward simulation scenarios are shown below.

Table 5: Assumptions used for expected annual returns over 3-year horizons.

| Asset | Current Scenarios | Forward Scenarios |
|---|---|---|
| UST 0-1 year | 1.9% | 2.4% |
| UST 1-5 year | 2.8% | 2.4% |
| Libor 3M Constant Maturity | 2.1% | 2.6% |
| US TIPS 5-10 year | 3.1% | 2.4% |
| US MBS | 2.9% | 2.5% |
| MSCI World ESG Index | 6.9% | 6.9% |

Table 6: Assumptions used for expected annual returns over 5-year horizons.

| Asset | Current Scenarios | Forward Scenarios |
|---|---|---|
| UST 0-1 year | 1.9% | 2.7% |
| UST 1-5 year | 2.8% | 2.7% |
| Libor 3M Constant Maturity | 2.1% | 2.8% |
| US TIPS 5-10 year | 3.1% | 2.6% |
| US MBS | 2.9% | 2.7% |
| MSCI World ESG Index | 6.9% | 7.1% |

[16] Source: Workbench. Database sources: Bloomberg and FED. As of February 28, 2018.

## ANNEX 3 – CALCULATION OF THE AVAILABLE RESOURCES FOR MAXIMUM COUNTRY ALLOCATION

| **SCENARIO – All figures in USD Millions** | **1** |
|---|---|
| *MCA Calculation Amount (2,000 = Minimum)* | *2000* |
| | |
| Opening Uncommitted Cash Balance 1 January 2018 | 316 |
| Balance on Signed Contribution Agreements | 403 |
| Donor Pledges (after discounting for uncertainty) | 1730 |
| Projections of Additional Contributions - Secretariat Recommended | 215 |
| Projected Carryover from 2018-2020 Approvals (20% of MCA) | 401 |
| **RESOURCES FOR FORECASTING PURPOSES (A)** | **3,066** |
| | |
| Remaining Commitments to be made on Existing Approved Grants (2013-2018) | (485) |
| Provisions for other Grants (Plan Development, Program Development) | (50) |
| KIX | (80) |
| ASA (including CSEF) | (70) |
| Multiplier | (300) |
| Provisions for other costs (Agency, Secretariat, Trustee) | (175) |
| Unallocated | 3 |
| Provision for Future Commitments based on MCAs for 2018-2020 | (1,903) |
| **TOTAL AMOUNT TO BE SET ASIDE (B)** | **(3,066)** |
| | |
| **PROJECTED SURPLUS / (SHORTFALL)** | **-** |

| List of Countries with MCAs for 2018-2020* *All figures in USD Millions* | |
|---|---|
| Bangladesh | 53.9 |
| Cameroon | 38.8 |
| Central African Republic | 31.6 |
| Djibouti | 5.0 |
| Dominica | 1.3 |
| Ethiopia | 100.0 |
| Ghana | 9.4 + *15.0 Multiplier* |
| Grenada | 1.3 |
| Guinea | 37.9 |
| Guyana | 1.3 |
| Kenya | 9.7 |
| Kyrgyz Rep | *5.0 Multiplier* |
| Lao PDR | 5.0 |
| Mauritania | 6.8 |
| Mozambique | 100.0 |
| Nepal | 9.2 + *15.0 Multiplier* |
| Niger | 85.1 |
| Nigeria | 100.0 |
| Pakistan | 100.0 |
| Rwanda | 30.8 |
| Senegal | 32.6 + *10.0 Multiplier* |
| St. Lucia | 1.3 |
| St. Vincent and the Grenadines | 1.3 |
| Sudan | 59.0 |
| Syria | 25.0 |
| Uganda | 100.0 |
| Uzbekistan | *10.0 Multiplier* |
| Zambia | *15.9* |
| **New MCAs Already Announced** | ***962.2 + 55.0 Multiplier*** |
| Congo, Dem. Rep. | 100.0 |
| Lesotho | 5.0 |
| Malawi | 48.7 |
| Yemen, Rep. | 32.4 |
| **Proposed New MCAs valid from 2020** | ***186.1*** |
| Afghanistan | 100 |
| Cambodia (variable) | 6.2 |
| Eritrea | 17.2 |
| Haiti | 16.5 |
| Myanmar | 73.7 |
| Papua New Guinea | 7.1 |
| Sierra Leone | 17.2 |
| Timor-Leste | 4.1 |

| **Existing MCAs – No Change Proposed** | ***241.6*** |
|---|---|
| Benin | 19.4 |
| Bhutan | 2.5 |
| Burkina Faso[17] | 21.2 |
| Burundi | 46.9 |
| Cabo Verde | 2.5 |
| Chad | 50.04 |
| Comoros | 5.0 |
| Côte d'Ivoire[18] | 28.0 |
| Guinea-Bissau[19] | 0.3 |
| Kiribati | 1.8 |
| Liberia[20] | 5.9 |
| Madagascar[21] | 19.6 |
| Maldives | 2.5 |
| Mali | 45.7 |
| Marshall Islands | 1.8 |
| Micronesia, Fed. Sts. | 1.8 |
| Nicaragua | 5.0 |
| Samoa | 1.9 |
| Sao Tome and Principe | 2.5 |
| Solomon Islands | 2.5 |
| Somalia[22] | 77.38 |
| South Sudan | 41.7 |
| Tanzania[23] | 94.24 + *2.5m Multiplier* |
| Togo | 15.6 |
| Tonga | 1.8 |
| Tuvalu | 1.8 |
| Vanuatu | 2.1 |
| Zimbabwe[24] | 11.7 + *10 Multiplier* |
| **Revised MCAs Proposed** | **513.16 + 12.5 Multiplier** |
| **Total** | **1,903.6[25] + 67.5 Multiplier** |

[17] Additional to grant approved in 2017
[18] Additional to grant approved in 2018
[19] Additional to grant approved in 2018
[20] Additional to grant approved in 2017
[21] Additional to grant approved in 2018
[22] Additional to grants approved in 2017
[23] Additional to grant approved for Zanzibar. Multiplier allocation is for Zanzibar
[24] $8.9m is for an outstanding variable allocation
[25] Amounts listed for Cabo Verde, Cambodia, Chad, Comoros, and Somalia will be reduced by any amounts approved by the Board through Affirmative Voting Decision on May 18th 2018

## ANNEX 4 – FORECAST OF UNCOMMITTED ASSETS

| ANNEX 4 - FORECAST OF UNCOMMITTED ASSETS | | | | | | |
|---|---|---|---|---|---|---|
| *All Figures in USD Millions* | **S1 2018** | **S2 2018** | **S1 2019** | **S2 2019** | **S1 2020** | **S2 2020** |
| **A. Opening Balance Cash and Promissory Notes** | 386 | 428 | 569 | 567 | 757 | 537 |
| **A1. Total Committed** | 70 | 3 | 159 | 339 | 408 | 532 |
| **A2. Total Uncommitted/Available for Approval** | 316 | 425 | 410 | 178 | 349 | 5 |
| | | | | | | |
| **B. Inflows** | 227 | 476 | 273 | 565 | 130 | 553 |
| Contribution Agreement | 152 | 149 | 30 | 20 | 11 | 20 |
| Pledges | 75 | 235 | 243 | 465 | 120 | 491 |
| Projections | - | 93 | - | 80 | - | 43 |
| | | | | | | |
| **C. Outflows** | 185 | 335 | 275 | 375 | 350 | 425 |
| | | | | | | |
| **D. New Commitments** | 118 | 491 | 505 | 394 | 474 | 441 |
| Commitments (Existing Approved Grants) | 89 | 145 | 73 | 55 | 42 | 51 |
| Projected Commitments (Remaining Allocations) | - | 267 | 328 | 234 | 328 | 286 |
| Multiplier / KIX / ASA | | 50 | 75 | 75 | 75 | 75 |
| Other Commitments | 29 | 29 | 29 | 29 | 29 | 29 |
| | | | | | | |
| **E. Closing Balance Cash and Promissory Notes (A+B-C)** | 428 | 569 | 567 | 757 | 537 | 666 |
| **E1. Total Committed (A1-C+D)** | 3 | 159 | 389 | 408 | 532 | 548 |
| **E2. Total Uncommitted/Available for Approval (A2+B-D)** | 425 | 410 | 178 | 349 | 5 | 118 |
| ***While the forecast shows that there should be sufficient liquidity to manage commitments to meet demand based on expected timing of applications, there is a risk of temporary funding shortages if donor contributions are delayed or grant implementation accelerates significantly requiring the application of actions outlined in GPE's Comprehensive Funding Guidelines.*** | | | | | | |

## ANNEX 5 - FORECAST FOR THE PURPOSE OF PROGRAM IMPLEMENTATION GRANT APPROVALS

The Comprehensive Funding Guidelines approved by the Board of Directors in May 2013 outlines the approach to be taken for the forecast of funds and timelines that should be taken into consideration by the Board when considering approval of new program implementation grants.

The recommended approach has the following key features:

- The forecast is over a shorter period (6 months) to reflect the typical grant signing timeframes. It still considers the overall longer term financial projections as set out in Annex 4 of this paper.
- The forecast of contributions excludes Secretariat projections of additional contributions as there is less certainty that these funds will actually materialize compared to expected contributions arising from pledges and signed contribution agreements.
- The forecast seeks to determine whether there are sufficient funds to be able to finance the first commitment within the Semester following Board review of the proposal in order to provide the Board with an appropriate basis for approving a proposal.
- As the Board will approve proposals for their full amount requested, consideration needs to be given as to the likelihood that we will be able to also finance the second and any subsequent commitments. This is provided by reviewing the longer-term forecast scenarios (set out in Annex 2) and ensuring that there are no projected future shortfalls in funds available for commitments, and also by prioritizing upcoming (within the next six months) second and subsequent commitments, along with recurrent costs of the Global Partnership prior to financing commitments for newly approved proposals.

Following the approach recommended in the Comprehensive Funding Guidelines, the following forecast was determined.

| FORECAST 1 JULY 2018 – 31 DECEMBER 2018 | AMOUNT in USD millions |
|---|---|
| Estimated Available Assets on Hand 1 July 2018 (excluding projected contributions to 30 June 2018) | 425 |
| Pledged and Signed Contributions 1 July 2018 – 31 December 2018 | 384 |
| **Total Projected Assets** | **809** |
| Recurrent Costs (Secretariat, and Trustee budgets, Plan and Program Development Grants, CSEF etc) – 1 July 2018 – 31 December 2018 | (39) |
| Projected Commitments for Existing Grants falling due 1 July 2018 – 31 December 2018 | (145) |
| **Total Projected Liabilities** | **(184)** |
| **Available Assets for First Grant Commitment of Round 1 2018 Applications** | **625** |
| First Commitment of 2018 proposals required by 31 December 2018 (including related Supervision and Agency Fees) | (267) |
| **Projected Surplus/(Shortfall)** | **358** |

The expected available cash along with pledged and signed contributions predicted to be made during the period less known liabilities arising from prior Board approvals or recurrent costs exceeds the amount required to make the first Commitment of any Round 1 and Round 2 proposals that the Grants and Performance Committee may recommend in 2018-2019 along with related agency costs.

In addition, no shortfall in available assets is predicted over the course of either of the longer-term forecast scenario presented in Annex 4 that would necessitate including a provision for a commitment reserve in this calculation of available funds.

## ANNEX 6 - STATUS OF 2018-2020 Replenishment

| ANNEX 6 - STATUS OF 2018-2020 Replenishment (All figures in Millions) | | Dakar Pledge + Post Dakar Pledges and Adjustments | Paid to Date (as of Mar 15, 2018) | Remaining Value (Mar 15, 2018) | Total Value (Mar 15, 2018) |
|---|---|---|---|---|---|
| Donor | CUR | Pledged Amount | USD Value | USD Value | USD Value |
| Australia | AUD | 106.0 | 0.0 | 83.7 | 83.7 |
| Belgium | EUR | 19.5 | 8.0 | 16.1 | 24.1 |
| Canada | CAD | 180.0 | 24.3 | 115.8 | 140.1 |
| Denmark | DKK | 1200.0 | 5.1 | 192.7 | 197.8 |
| European Commission | EUR | 337.5 | 89.2 | 328.0 | 417.1 |
| France | EUR | 200.0 | 0.0 | 247.5 | 247.5 |
| Germany | EUR | 45.0 | 0.0 | 55.7 | 55.7 |
| Ireland | EUR | 25.0 | 0.0 | 30.9 | 30.9 |
| Italy | EUR | 12.0 | 0.0 | 14.8 | 14.8 |
| Japan | USD | 1.8 | 0.0 | 1.8 | 1.8 |
| Luxembourg | EUR | 0.3 | 0.0 | 0.4 | 0.4 |
| Norway | NOK | 2070.0 | 1.5 | 266.4 | 267.9 |
| Republic of Korea | USD | 2.2 | 0.0 | 2.2 | 2.2 |
| Senegal | USD | 2.0 | 0.0 | 2.0 | 2.0 |
| Spain | EUR | 1.5 | 0.0 | 1.9 | 1.9 |
| Sweden | SEK | 1068.0 | 20.1 | 109.7 | 129.8 |
| Switzerland | CHF | 33.3 | 3.3 | 31.7 | 35.1 |
| United Arab Emirates | USD | 100.0 | 0.0 | 100.0 | 100.0 |
| United Kingdom** | GBP | 252.0 | 0.0 | 351.9 | 351.9 |
| United States | USD | 75.0 | 0.0 | 75.0 | 75.0 |
| Children's Investment Fund Foundation* | USD | 2.0 | 0.0 | 2.0 | 2.0 |
| Dubai Cares* | USD | 1.0 | 0.0 | 1.0 | 1.0 |
| OSF (through AOSI)* | USD | 1.0 | 0.0 | 1.0 | 1.0 |
| Stichting Benevolentia (Porticus)* | USD | 1.7 | 0.0 | 1.7 | 1.7 |
| Total | | | 151.5 | 2033.8 | 2185.3 |

*Contribution is approved/partially approved for Targeted Activities

**Contributions subject to a cap of 15% of total replenishment value, and partially linked to performance criteria

## ANNEX 7 – Current Status of Education Sector Program Implementation Grant Portfolio

| Information on Active Grants as of February 28, 2018 | | | | | | |
|---|---|---|---|---|---|---|
| Country | Grant Agent | Start Date | Closing Date | Grant Amount | Total Disbursed | Undisbursed |
| Afghanistan | UNICEF | Aug-12 | Jun-18 | 55,700,000 | 55,700,000 | - |
| Bangladesh | World Bank | Jan-16 | Jun-18 | 100,000,000 | 57,500,000 | 42,500,000 |
| Benin | World Bank | Mar-14 | Apr-18 | 42,300,000 | 41,120,045 | 1,179,955 |
| Burkina Faso | AFD | Mar-18 | Mar-22 | 33,800,000 | - | 33,800,000 |
| Burundi | UNICEF | Apr-16 | Jun-18 | 20,100,000 | 10,841,602 | 9,258,398 |
| Cambodia | UNESCO | Apr-18 | Apr-21 | 14,400,000 | - | 14,400,000 |
| Cameroon | World Bank | Mar-14 | Sep-18 | 53,300,000 | 34,891,397 | 18,408,603 |
| Central African Republic | UNICEF | Dec-14 | Jul-18 | 15,510,000 | 14,108,253 | 1,401,747 |
| Comoros | UNICEF | Sep-13 | Jun-18 | 4,600,000 | 4,193,700 | 406,300 |
| Congo, DR | World Bank | Nov-16 | Feb-21 | 100,000,000 | 8,500,000 | 91,500,000 |
| Cote d'Ivoire | World Bank | Mar-18 | May-22 | 23,350,000 | - | 23,350,000 |
| Djibouti | World Bank | Apr-14 | Jun-18 | 3,800,000 | 2,238,472 | 1,561,528 |
| Eritrea | UNICEF | Mar-14 | Dec-18 | 25,300,000 | 9,131,374 | 16,168,626 |
| Ethiopia | World Bank | May-14 | Feb-18 | 100,000,000 | 100,000,000 | - |
| Ethiopia | World Bank | Mar-17 | Jun-19 | 100,000,000 | 19,059,957 | 80,940,043 |
| Gambia, The | World Bank | Apr-14 | Aug-18 | 6,900,000 | 6,869,424 | 30,576 |
| Gambia, The | World Bank | Jul-18 | Jul-22 | 5,000,000 | - | 5,000,000 |
| Guinea | World Bank | Jul-15 | Aug-19 | 37,800,000 | 19,576,701 | 18,223,299 |
| Guinea-Bissau | World Bank | Jun-18 | Jun-23 | 4,300,000 | - | 4,300,000 |
| Guyana | World Bank | Jun-15 | Sep-18 | 1,700,000 | 1,700,000 | - |
| Haiti | World Bank | Nov-14 | Jun-18 | 24,100,000 | 24,100,000 | - |
| Kenya | World Bank | Jun-15 | Mar-19 | 88,400,000 | 55,632,368 | 32,767,632 |
| Kyrgyz Republic | World Bank | May-14 | Jun-18 | 12,700,000 | 11,726,193 | 973,807 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Lao People's Democratic Republic | World Bank | Jun-15 | Jul-19 | 16,800,000 | 2,154,850 | 14,645,150 |
| Lesotho | World Bank | Jul-17 | Aug-20 | 2,300,000 | 355,639 | 1,944,361 |
| Liberia | World Bank | Nov-17 | Nov-21 | 11,900,000 | - | 11,900,000 |
| Madagascar | World Bank | Jul-18 | Jan-23 | 45,700,000 | - | 45,700,000 |
| Malawi | World Bank | Sep-16 | Dec-20 | 44,900,000 | 10,500,000 | 34,400,000 |
| Mauritania | World Bank | Feb-14 | Nov-18 | 12,400,000 | 10,564,098 | 1,835,902 |
| Mozambique | World Bank | Sep-15 | Dec-18 | 57,900,000 | 26,500,000 | 31,400,000 |
| Nepal | World Bank | Jan-16 | Jul-19 | 59,300,000 | 36,687,006 | 22,612,994 |
| Niger | World Bank | Jul-14 | Jun-19 | 84,200,000 | 46,886,733 | 37,313,267 |
| Nigeria | World Bank | May-15 | Jun-19 | 100,000,000 | 50,463,592 | 49,536,408 |
| OECS (Caribbean Island States) | World Bank | Aug-16 | Sep-19 | 2,000,000 | 411,400 | 1,588,600 |
| Pakistan (Balochistan) | World Bank | Mar-15 | Mar-19 | 34,000,000 | 14,334,763 | 19,665,237 |
| Rwanda | DFID | Jun-15 | May-18 | 25,200,000 | 22,680,000 | 2,520,000 |
| Senegal | World Bank | Nov-13 | May-18 | 46,900,000 | 44,598,359 | 2,301,641 |
| Somalia (Puntland) | UNICEF | Oct-17 | Sep-20 | 5,600,000 | 61,051 | 5,538,949 |
| Somalia (Somaliland Accelerated Funding) | Save the Children International | Jun-17 | Mar-18 | 1,920,000 | - | 1,920,000 |
| South Sudan | UNICEF | Jan-13 | May-18 | 36,100,000 | 28,198,409 | 7,901,591 |
| Sudan | World Bank | Apr-13 | Feb-19 | 76,500,000 | 69,040,900 | 7,459,100 |
| Tanzania | Sida | Jul-14 | Dec-18 | 94,800,000 | 94,800,000 | - |
| Tanzania (Zanzibar) | Sida | Apr-18 | Apr-22 | 5,761,000 | - | 5,761,000 |
| Togo | World Bank | Mar-15 | Sep-18 | 27,800,000 | 14,821,503 | 12,978,497 |
| Uganda | World Bank | Aug-14 | Jun-19 | 100,000,000 | 54,082,118 | 45,917,882 |
| Uzbekistan | World Bank | Oct-14 | Jul-19 | 49,900,000 | 36,827,386 | 13,072,614 |
| Yemen, Republic of | UNICEF | Mar-14 | Mar-19 | 72,600,000 | 27,520,299 | 45,079,701 |
| Zambia | DFID | Nov-13 | Mar-18 | 35,200,000 | 17,664,000 | 17,536,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Zimbabwe | UNICEF | Dec-16 | Dec-19 | 20,580,000 | 1,320,079 | 19,259,921 |
| **Total** | | | | **1,943,321,000** | **1,087,361,669** | **855,959,331** |

| Disbursement Information as of February 28th 2018 | | | |
|---|---|---|---|
| **By Grant Agent** | **Grant Amounts** | **Disbursed** | **Undisbursed** |
| AFD | 33,800,000 | - | 33,800,000 |
| DFID | 60,400,000 | 40,344,000 | 20,056,000 |
| Save the Children International | 1,920,000 | - | 1,920,000 |
| SIDA | 100,561,000 | 94,800,000 | 5,761,000 |
| UNESCO | 14,400,000 | - | 14,400,000 |
| UNICEF | 256,090,000 | 151,074,767 | 105,015,233 |
| World Bank | 1,476,150,000 | 801,142,902 | 675,007,098 |
| **Total** | **1,943,321,000** | **1,087,361,669** | **855,959,331** |

***Figure includes grants which have applications approved by the Board, but are pending implementation and are not yet active. Grants generally have funds committed by the Trustee prior to the start of implementation.**

## ANNEX 8 - EXPLANATORY NOTES TO ANNEX 3 and 4

### Opening Balance

### Opening Balance

The opening balance of funds in Annex 3 and 4 reflects the cash available in both the Catalytic Funds and GPE Funds as of January 1, 2018.

In Annex 3, Committed Assets refers to the amount of assets that are earmarked to pay for existing obligations such as program implementation grants already approved by the Board of Directors but not as yet disbursed.

Uncommitted Assets/Available for Approval refers to the amount of funds available that can be allocated to new activities approved by the Board of Directors.

### Inflows

Inflows are comprised primarily of funding from donors that fall into three categories:

- **Signed Contribution Agreements:** Agreements signed between the donor and trustee outlining the amount that a donor agrees to pay, payment schedule, and any conditions attached to such payments. The balance on signed contribution agreements as of January 1, 2018 was **US$403.1 million.**

- **Pledges:** These are amounts which donors have announced they expect to contribute either through a replenishment conference, public announcement, or written communication from an authorized official, but which have not yet been signed into a contribution agreement. It is important to note that while some donors pledge over a multi-year period, they are only in a position to sign a contribution agreement on an annual basis. The balance on outstanding pledges after discounting and factoring in increases/decreases to pledges is **US$1,730 million. The following pledges have been discounted:**

    i. *The full value of the pledge for the UK has not been factored into the forecast primarily because the pledge is subject to a limit of 15% of the value of total new contributions and due to additional performance conditions, that are attached to the pledge but for which progress has been fully assessed by DFID. As a result, only US$300 million out of a maximum potential pledge of US$352 million has been factored into the forecast of available resources to take account of these risks.*

- **Projections:** These are estimates developed by the Secretariat of additional contributions that are expected to be made based on the information available to it from its interactions with current and potential donors. For the purpose of the financial forecast, only reasonable projections from donors that have a track record of contributing to the Global Partnership have been included, along with investment returns on the GPE Fund. The value of projections included in the forecast is **US$215 million** and has been increased from December to reflect future pledges for the 2018-2020 period.

## Outflows

Outflows reflect the cash transfers from the Trust Funds to Grant Agents and the transfer of funds to cover the operational expenses of the Secretariat and Trustee.

The majority of outflows relate to transfers of funds from the Trustee to finance disbursements for program implementation grants. The current outflows are based on simple projections that implementation grants will be disbursed over a three to four-year period to account for any projected delays in signings or grant extensions.

It is important to note that outflows impact the level of committed assets and have no impact on the level of uncommitted assets which are used for the purpose of making financial commitments.

## New Commitments

Grant commitments are obligations for the provision of financial resources to Grant Agents over a predetermined period of time. The practice since January 1, 2013 is to commit funds for program implementation grants in annual tranches over the lifetime of the grant. (I.e. three tranches for a three-year grant)

The forecast of grant commitments for program implementation grants is based on the Secretariat's assessment of when applications will be received from relevant countries and only based on grants already approved by the Board or MCAs announced or to be announced at the next Board meeting. It should be noted that in a number of cases, the Secretariat's assessment differs from when the country has indicated they will submit an application. Where information is available on the split of a proposal budget over the lifetime of a grant, this is reflected in the forecast, where this is not available, and the Secretariat makes assumptions of commitments over a 3 to 4-year timeframe in line with the new funding model.

## Closing Balance

The closing balance reflects the projected level of assets available at the end of each period.

The uncommitted/available for approval balance is not projected to be negative indicating that there should be no disruption to program implementation grants due to lack of funding. However, as forecasts are subject to change, any negative event such as reduced or delayed donor contributions, or higher or earlier than anticipated applications for funding could create a shortfall in uncommitted assets. In these cases, as the Trustee cannot commit negative funds, the impact is that the commitment of funds (and subsequent cash transfer) for grants would be delayed until new contributions had arrived to eliminate the negative balance. These issues are covered in greater detail in the Comprehensive Funding Guidelines approved by the Board of Directors in May 2013.

At present, there is a risk of temporary funding shortfalls should additional donors reduce their pledges, and/or seek to backload their pledges to the latter years of the replenishment, or if grant implementation accelerates.