GLOBAL PARTNERSHIP for EDUCATION

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

REDUCING TRANSACTION COSTS AND IMPROVING EFFICIENCY OF EDUCATION SECTOR PROGRAM IMPLEMENTATION GRANT APPROVAL PROCESSES

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. It is understood that constituencies will circulate Board documents among their members prior to the Committee meeting for consultation purposes.

1. STRATEGIC PURPOSE

1.1 The purpose of this paper is to request the Board to approve recommendations from the Grants and Performance Committee (GPC) for adaptations in the processing of grant applications. The adaptations reduce transaction costs and increase efficiencies and are prompted by the successful Financing Conference in Dakar, which is anticipated to result in a significant increase in grant applications in the 2018-2020 funding period.

1.2 This paper is linked to the Finance and Risk Committee's (FRC) deliberations and recommendations on announcements of new maximum country allocations (MCAs) and adjustments to existing ones (BOD/2018/06 DOC 08).

Summary of Committee Deliberations

- This paper fully summarizes the outcome and recommendations from the Grants and Performance Committee following its meetings on April 10-12, 2018 and on May 8, 2018.

2. REQUESTED DECISION

2.1 The GPC recommends the Board approve the following decision:

BOD/2018/06-XX—Reducing Transaction Costs and Improving Efficiency of Applications for Education Sector Program Implementation Grants: The Board of Directors:

1. Notes the importance of efficient processes and lowering transaction costs, particularly in the context of an anticipated significant increase in the number of grant applications.
2. Approves the approach proposed by the Grants and Performance Committee for processing applications and approving allocations as set out in BOD/2018/06 DOC 06, including:

a. Allowing countries with a revised maximum country allocation resulting in an increase in grant funding to apply for the additional funds by submitting a proposal for a costed restructuring of the existing ESPIG.
b. Delegating authority to the Grants and Performance Committee to approve new ESPIGs and Costed Restructurings of up to US$10 million
c. Allowing countries with applications for ESPIGs or Costed Restructurings of US$5 million or less to choose whether to include a Variable Part.

3. BACKGROUND AND OVERVIEW

3.1 GPE had a successful replenishment which means that more resources are available for countries. As a result, the FRC was delegated authority to approve MCAs for 26 of the 67 eligible countries in February 2018 and is further recommending additional MCAs and top-ups for existing MCAs for the remaining 41 countries for approval at the June 2018 meeting.

3.2 The expected result is many more grant applications over the 2018-2020 period. The Board considered 15 ESPIG applications over the past three years; in the 2018-2020 period the number is expected to rise to over 70.

3.3 The GPE funding model involves high transaction costs, including a lengthy planning and application process at the country level, quality assurance by the Secretariat with a particular focus on the fixed and variable requirements, GPC review of and recommendations on the applications, and finally Board approval.

3.4 To manage the increase in applications and related transaction costs, the FRC requested the GPC to develop a proposal for efficiently processing revised MCAs resulting in a top-up to an already approved grant (FRC/2018/02 DOC 02). This paper accordingly proposes to allow countries to add top-ups to existing ESPIGs by submitting a request for a costed restructuring.

3.5 The GPC is further proposing delegations to the GPC of smaller allocations and standardizing the practice of eliminating the variable part for allocations of US$5 million or less unless a country indicates that it wants to include a variable part.

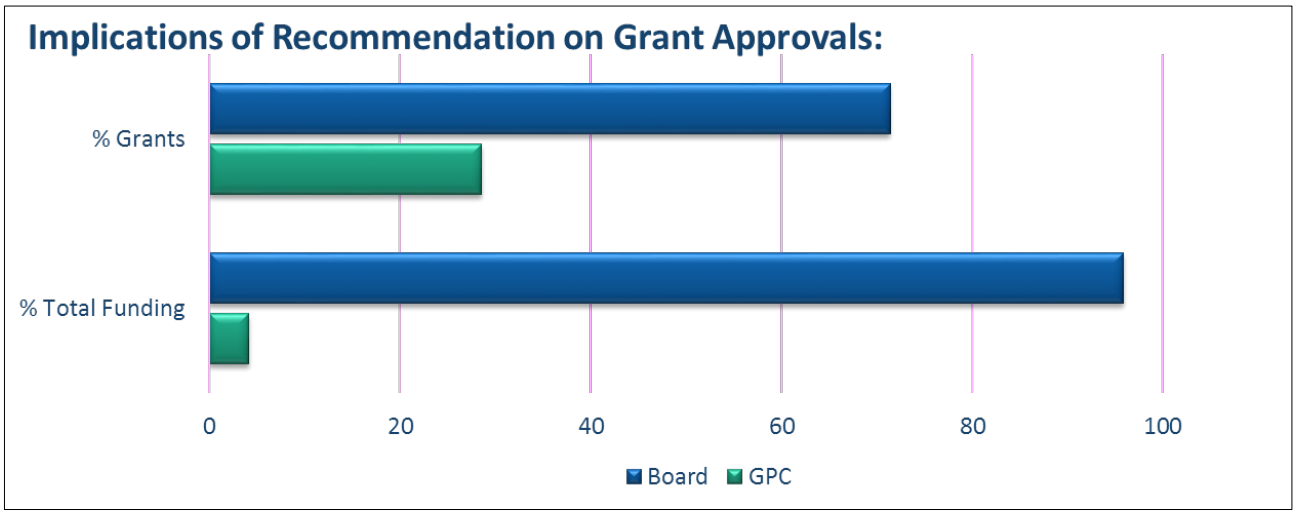
4. OVERVIEW OF RECOMMENDATIONS

4.1 The recommendations set out below address the expected steep increase in the volume of applications, seeking to reduce transaction costs and make application approval processes more efficient while ensuring appropriate quality standards. The recommendations are set out in detail in the annexes, along with the implications for specific grant approvals.

Recommendations

4.2 ***Applying for the MCA top-up through an application for costed restructuring of existing grant***: Based on the FRC's request to develop approaches for countries to access an increase in the MCA in a manner that limits transaction cost while still ensuring appropriate quality standards, the GPC recommends processing MCA top-ups through costed grant reprogramming of existing ESPIGs. The modalities and quality assurance process for such reprogramming are outlined in **Annex 1**.

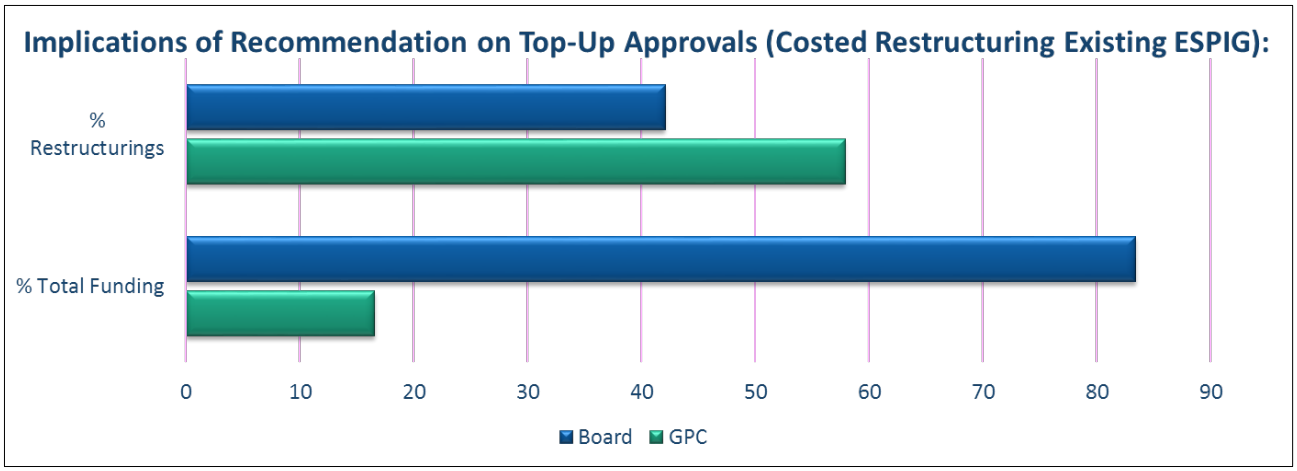
4.3 ***Delegation of grant approvals:*** The GPC recommends adopting a risk-based approach for considering approvals of new grants and recommends delegating responsibility for approvals to the GPC for small-sized grants (up to US$10 million). The Board would retain approvals for larger grants (above US$10 million). This would involve delegation of approval of 14 grants totaling US$73 million to the GPC, leaving 35 grants totaling US$1.673 billion for Board approval. See **Annex 2** for details on specific grant approvals.



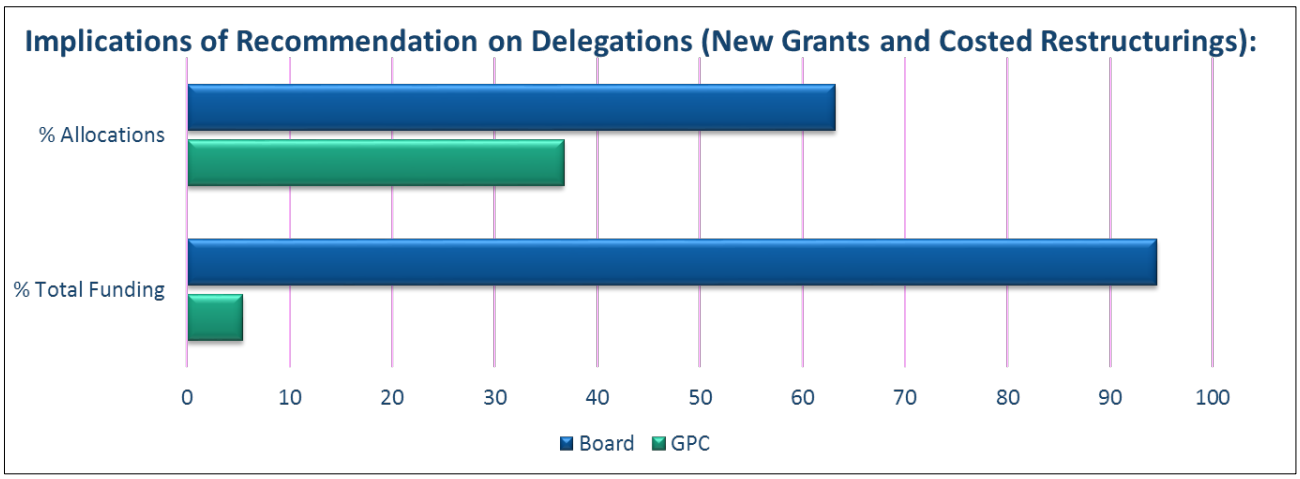
4.4 The delegation would also apply to Multiplier ESPIGs. If a country applies for both the MCA and the Multiplier, the combined GPE financing would be considered to determine the approval process. For example, an application for a US$10 million ESPIG and a US$5 million Multiplier would go to the Board for approval as the allocation exceeds the US$10 million limit of the GPC delegation of approval.

4.5 ***Delegation of Costed Restructuring approvals:*** The proposed delegation to grant approvals also applies to costed restructurings of existing grants: the GPC recommends delegating responsibility for approvals to the GPC for small-sized costed restructurings (up to US$10 million). The Board would retain approvals for larger costed restructurings (above US$10 million). This would involve delegation of approval of 11 costed restructurings totaling US$33 million to the GPC, leaving

8 costed restructurings totaling US$167 million for Board approval. See **Annex 1** for details on specific restructuring approvals.



4.6 When combining grant approvals and costed restructuring approvals, the recommendations on delegation would include that the GPC approves 25 allocations for a total of US$106 million and the Board approves 43 allocations for a total of US$1.84 billion.

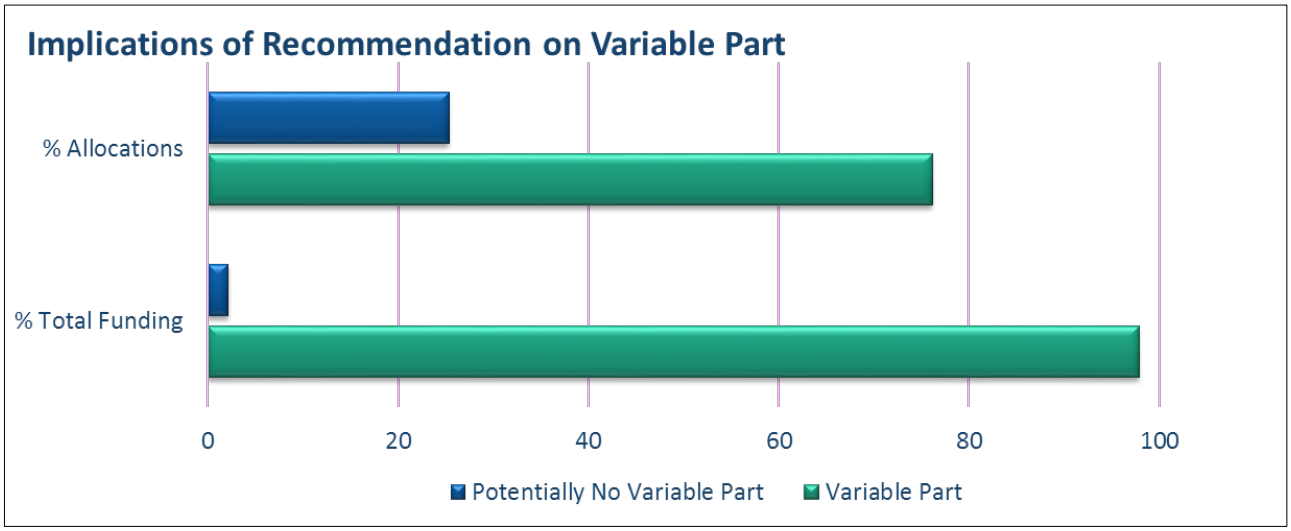


4.7 The GPC may defer any approval to the Board at its own initiative or at the request of the Board.

4.8 It is noted that the GPC currently has the delegated authority to approve requests for accelerated funding, up to 20% of the MCA or US$20 million in the case of a US$100 million grant.

4.9 ***Accountability and oversight:*** The Board will be properly informed of all grant approvals by the Committee as part of the Governance and Ethics Committee's existing annual report to the Board on the use of delegated decision-making.

4.10 ***Standardizing the practice of exempting small grants from the Variable Part***. Recognizing the transaction costs related to designing and processing an application for the variable part compared to the value of the variable part of smaller-sized grants, the Board and GPC have waived the variable part and granted ex-ante approaches upon request on a country-by-country basis for MCAs up to US$5 million. The GPC recommends being proactive and giving countries with MCAs or top-ups of US$5 million or less a choice in whether they want a Variable Part, without having to seek pre-approval. The availability of a choice is currently not requested for Multiplier Funds (for which the Board did not include the option to apply for an ex-ante approach). See **Annex 3** for more details.



5. IMPLICATIONS FOR SECRETARIAT RESOURCES AND RISK ANALYSIS

5.1 From a risk management perspective, the Board will need to consider whether the benefits of reducing the Board workload by empowering the GPC to have delegated authority over 37% of the volume of allocations are worth the risk of a reduced level of control over 5% of the US dollar value of the portfolio. The delegation to the GPC essentially leaves the Board directly responsible for approvals of 95% of the US dollar value across 63% of the volume of allocations, including new grant applications and costed restructurings.

5.2 From the Secretariat perspective, the workload involved in quality assurance of new applications is the same irrespective of the degree of delegation while reduced Board transactions generate limited staff time savings.

5.3 The key efficiency gains generated from these changes would be reduced Board time, combined with faster approvals on lower value grants.

5.4 The standardization of exempting the variable part from small grants will result in reduced transaction costs for both the Secretariat and GPC in preparing and approving, respectively, requests for an ex-ante approach.

6. NEXT STEPS

6.1 Should the Board approve the recommendations, the Secretariat in its delegated authority will update existing governance documents, policies and guidelines as applicable.

7. PLEASE CONTACT: Margarita Focas Licht (mlicht@globalpartnership.org) for further information

8. ANNEXES

Annex 1 – Costed Restructuring Modalities: Assessment of Requirements, Quality Assurance Processes, and Delegation of Approval

Annex 2 – Delegation of Grant Approvals and Approval Process

Annex 3 – Variable Part and Small-Sized Allocations

ANNEX 1: COSTED RESTRUCTURING MODALITIES: ASSESSMENT OF REQUIREMENTS, QUALTITY ASSURANCE PROCESS ANDAND DELEGATION OF APPROVAL

Countries with MCA top-ups that (i) have had grants approved or submitted applications for approval in FY18 or (ii) are at an advanced stage of program development where increasing the amount of the funding request will delay the application process, may submit a costed reprogramming proposal for the existing ESPIG at a suitable time during implementation.

In these cases, the review process for the costed reprogramming proposal will be limited to reduce transaction cost and given that the full quality assurance process will already have been conducted on the approved ESPIG. Specifically:

A. ***With regards to the assessment of Funding Model Requirements (ESP, domestic financing, data)***:

- If the revision is submitted less than a year following approval of the existing ESPIG, there will be no new review of the funding model requirements by the Secretariat.
- If the revision is submitted more than a year but less than two years following approval of the existing ESPIG, the Secretariat will verify that the domestic resource commitments linked to the approved ESPIG are on track.
- If the revision is submitted two years or more following approval of the existing ESPIG, the Secretariat will verify that the ESP is still valid; and that the domestic resource commitments linked to the existing ESPIG are on track.

B. ***With regards to the quality assurance process of the costed restructuring proposal***:

- Costed Restructuring up to US$10 million and where the grant agent is the same: The three quality assurances phases (QAR I, II, III) will be merged in the final readiness review report (FRR) at the end of QAR III in which the Secretariat provides its assessment of the requirements and analysis of the grant proposal.
- Costed Restructuring over US$10 million: The full QAR process would be applied, with some exceptions for quality assurance phase 1 (QAR I) (if the same grant agent is retained the grant agent selection process is not verified; the check-in on requirements is conducted as per part A further above).

C. ***With regards to the approval of the costed restructuring proposal:***

- Costed Restructurings up to US$10 million: the GPC is delegated authority to approve the proposal.
- Costed Restructurings over US$10 million: the Board approves the proposal.

Table 1 – Implications of Proposed Delegation of Approval[1]

Size of Costed Restructuring	Countries affected	Grant Amount in US$ Millions
US$1o million or less – GPC Approval	Guinea Bissau	0.30
	Nicaragua	0.40
	Bhutan	0.70
	Cape Verde	1.10
	Maldives	1.30
	Benin	2.30
	Comoros	2.70
	Zimbabwe	2.80
	Liberia	5.90
	Zanzibar	6.74
	Puntland	8.83
	TOTAL	**33.07**
Over US$10 million – Board Approval	South Sudan	11.40
	Somaliland	15.02
	Madagascar	19.60
	Burkina Faso	21.20
	Burundi	21.30
	Chad	22.20
	Somalia FGS	27.95
	Cote d'Ivoire	28.00
	TOTAL	**166.67**

[1] Amounts based on FRC decisions and recommendations on MCAs and the current pipeline of ESPIGs, presuming that applications expected from the November 2018 funding round will apply for the revised MCA including the top-up. Numbers include existing Multiplier MCAs and presumes GPC recommendations on Multiplier MCAs Djibouti, Mauritania and Zambia are approved by the Board. In case of any discrepancies between the amounts in this table and BOD/2018/06 DOC 08 – Financial Forecast, the amounts in the Financial Forecast are final.

ANNEX 2 – DELEGATION OF GRANT APPROVAL AND APPROVAL PROCESS

Delegation of approvals of smaller-sized grants to the GPC would retain the robust approval process up to the decision point that is already in place, as described below.

Step 1: Secretariat reviews the application for completeness and internal consistency between documents, reverting to country for additional information or corrections as necessary.

Step 2: The Quality Assurance (QA) Team reviews the application through the GPC matrix to assess the degree to which it meets the standards set out in the matrix; while the country lead (CL) and other peer reviewers review from a general technical perspective. The QA Team, CL and peer reviewers then discuss and agree on conclusions and preliminary recommendations, which are summarized in a draft Quality Assurance Phase III/Final Readiness Review (FRR) report and submitted to a sub-set of Secretariat managers (Management Group) depending on the risk level. In all cases, the Management Group includes the Country Support Team (CST) manager and chief technical officer (CTO); for higher risk applications, the Management Group includes the chief finance and operations (CFO) in addition.

Step 3: The Management Group (as defined in step 2) organizes a ***Review Meeting*** with the CL, QA lead and focal point and other peer reviewers as relevant to discuss the application. The Review Meeting concludes on the FRR report, including Secretariat recommendations to the GPC. The Review Meeting can conclude that the application is not ready to be forwarded to the GPC, in which case it will contact the grant agent to discuss and agree next steps.

Step 4: The FRR and background documents are submitted to the GPC for discussion and recommendation.

Step 5: Applications recommended by the GPC are forwarded to the Board for decision.

Table 2 – Implications of Proposed Delegation of Approval[2]

Grant size	Approval Process	Countries affected	Grant Amount in US$ Millions
up to US$10 million – GPC approval	**Steps 1-4:** no change **Step 5**: the GPC will make the decision on the grant instead of the Board. **Accountability mechanism:** GPC reports to the Board on approvals via the Governance and Ethics Committee's existing annual report to the Board on the use of delegated decision-making. The GPC may defer decisions to the Board.	Maldives Guyana Bhutan Sao Tome Principe Timor-Leste Nicaragua Kyrgyz Rep Lao PDR Lesotho Caribb. Island States Papua New Guinea Kenya Djibouti Uzbekistan	1.20 1.30 1.80 2.50 4.10 4.60 5.00 5.00 5.00 5.20 7.10 9.70 10.00 10.00
		TOTAL	**72.50**

[2] See Footnote 2.

Over US$10 million – Board approval	No change	Mauritania	11.80
		Pacific Island States	15.50
		Togo	15.60
		Haiti	16.50
		Benin	17.10
		Eritrea	17.20
		Sierra Leone	17.20
		Somalia FGS	17.90
		Zimbabwe	18.90
		Nepal	24.20
		Ghana	24.40
		Syria	25.00
		Burundi	25.60
		Zambia	25.90
		South Sudan	30.30
		Rwanda	30.80
		CAR	31.60
		Yemen, Rep.	32.40
		Guinea	37.90
		Cameroon	38.80
		Senegal	42.60
		Mali	45.70
		Malawi	48.70
		Bangladesh	53.90
		Sudan	59.00
		Myanmar	73.70
		Niger	85.10
		Tanzania-Mainland[3]	90.00
		Afghanistan	100.00
		Ethiopia	100.00
		Mozambique	100.00
		Nigeria	100.00
		Pakistan[4]	100.00
		Uganda	100.00
		Congo, Dem. Rep.	100.00
		TOTAL	**1673.3o**

[3] Tanzania has agreed in the past to divide its MCA between Tanzania-Mainland (90%) and Zanzibar (10%), a semi-autonomous from the United Republic of Tanzania. The information in this paper is based on that agreement, which may be revisited in the future.
[4] Pakistan is a federal system and will likely divide the allocation between some provinces, which may affect whether the individual grants are approved by the GPC or the Board.

ANNEX 3: VARIABLE PART AND SMALL-SIZED ALLOCATIONS

MCAs or MCA top-ups of US$5 million and below: Countries are given a choice to apply a variable part or to have the entire amount as a fixed allocation. If the country chooses not to apply a variable part, the country must still demonstrate strong strategies in efficiency, equity and learning outcomes in their sector plans. This is aligned with previous decisions on variable part exemptions and ex-ante approvals.