GLOBAL PARTNERSHIP for EDUCATION

BOD/2017/12 DOC 04
Meeting of the Board of Directors
December 5–7, 2017
Paris, France

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.

1. STRATEGIC PURPOSE

1.1 The financial forecast is designed to provide the Board with sufficient information on the expected financial position of GPE to support Board decisions on allocation of financial resources.

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 (Annex 1) and euro allocations (Annex 2).
- Recommendations on how the Board may allocate resources if the replenishment target is reached, along with principles for how resources may be prioritized if less than the target levels are reached. This would also include recommendations on the timings for announcements of maximum country allocations (Annex 3).
- Recommendations on the application of the US$100 million cap on the size of ESPIGs (Annex 4).
- Recommendations on the treatment of pledges that are subject to conditions or other forms of uncertainty which includes donors that may not be able to publicly pledge (Annex 5).
- The standard semi-annual financial forecast and related annexes (Annex 6-11).

Summary of FRC Committee Deliberations:

- The FRC noted the financial position had improved slightly since the last update primarily due to positive exchange rate movements, but it will be necessary to await the outcome of the GPE Financing Conference to have clarity on the financial position for the 2018-2020 period
- The FRC welcomed the positive movement on options for currency hedging for Financial Intermediary Funds under development by the World Bank. They noted that substantial technical details remain to be developed, and that significant further analysis on the viability for GPE to access any service provided by the Bank will need to take place.
- In relation to providing Euro grant allocations in addition to dollar allocations to create more of a natural hedge, the FRC noted that this is technically feasible but presents challenges for some Grant Agents. The FRC believe that the option continues to have merit and should continue to be actively explored. A decision to establish this option should consider demand from Developing Country Partners, and the outcome of the GPE Financing Conference where an updated profile of donor contribution currencies and projected grant allocations will be known.
- The FRC believe the principles for how resources should be allocated and prioritized in the 2018-2020 period as proposed by the Secretariat makes sense, noting the importance of an early announcement of maximum country allocations for ESPIGs as soon as possible following the GPE Financing Conference.
- The FRC note that there will be opportunity then to refine how additional resources if applicable are indicatively allocated for other mechanisms including the GPE Multiplier at the June 2018 Board meeting.
- The FRC agreed that the approach adopted for the last replenishment period in terms of having the ability to increase the cap of US$100 m on ESPIGs as resources available for allocation increased sufficiently to allow all countries benefit from higher allocations made sense and should be retained.
- The FRC agreed with the approach for how GPE should treat conditional pledges or other amounts subject to uncertainty in the Financial Forecast. The FRC recommended that risks attached to targeted contributions should also be factored into this assessment, and this has been incorporated in Annex 5.

2. EXECUTIVE SUMMARY

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

2.2 Since the last forecast was prepared in June 2017, GPE's financial position while still challenging has improved with a projected shortfall in available resources of US$13 million now reversed to a projected surplus of US$51 million. While the forecast position currently projects a surplus, the Secretariat does not believe that any reversals of previous prioritization measures should be made given the proximity to the GPE Financing conference and the need to announce new maximum country

allocations. The positive movement in the forecast is primarily attributable to a weakening of the US Dollar.

2.3 The Secretariat forecasts that there will be sufficient funds for the Board to approve any recommended allocations for upcoming Education Sector Program Implementation Grants from the Grants and Performance Committee.

2.4 The key risk to GPE's financial position in 2018 is related to exposure to strengthening of the US dollar. Significant progress has been made by the World Bank on options that may be applicable for GPE in relation to currency hedging to help mitigate this risk. Further details are outlined in Annex 1. While the ability to offer Euro grant allocations as discussed in Annex 2 is technically feasible and may be beneficial in terms of creating a natural hedge and greater predictability for some Developing Country Partners (DCPs), it raises a number of administrative and operational challenges, and therefore any decision to proceed with this option should be assessed based on demand from Developing Country Partners, and considering the profile of donor contribution currencies arising from pledges made at the GPE Financing Conference.

2.5 The criticality of a successful replenishment is paramount to ensuring that GPE can fulfil its obligations on both existing approved grants, for those in the current grant pipeline, and for implementing the Financing and Funding Framework approved by the Board. Principles for how resources may be prioritized based on the replenishment outcome are set out in Annex 3 and focus on prioritizing the majority of resources for education sector plan implementation grant funding and for ensuring that maximum country allocations are announced in a timely manner.

2.6 In relation to the US$100 million cap on the size of ESPIGs (Annex 4), the Secretariat recommends maintaining the current approach approved in 2014, where the cap may be increased to US$125 million, and US$150 million if overall resources for the calculation of ESPIG allocations are more than US$2.25 billion and US$2.75 billion respectively. This maintains the principle that any increase in the cap should also result in non-capped countries receiving an increased allocation (or at least no decrease).

2.7 During the current replenishment period a number of donor pledges made were subject to conditions or uncertainty. Annex 5 sets out an approach for how uncertainty may be dealt with in terms of forecasting available assets.

2.8 The Secretariat recommends that the Board announce Maximum Country Allocations from the GPE Multiplier and if applicable for core ESPIGs (at minimum agreed levels which may be adjusted upwards at a later date) for those countries recommended by the Grants and Performance Committee in order to allow for timely submission of single programs (where applicable) by the end of 2018. Further details on this recommendation are outlined in BOD/2017/12 DOC 18.

3. RECOMMENDED DECISION

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

BOD/2017/12-XX—Financing Options: The Board of Directors:

1. Approves the principles for prioritization of resources in the 2018-2020 period as set out in Annex 3 of BOD/2017/12 DOC 04.
2. Authorizes the Finance and Risk Committee to approve the announcement of new maximum country allocations for ESPIG eligible countries expected to have an application approved before the end of 2019 based on a financial forecast to be prepared by the Secretariat immediately following the GPE financing conference.
3. In relation to maximum country allocations for ESPIGs, determines to:
    a. Maintain the cap of US$100 million if the amount of funds used to calculate maximum country allocations is less than US$2.25 billion
    b. Increase the cap to US$125 million if the amount of funds used to calculate maximum country allocations is more than US$2.25 billion but less than US$2.75 billion
    c. Increase the cap to US$150 million if the amount of funds used to calculate maximum country allocations is more than US$2.75 billion
4. Endorses the approach used to treat potential donor contributions that are subject to uncertainty for the purpose of forecasting available resources for allocation as outlined in Annex 5

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 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 Annex 11 and are based on the approach approved by the Board of Directors in June 2014 (BOD/2014/06-01).

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 Annex 7 (Forecast of available resources to the end of 2018).

4.5 It is important to note that the financial forecast does not include any projections of new resources that may be raised under the forthcoming replenishment period, nor does it project any new allocations that would be made from those resources, with the exception of projecting commitments under existing grants and previously announced Maximum Country Allocations.

5. REASONS FOR RECOMMENDATION

5.1 Since the last forecast was prepared in June 2017, there has been some marginal improvement in GPE's financial position and a reversal in the projected shortfall in available assets from a deficit of US$13 million to a surplus of US$51 million. This is primarily attributable to a weakening of the US dollar against major contributor currencies.

5.2 Annex 6 provides a calculation of the resources expected to be available. This calculation considers all the previous prioritization measures adopted by the Board through December 2015. It takes into account the remaining commitments to be made on previously approved allocations, provisions for ongoing activities to the end of FY2018, and the expected cost of providing allocations to countries with an indicative Maximum Country Allocation (MCA) already announced by the Board (i.e. countries expected to apply in 2017 or 2018).

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

5.4 Normally the Board would consider the potential to reverse previous prioritization actions at each review of the Financial Forecast. However, the Secretariat would recommend maintaining the current prioritization criteria for now, given the proximity to the forthcoming replenishment, and the adoption of eligibility criteria and an allocation methodology for the 2018-2020 period. The focus should be on meeting existing obligations and commencing immediate priority announcements of MCAs under the Financing and Funding Framework for the 2018-2020 period. In particular, this includes the allocations related to the Multiplier as recommended by GPC, and where relevant for ESPIG eligible countries, their MCAs at minimum approved levels (which may be increased later).

5.5 Significant progress on currency hedging has been made although further technical details need to be worked out (Annex 1). The option to introduce euro grants while technically feasible creates complexities and additional costs. However, considering the potential benefits, this issue should be revisited based on an assessment of DCP demand for such grants, and considering the profile of donor contribution currencies arising from the outcome of the GPE Financing Conference (Annex 2).

5.6 In relation to the cap of US$100m on ESPIG allocations, the Secretariat believes it should be retained at that level unless overall resources for the ESPIG allocation formula increases to US$2.25 billion or US$2.75 billion. This would allow the cap to increase to US$125 million and US$150 million respectively. This is line with the approach agreed in 2014.

6. RISK

6.1 The key risks 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.

6.2 The key risk beyond 2017 for GPE's financial position is a replenishment that is unable to provide sufficient financing for successful implementation of the Financing and Funding Framework. A proposal on prioritization of resources should resources meet the replenishment target or not reach the target is set out in Annex 3

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 The Secretariat will continue to engage with the World Bank on options to mitigate currency risk and report back on progress in April 2018. External expertise may be sought to support some of the currency hedging analysis that would need to be performed. The Secretariat will also revisit the option for introducing Euro grant allocations in light of feedback on DCP demand, and the outcome of the GPE Financing Conference.

7.3 Assuming the Board approves the approach for announcing new MCAs for ESPIGs as soon as possible following the replenishment and delegating this to the FRC, the Secretariat will prepare a financial forecast immediately following the GPE Financing Conference for FRC to use as the basis to approve new MCAs for ESPIGs for 2018 and 2019. An updated financial forecast to be reviewed by the FRC in April 2018 and the Board in June 2018 will be used as the basis to refine any allocations, and to determine the provisional allocation of resources to other mechanisms.

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 – Implications of Euro grants

Annex 3 – Prioritization Approach

Annex 4 – US$100m ESPIG Cap

Annex 5 – Dealing with Conditional Pledges and Uncertainty

Annex 6 – Calculation of the Available Resources for Maximum Country Allocation

Annex 7 – Forecast of Available Resources to the end of 2018

Annex 8 – Forecast for the Purpose of Program Implementation Grant Approvals

Annex 9 – Status of Second Replenishment Pledges and Contributions

Annex 10 – Current Status of Grant Portfolio

Annex 11 – Explanatory Notes and Assumptions for Forecast of Available Resources

ANNEX 1 – CURRENCY HEDGING

GPE is exposed to changes in the value of the US Dollar against the national currencies of other donors who contribute to GPE.

The World Bank has explored several potential solutions that could be available to Financial Intermediary Funds such as the GPE Fund, and have narrowed it down to the following means of providing such a service: Getting access to the capital markets as part of the IBRD's Trust Fund Pool.

This approach must be explored fully and will be done in the coming months by the bank. Below is a summary table which lists the premise, benefits, and key implementation issues.

A strategic framework must be established before any progression can be made. After this, the cost of the hedge will be calculated, both the administration/transaction cost and the trading cost (which is determined by the market price of the individual trades on a rolling basis). These costs will be dependent on the final hedging structure and the size of the instruments employed. Any collateral that is to be pledged must be arranged prior to the execution of the trades. The size of the collateral to be posted will be dependent upon the nature of the hedge (size, maturity date) and can be volatile in nature as well. Meaning, it's possible that over the course of the agreement, additional collateral may be required to be posted should the mark-to-market valuation drop below the original value of the hedge. In addition, the World Bank will have to develop a mechanism that would insulate other Trust Funds in the IBRD's Trust Fund Pool. Meaning, the primary financial risk of having negative changes in the mark-to-market valuation of the foreign exchange hedges, assuming the Net Asset Value (NAV) of the rest of the Trust Fund Pool that is not participating in the FX hedging will have to be insulated. This means that only the pool of Trust Funds that are participating in hedging will need to be subject to revaluation, and those that do not participate will not be affected. One solution is to ring-fence the funds in order to minimize the spill over of the losses into the greater pool.

Once all of the above is put into place, only then can the hedging strategy be implemented. This will require an agreement on the timing of when to execute the hedging strategy. Given that GPE does not currently enter into encashment agreements with donors, this will have to be further explored. In addition to timing, the decision will need to be made around which donor contributions will be hedged, and how the obligations will be met as they will be enforceable between the market counterparties and the World Bank.

In addition to the financial aspect of the hedging arrangement, there are mechanical aspects which need to be further explored. Specifically, there needs to be a mechanism that would insulate other Trust Funds in the IBRD's Trust Fund Pool.

Hedging Option	Premise/Considerations	Benefits	Key implementation issues
GPE accesses the Capital Markets as part of IBRD's TF Pool	GPE leverages the existing infrastructure and relationships of the TF Pool to execute market hedges.	1) Given the size of the TF Pool, collateral requirements might be lower than if GPE were to conduct FX hedges outside of the Pool. 2) Synergies could arise such as economies of scale from the aggregation of risk across several trust funds in the Pool. 3) Depending on the hedging strategy employed, liquidity requirements could be managed within the TF Pool resulting in fewer constraints on the amount that can be hedged.	1) Implementation would entail potentially significant changes to legal and financial aspects of the GPE TF. 2) Adequate ringfencing will need to be put in place to limit the risks posed to other participants in the TF Pool posed by the currency hedges transacted on behalf of the GPE TF. 3) Political/reputation risk of large collateral calls on GPE's liquid assets, which may reduce funds available for disbursement and pose challenges for liquidity management.

ANNEX 2 – EURO FUND

In addition to exploring the possibility of hedging the foreign exchange exposure, the Secretariat was tasked with exploring the potential for operating grant funding under an additional currency, namely using euros to fund grants. For this, the Secretariat has worked with the World Bank, both in its capacity as Trustee and separately as a grant agent, as well as UNICEF who, when coupled with the World Bank as grant agent, account for the overwhelming majority of grant financing. In this discussion, the Trustee have offered information on how, operationally, a euro fund could be managed. The World Bank policies and procedures do not restrict the use of multiple currencies as operating currencies. As such, the option for the GPE to include a second operating currency could be feasible. There are several factors to consider when deciding on whether or not operating a euro fund is suitable:

1) To manage multiple operating currencies in a cost-effective manner, the balance in each currency should match the commitments and disbursements in that currency, requiring meticulous financial management by the Trustee to manage the timing of inflows and outflows in multiple currencies.
2) Operating expenses for the Secretariat and the Trustee would increase as the Secretariat would need to manage project pipelines in both currencies while the Trustee would need to maintain two programming envelopes applications and reports. This may have a spillover impact on the operating cost of Agencies due to additional efforts needed to monitor and track project pipeline in multiple currencies.
3) Multiple operating currencies would involve splitting the GPE's resources into two or more investment portfolios denominated in each of the operating currencies, which could have an adverse impact on investment income if it prevented the GPE Trust Fund from investing in securities with longer maturities. Consideration should be given to the market environment such that the GPE does not face investment risk simply due to the choice of currency. For example, investments in EUR in the current environment would very likely incur negative investment income due to interest rates being below zero in the EUR market. At present, the Trustee only has a longer-term investment portfolio in USD, meaning EUR denominated assets would be invested in shorter-term investment portfolios which are expected to generate slightly lower investment returns until such time that a EUR investment portfolio could be established.

As such, any decision around employing a second operating currency should consider: the cost, the complexity of implementation, the level and predictability of demand from recipient countries, the willingness of the GPE Secretariat and Agencies to handle dual currencies in terms of pipeline management, cash management and reporting, the current market environment and impact on investment returns, and the potential benefit it could bring in terms of mitigating FX risk. Operating under a second currency also requires a revision to all fund governance documents, including the financial procedures agreements signed with Grant Agents and contribution agreements signed with donors.

The World Bank as grant agent has discussed the option of operating grants in USD and EUR. In addition to the ones listed above, they have identified potential complications, especially with regards to IDA blended grants. There cannot be movement of funds between EUR and USD, as transfers have been made in kind. This could potentially limit the number of grant agents who can operate and will impact how the grant agent selection will work. The requirement to maintain two ledgers (one in USD and one in EUR) will create additional work for grant agents and will come with an increased cost. The question of who will be impacted should rates deteriorate as records would officially have to be kept in USD seems to be agreed that the country would ultimately bear the loss.

Similarly, to the World Bank, UNICEF has the ability to enter into euro grants and will record the receipt of funds and the receivables in euro. However, the receivables will be revalued monthly using the UN Official Exchange Rate (UNORE) applicable at that time. The budgets for UNICEF country offices are allotted in USD, and will therefore be subject to revaluation until the cash is received. Euro receipts will be translated into USD at the time the cash is received by UNICEF, using the UNORE applicable at that time and any exchange gains or losses are borne by the UNICEF country office holding the budget. In addition to this, their financial rules and regulations state that:

Regulation 4.8: All revenue in currency other than United States dollars in the UNICEF Account shall be converted into United States dollars using the United Nations operational rates of exchange on the date at which revenue is recognized.

Regulation 4.9: Differences in the United States dollar value of Contributions resulting from the timing difference between revenue recognition and payment of Contributions in currencies other than United States dollars shall be recorded against these Contributions.

Given these restraints, UNICEF has expressed a strong preference not to receive contributions in currencies other than in USD. It is difficult for their country offices to manage their programme budgets when they are subject to currency fluctuations and UNICEF discourages signing agreements other than in United States dollars.

While there are complexities and there would be additional costs to introducing euro grant allocations alongside US dollar allocations, there are a number of potential benefits including creating more of a natural hedge by matching euro donor contributions with euro grant allocations, while for a number of countries, particularly those with a currency pegged to the euro, this could provide greater predictability in terms of the amount of local currency that would be received upon conversion of GPE Funds.

The FRC recommended that further information on demand for Euro grants be explored with DCPs and that the issue be revisited in light of this, and the outcome of the GPE Financing Conference, particularly if there is a large increase in the proportion of overall resources pledged in euros.

ANNEX 3 – PRIORITIZATION

GPE's case for investment is based on a desired outcome that GPE would have US$3.1 billion in funds available over the 2018-2020 period. In the event of such an outcome, the Board will need to determine how it should allocate such funds.

The GPE Secretariat would recommend adopting the approach set out in the table below as a guide for how funds should be made available. The semi-annual financial forecast would continue to be prepared throughout the 2018-2020 period and would provide the opportunity to adapt this approach based on changing priorities, progress with implementation, demand for different types of funding, and availability of financing.

DESCRIPTION	US$ Millions	Percentage of Total	COMMENTS
Allocations for ESPIGs (includes existing/planned commitments)	*2,200*[1]	*71%*	*Existing commitments on grants approved as part of 2015-2018 replenishment expected to account for approx. $800m of total.*
Allocations for Multiplier (ESPIGs)	*300*	*9.7%*	*Initial progress indicates demand is there to move to the levels outlined in the case for investment*
TOTAL PLAN IMPLEMENTATION FUNDING (ESPIGs + Multiplier)	**2,500**	**80.7%**	Based on the expectation that most resources should continue to go to direct plan implementation activities.
KIX	**150**	**4.8%**	Based on previous strategy committee recommendations of approximately 5% allocated to knowledge and good practice.

[1] An additional US$440 million could be added to the ESPIG envelope to raise it to US$2.64 billion for the purpose of making allocations. This would be consistent with the existing carryover practice where up to 20% of the value of allocations made can be factored in as available resources. This recognizes that while all allocations can be made in the 2018-2020 period, not all grants will be disbursed by the end of 2020, and therefore could be partially funded from contributions in a future replenishment period. This would allow for larger grant allocations to be made in the 2018-2020 period while reducing the need to have a large cash balance on hand at the end of 2020 that would only be used in 2020 and 2021.

ASA (including existing commitments to CSEF)	**100**	**3.2%**	Minimum levels of US$60m and mechanism not expected to exceed US$100m based on original FFF paper.
Small Grants (Sector Analysis/Plan and Program Development)	**50**	**1.6%**	Factors in a scale up in number of partner countries
Provision for Agency Fees	**75**	**2.4%**	Based on current policies and estimated distribution by grant agent
Secretariat Operating Expenses	**150**	**4.8%**	In dollar terms the Secretariat budget would increase significantly to cope with the increased volume of work of a $3.1 billion replenishment, however as a percentage it would reduce due to the size of the overall envelope
Contingency	**75**	**2.4%**	A contingency would allow the Board flexibility to allocate resources to shifting priorities over the implementation period or to mitigate the impact on programmatic allocations if FX risks are realized or donors fail to deliver on pledges.
Total Envelope	**3,100**	**100%**	

If projected available resources are less than US$3,100 million, the following principles are recommended to be applied.

1. Sufficient resources should be set aside to meet any existing GPE grant obligations (i.e. commitments for existing grants or countries with an existing maximum country allocation)
2. Sufficient resources should be set aside for GPE's small grants programs (Education Sector Plan and Program Development Grants)
3. Sufficient resources should be set aside for routine operations of the partnership (i.e. Secretariat Operating Expenses (capped at 7%), and provision for Agency Fees on any new grant allocations)

4. Sufficient resources should be set aside for KIX, ASA, and the Multiplier at the minimum levels established by the Board (US$60m, US$60m, and US$100m respectively). For KIX and ASA, it is expected that at least US$40m and US$50m respectively should be

the amounts to be set aside from unrestricted funds as there should be a target of at least US$20 million for KIX and US$10m for ASA to come from targeted contributions.[2]

5. New Maximum Country Allocations for ESPIGs should be announced for eligible countries without an existing maximum country allocation or for those eligible countries where an existing ESPIG is expected to be substantially complete by the end of 2020. These allocations would be at the minimum levels outlined in Scenario 1 of Annex 1 of BOD/2017/03/DOC 04.

In the event that funds are projected to exceed the amounts necessary to meet the requirements of points 1-5 above, then the following approach will be adopted.

1. If the projected resources available for ESPIGs when combined with Multiplier Funding is less than 80% of the total projected resources for allocation, than any excess available funds will be prioritized towards increasing the envelope used to calculate ESPIGs. This will result in higher maximum country allocations than the minimum levels described in BOD/2017/03 DOC 04.
2. Once the 80% threshold has been reached, and envelopes for small grants and routine operations are deemed sufficient, the allocation envelopes for all other initiatives (KIX/ASA/Multiplier, and the contingency) can be increased so that the desired percentage distributions outlined in Table 1 are met.

It is critical that MCAs for countries planning to apply for ESPIGs are announced as soon as possible to enable timely applications and fund utilization. Uncertainty on the timing and amount of available GPE resources is identified as a key reason in preventing more co-financing operations. Considering this, the Secretariat recommends the following approach

1. Maximum Country Allocations from the GPE Multiplier based on recommendations from the Grants and Performance Committee in 2017 should be approved by the Board in December 2017 and valid through 31 December 2018. In addition, for these countries, MCAs for ESPIGs for the 2018-2020 period where eligible should also be announced based on the minimum levels agreed by the Board. They may be subsequently increased based on a later financial forecast. This will facilitate the timely development of a single program in certain cases based on the Multiplier allocation plus core ESPIG allocation plus financing provided by external financing partner.
2. Maximum Country Allocations for new ESPIGs for eligible countries expected to be approved by December 2019 should be announced immediately following the GPE Financing Conference. As the Board is not expected to meet until June 2018, it is recommended that the FRC be delegated authority to determine the Maximum Country Allocations based on the existing approved eligibility and allocation formula, using the principles of prioritization outlined above, and based on a forecast of available assets that will be prepared immediately following the conclusion of the GPE Financing Conference. This would imply that the FRC should hold a meeting in Senegal on February 9th to approve the MCAs based on a forecast that would be provided the night before.
3. Allocations/Resource envelopes for all other types of financing would be determined by the Board preferably in June 2018 at its scheduled meeting based on submission of a Financial Forecast reviewed by the FRC.

[2] This may be adjusted based on the final approval of the design of both mechanisms

ANNEX 4 – CAP of US$100 million on ESPIGs

MCAs for ESPIGs are currently capped at US$100 million. These countries however can apply to access the GPE Multiplier (assuming additional funds are provided) for up to US$25 million more (subject to meeting the requirements and availability of funds). In this way, the cap has already been lifted.

The cap artificially lowers certain countries allocations compared to if only the allocation formula approved in March 2017 was used. This ensures that a small group of countries do not dominate the majority of GPE Funds.

However, a principle agreed in 2014 was that it would be possible to raise the cap provided it was done in a manner that also raised MCAs for all other countries not subject to the cap.

For the 2014 replenishment, using a US$2 billion funding envelope for ESPIG allocations, 6 countries would be capped at US$100 million accounting for 30% of overall funds. The Board agreed in 2014 that should available resources for calculating the MCA for ESPIGs be set at US$2.25 billion or more then the cap could be raised to US$125 million (33%), and if resources reached at least US$2.75 billion, that the cap could be further increased to US$150 million (36%).

For the 2018-2020 period, using a US$2 billion resource envelope for applying the ESPIG allocation formula would produce 7 countries with a cap of US$100 million accounting for 35% of total allocation. Given the issues raised around the cap in 2014 are broadly the same as 2017, the Secretariat would recommend maintaining the approach agreed in 2014.

ANNEX 5 – FORECASTING FOR UNCERTAINTY AND CONDITIONAL PLEDGES

During the 2014 replenishment period, a number of pledges were made that were subject to parliamentary approval. two pledges were conditional on performance of GPE, while one was conditional on contributions not exceeding a certain percentage of the overall resources raised. In addition, some donors with a strong track record of contributions could not publicly pledge for the entire replenishment period due to restrictions on their ability to make multi-year pledges but indicated they had every intention to contribute at least at existing levels.

The Secretariat's approach has been to publicly report on the full value of all pledges even if conditional or an element of uncertainty applied unless a donor formally notified the Secretariat that it was reducing its pledge. The Secretariat recommends to continue this practice.

However, for the purpose of calculating resources available for allocation, pledges that are subject to uncertainty may need to be discounted. The Secretariat currently makes discounts based on reasonable assumptions in terms of forecasting, but now recommends to formalize the following approach:

- For pledges subject to a ceiling on overall share of contributions, any amounts projected to be above the ceiling at the time of each financial forecast will be fully discounted.
- For pledges that are conditional upon parliamentary approval, the Secretariat will make a judgement based on risk factors including (1) confidence of donor representative that pledge will be met/not met (2) potential change in government policy/priorities (e.g. elections), (3) track record of fulfilling pledges
    - High risk of zero contribution – discount 100%
    - High risk of partial reduction in pledge – discount 50%
    - Moderate risk of zero contribution – discount 50%
    - Moderate risk of partial reduction in pledge – discount 25%
    - Low risk of pledge not being fulfilled or only partially fulfilled – recognize full value of pledge
- For pledges that are conditional on performance, the Secretariat will make a judgement on the likelihood of the condition being met at each financial forecast.
    - High risk of conditions not being met – discount 100%
    - Moderate risk of conditions not being met – discount 50%
    - Low risk of conditions not being met – discount 25%

For pledges that are targeted per the Contributions and Safeguards Policy, the Secretariat will assess whether any portion of the pledge may be subject to risk, and will discount as appropriate. It will also exclude any hard targeting to approved mechanisms such as KIX/ASA from the calculation of available resources to ESPIGs and other areas for allocation.

Where a donor cannot make a public pledge, but has indicated they have every intention to continue to contribute to GPE at similar of higher levels, and have a strong track record of doing so, the Secretariat recommends to continue to include these projections in the forecast of available assets based on the value of the most recent contribution or based on a firm notification from the donor on a confidential basis of the amount included in their budget for the upcoming year.

The Secretariat will not include for the purpose of the financial forecast, any projections of additional contributions from existing donors that do not meet the same standards as the paragraph above, nor any projections of additional contributions from potential new donors until a public pledge has been made.

ANNEX 6 – CALCULATION OF THE AVAILABLE RESOURCES FOR MAXIMUM COUNTRY ALLOCATION

Current Projected Surplus required to fund all GPE eligible countries and activities based on prioritization measures agreed by the Board as of January 2017

SCENARIO – All figures in USD Millions	**1**
MCA Calculation Amount (2,000 = Minimum)	*2000*
Opening Uncommitted Cash Balance 1 July 2017	189
Balance on Signed Contribution Agreements	414
Donor Pledges (after discounting for uncertainty)	408
Projections of Additional Contributions - Secretariat Recommended	75
Projected Carryover from 2015-2018 Approvals (20% of MCA)	241
RESOURCES FOR FORECASTING PURPOSES (A)	**1,327**
Remaining Commitments to be made on Existing Approved Grants (2013-2017)	(546)
Provisions for other Grants (Plan Development, Program Development, CSEF)	(34)
Provisions for other costs (Supervision, Agency, Secretariat, Trustee)	(20)
General Provision (Leverage Fund and Contingencies)	-
Provision for Future Commitments based on MCAs for 2017-2018	(674)
TOTAL AMOUNT TO BE SET ASIDE (B)	**1,274**
PROJECTED SURPLUS / (SHORTFALL)	**51**
List of Countries with MCAs for 2017-2018	
Afghanistan	100
Benin	17.1
Bhutan	1.8

Burkina Faso	33.8
Burundi	25.6
Cambodia	20.6
Cape Verde	1.4
Chad	27.84
Comoros	2.3
Cote d'Ivoire	24.1
Eritrea	17.2
Gambia, The	5.3
Guinea-Bissau	4.7
Haiti	16.5
Liberia	11.9
Madagascar	46.8
Maldives	1.2
Mali	35.6
Myanmar	73.7
Nicaragua	4.6
Pacific Island States (*Micronesia, Kiribati, Marshall Islands, Samoa, Tonga, Tuvalu, Vanuatu*)	4.1
Papua New Guinea	7.05
Sao Tome and Principe	1.2
Sierra Leone	17.2
Solomon Islands	1.9
Somalia	31.18
South Sudan	30.3
Tanzania	82.3
Timor-Leste	4.1
Togo	14
Zimbabwe (Variable tranche)	8.9
Total	**674.27**

ANNEX 7 – FORECAST OF UNCOMMITTED ASSETS

ANNEX 2 - FORECAST OF UNCOMMITTED ASSETS			
All Figures in USD Millions	**S2 2017**	**S1 2018**	**S2 2018**
A. Opening Balance Cash and Promissory Notes	357	492	469
A1. Total Committed	168	321	411
A2. Total Uncommitted/Available for Approval	189	171	59
B. Inflows	400	192	220
Contribution Agreement	274	45	74
Pledges	51	147	146
Projections	75	-	-
C. Outflows	265	215	215
D. New Commitments	418	305	239
Commitments (Existing Approved Grants)	355	160	89
Projected Commitments (Remaining Allocations)	36	117	95
Other Commitments	27	27	55
E. Closing Balance Cash and Promissory Notes (A+B-C)	492	469	475
E1. Total Committed (A1-C+D)	321	411	435
E2. Total Uncommitted/Available for Approval (A2+B-D)	171	59	40
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 8 - 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 2 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 JANUARY 2018 – 30 JUNE 2018	AMOUNT in USD millions
Estimated Available Assets on Hand 1 January 2018 (excluding projected contributions to 31 December 2017)	171
Pledged and Signed Contributions 1 January 2018 – 30 June 2018	192
Total Projected Assets	**363**
Recurrent Costs (Secretariat, and Trustee budgets, , Plan and Program Development Grants, CSEF etc) – 1 January 2018 – 30 June 2018	(31)
Projected Commitments for Existing Grants falling due 1 January 2018 – 30 June 2018	(160)
Total Projected Liabilities	**(191)**
Available Assets for First Grant Commitment of Round 2 2017 Applications	**172**
First Commitment of Round 1 2018 proposals required by 30 June 2018 (including related Supervision and Agency Fees)	(129)
Projected Surplus/(Shortfall)	**43**

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 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 2 that would necessitate including a provision for a commitment reserve in this calculation of available funds.

ANNEX 9 - STATUS OF 2015-2018 Replenishment (All figures in Millions)		Brussels Pledge + Post Brussels Pledges and Adjustments		Paid to Date (as of Aug 30, 2017)	Remaining Pledge Value (Aug 30, 2017)	Total Value of Pledge + Paid in (Aug 30, 2017)	FX Related Change in Pledged Value (as of Aug 30, 2017)
Donor	**CUR**	**Pledged Amount**	**USD Equivalent**	**USD Value**	**USD Value**	**USD Value (in millions)**	**USD Value (in millions)**
Australia	AUD	140.0	131.8	84.5	24.7	109.2	-22.6
Belgium	EUR	36.0	49.0	19.1	22.4	41.5	-7.5
Canada	CAD	120.0	94.2	68.4	23.9	92.3	-1.9
Children's Investment Fund Foundation (CIFF)*	USD	22.0	22.0	6.0	16.0	22.0	0.0
Denmark	DKK	925.0	164.7	91.7	48.2	139.9	-24.8
Dubai Cares*	USD	1.0	1.0	1.0	0.0	1.0	0.0
European Commission	EUR	375.0	510.5	128.2	310.6	438.9	-71.6
Finland	EUR	4.8	6.6	3.1	2.4	5.5	-1.1
France	EUR	17.0	18.5	18.2	0.0	18.2	-0.3
Germany	EUR	35.0	47.6	27.8	12.5	40.3	-7.3
Ireland	EUR	16.0	21.8	13.5	4.8	18.3	-3.5
Italy	EUR	10.0	13.0	7.7	3.6	11.3	-1.7
Japan	USD	5.9	5.9	5.9	0.0	5.9	0.0
Luxembourg	EUR	0.3	0.4	0.3	0.0	0.3	-0.1
Norway	NOK	1660.0	270.0	129.7	77.3	206.9	-63.1
OSF (through AOSI)*	USD	1.5	1.5	0.5	1.0	1.5	0.0
Republic of Korea	USD	5.0	5.0	2.1	2.9	5.0	0.0
Rockefeller Foundation*	USD	0.4	0.4	0.4	0.0	0.4	0.0
Stichting Benevolentia*	USD	2.5	2.5	0.9	1.7	2.5	0.0
Sweden	SEK	1300.0	192.9	127.8	31.5	159.3	-33.5
Switzerland	CHF	36.0	38.9	16.7	20.4	37.1	-1.8
United Kingdom**	GBP	300.0	510.8	136.8	250.8	387.6	-123.3
United States	USD	155.0	155.0	155.0	0.0	155.0	0.0
Total			**2,264.1**	**1,045.3**	**854.7**	**1,900.0**	**(364.1)**

***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 10 – CURRENT STATUS OF EDUCATION SECTOR PROGRAMS IMPLEMENTATION GRANT PORTFOLIO

Information on Active Grants as of August 30, 2017						
Country	Grant Agent	Start Date	Closing Date	Grant Amount	Total Disbursed	Undisbursed
Afghanistan	UNICEF	Aug-12	Jun-17	55,700,000	55,700,000	0
Bangladesh	World Bank	Jan-16	Jun-18	100,000,000	20,000,000	80,000,000
Benin	World Bank	Mar-14	May-17	42,300,000	36,567,035	5,732,965
Burkina Faso	AFD	Nov-13	Jun-17	78,200,000	78,200,000	0
Burundi	UNICEF	Apr-16	Jun-18	20,100,000	7,739,309	12,360,691
Cambodia	World Bank	May-14	Jul-17	38,500,000	38,500,000	0
Cameroon	World Bank	Mar-14	Sep-18	53,300,000	21,385,759	31,914,241
Central African Republic	UNICEF	Dec-14	Dec-17	15,510,000	12,552,745	2,957,255
Chad	UNICEF	Feb-16	Feb-17	6,955,170	5,851,949	1,103,221
Chad	UNICEF	Jan-13	Jun-17	40,140,000	37,928,340	2,211,660
Chad	UNESCO	Apr-13	Jun-17	7,060,000	5,209,140	1,850,860
Comoros	UNICEF	Sep-13	Aug-17	4,600,000	3,760,699	839,301
Congo, DR	World Bank	May-13	Feb-17	100,000,000	99,938,746	61,254
Congo, DR	World Bank	Nov-16	Feb-21	100,000,000	0	100,000,000
Côte d'Ivoire	World Bank	Jul-12	Aug-17	41,400,000	41,310,410	89,590
Djibouti	World Bank	Apr-14	Jun-17	3,800,000	1,900,111	1,899,889
Eritrea	UNICEF	Mar-14	Dec-17	25,300,000	9,006,784	16,293,216
Ethiopia	World Bank	May-14	Feb-18	100,000,000	89,464,166	10,535,834
Ethiopia	World Bank	Mar-17	Jun-19	99,500,000	0	99,500,000
Gambia, The	World Bank	Apr-14	Feb-18	6,900,000	6,579,424	320,576
Guinea	World Bank	Jul-15	Jul-18	37,800,000	14,572,407	23,227,593
Guinea-Bissau	UNICEF	Sep-12	Mar-17	12,000,000	10,482,601	1,517,399
Guyana	World Bank	Jun-15	Sep-18	1,700,000	1,353,665	346,335
Haiti	World Bank	Nov-14	Jun-17	24,100,000	24,100,000	0
Kenya	World Bank	Jun-15	Mar-19	88,400,000	32,810,168	55,589,832
Kyrgyz Republic	World Bank	May-14	Jun-18	12,700,000	10,468,923	2,231,077
Lao People's Democratic Republic	World Bank	Jun-15	Jul-19	16,800,000	1,952,198	14,847,802
Lesotho	World Bank	Jul-17	Aug-20	2,100,000	0	2,100,000
Madagascar	World Bank	Oct-13	Dec-17	85,400,000	80,415,586	4,984,414
Malawi	World Bank	Sep-16	Dec-20	44,900,000	6,000,000	38,900,000
Mali	World Bank	May-13	Dec-17	41,700,000	37,114,828	4,585,172
Mauritania	World Bank	Feb-14	Aug-17	12,400,000	9,791,952	2,608,048
Mozambique	World Bank	Sep-15	Dec-18	57,900,000	18,000,000	39,900,000

Nepal	World Bank	Jan-16	Jul-18	59,300,000	36,687,006	22,612,994
Nicaragua	World Bank	Apr-13	Aug-17	16,700,000	16,700,000	0
Niger	World Bank	Jul-14	Sep-18	84,200,000	35,110,210	49,089,790
Nigeria	World Bank	May-15	Jun-19	100,000,000	38,229,688	61,770,312
OECS (Caribbean Island States)	World Bank	Aug-16	Sep-19	2,000,000	411,400	1,588,600
Pakistan (Balochistan)	World Bank	Mar-15	Dec-18	34,000,000	13,068,017	20,931,983
Pakistan (Sindh)	World Bank	Mar-15	Sep-17	66,000,000	55,730,921	10,269,079
Rwanda	DFID	Jun-15	May-18	25,200,000	17,640,000	7,560,000
Sao Tome and Principe	World Bank	Feb-14	Jun-17	1,100,000	1,100,000	0
Senegal	World Bank	Nov-13	May-18	46,900,000	44,598,359	2,301,641
Sierra Leone	World Bank	Aug-14	Dec-17	17,900,000	13,547,148	4,352,852
Somalia (Puntland)	UNICEF	Jun-13	Oct-16	2,100,000	2,087,167	12,833
Somalia (Somaliland)	UNICEF	Jun-13	May-17	4,200,000	4,136,058	63,942
Somalia (Somaliland Accelerated Funding)	Save The Children	Jun-17	Mar-18	1,920,000	0	1,920,000
Somalia (South Central)	UNICEF	Oct-13	Dec-17	8,200,000	6,937,932	1,262,068
South Sudan	UNICEF	Jan-13	Nov-17	36,100,000	17,681,973	18,418,027
Sudan	World Bank	Apr-13	Feb-18	76,500,000	64,576,654	11,923,346
Tajikistan	World Bank	Oct-13	Sep-17	16,200,000	15,889,837	310,163
Tanzania	Sida	Jul-14	Jun-17	94,800,000	76,490,492	18,309,508
Tanzania (Zanzibar)	Sida	Aug-13	Dec-16	5,200,000	5,194,966	5,034
Togo	World Bank	Mar-15	Sep-18	27,800,000	11,120,000	16,680,000
Uganda	World Bank	Aug-14	Jun-18	100,000,000	40,932,118	59,067,882
Uzbekistan	World Bank	Oct-14	Jan-18	49,900,000	28,787,571	21,112,429
Yemen, Republic of	UNICEF	Mar-14	Mar-19	72,600,000	20,293,824	52,306,176
Zambia	DFID	Nov-13	Mar-18	35,200,000	17,664,000	17,536,000
Zimbabwe	UNICEF	Dec-16	Dec-19	20,580,000	535,721	20,044,279
Zimbabwe	UNICEF	Jan-14	Dec-16	23,600,000	22,222,147	1,377,853
Total				**2,405,365,170**	**1,426,030,155**	**979,335,015**

Commitment Information as of September 15, 2017			
Outstanding Commitments	**Grant Amounts**	**Committed Amount**	**To Be Committed**
AFD	78,200,000	78,200,000	0
Belgium Technical Cooperation	32,800,000	32,800,000	0
DFID	60,400,000	38,940,000	21,460,000
Save the Children International	1,920,000.0	1,536,000.0	384,000.0
SIDA	100,000,000	83,987,113	16,012,887
UNESCO	7,060,000	7,060,000	0
UNICEF	347,685,170	311,733,921	35,951,249
World Bank	1,810,100,000	1,527,400,000	282,700,000
Total	**2,438,165,170**	**2,081,657,034**	**356,508,136**

***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 11 - EXPLANATORY NOTES TO ANNEX 6 and 7

Opening Balance

The opening balance of funds in Annex 6 and 7 reflects the cash available in both the Catalytic Funds and GPE Funds as of July 1, 2017.

In Annex 2, 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 July 1 2017 was **US$414 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$407 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$210 million out of a maximum potential pledge of US$379 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$75 million** and has been reduced from December to reflect that future pledges for the 2018 period that have not yet been announced are likely to be held back by donors in order to be counted as part of the next replenishment.

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.