Risk Management Framework and Policy

December 2019

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List of Acronyms

CA	Coordinating Agency
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organization
CST	Country Support Team
DCEO	Deputy Chief Executive Officer
DCP	Developing Country Partner
DLI	Disbursement Linked Indicators
EPR	Effective Partnership Roll out
ESPDG	Education Sector Plan Development Grant
ESPIG	Education Sector Program Implementation Grant
FFF	Financing and Funding Framework
FRC	Finance and Risk Committee
GA	Grant Agent
GEC	Governance and Ethics Committee
GPE	Global Partnership for Education
GPC	Grants and Performance Committee
JSR	Joint Sector Review
KCI	Key Control Indicator
KPI	Key Performance Indicator
KRI	Key Risk Indicator
LEG	Local Education Group
NGO	Non-Governmental Organization
RAS	Risk Appetite Statement
RCT	Risk and Compliance Team
RM	Risk Management
RMF	Risk Management Framework
SIC	Strategy and Impact Committee
SAI	Supreme Audit Institution
FCAS	Fragile and Conflict Affected States
3 LOD	Three lines of defense model

Introduction to GPE

The Global Partnership for Education (GPE) addresses the most significant education challenges faced by developing countries through supporting governments to improve equity and learning by strengthening their education systems.

GPE is a global fund and a partnership focused entirely on education in developing countries. The Partnership has a unique role: agreeing standards for education planning and policy-making and mobilizing development financing from public and private donors around the world to support and monitor the implementation of those plans.

The GPE operates at two levels: (i) country and (ii) global.

- At the country level, the local education group (LEG) forms the foundation for GPE's governance. It comprises the government of the developing country partner (DCP), donors present in the country, multilateral agencies, nongovernmental organizations (NGO) (including international and local civil society organizations (CSO), representatives of the teaching profession, the private sector and private foundations, and others supporting the education sector. Grants Agents (GA) and Coordinating Agencies (CA) support the implementation of projects, programs and activities under GPE.

- GPE's country-level process is supported by global-level processes, carried out by the Secretariat and directed by a constituency-based Board of Directors (the "Board"). The Secretariat performs the day-to-day business of the GPE, serving the interests of the Partnership as a whole. The Secretariat is based in the World Bank (WB), a donor and multilateral agency partner organization, which promotes a working environment that facilitates the Secretariat's fulfillment of its responsibilities. The Trustee, responsible for managing donor funds, also sits within the WB. Both the Secretariat and the Trustee carry out their roles and responsibilities in accordance with World Bank policies and procedures.

PART 1: GPE RISK MANAGEMENT FRAMEWORK

Part 1 aims at describing practices and processes in the area of risk management at the GPE.

1. Purpose and expected benefits of the Framework

The purpose of this Framework is to support GPE in making risk-informed decisions and to provide the basis for evaluating and monitoring the risk profile of GPE on an ongoing basis. The Framework provides a shared understanding of, and promotes a consistent approach to, risk management within GPE in line with the GPE Charter[1] and GPE goals and objectives.[2]

Risk is defined as the effect of uncertainty on objectives[3]. Risk can be positive, negative or both, and can address, create or result in opportunities and threats, thereby directly impacting GPE's operations. Risk is usually expressed in terms of risk drivers, potential events, their consequences and their likelihood.

Risk management is not about eliminating risks, but about making informed decisions about how to anticipate uncertain events (i.e. what risks to avoid, how to reduce risk exposure, how to limit potential negative consequences, how to knowingly accept some risks, etc.). The Risk Management Framework (RMF) provides a shared understanding of what risk management is about and introduces common language and minimum standards and processes.

Table 1: Expected benefits of the Risk Management Framework

Board of Directors	• Biannual overview of major risks facing GPE as a Partnership and as a fund • Strategic debates on the amount of risk the organization is willing to accept • Strategic discussions as to where engagement of different stakeholders across GPE is needed to mitigate risks to the partnership
Committees	• Biannual overview of all risks facing GPE as a partnership and as a fund, differentiated by Committee oversight • Overview of risks in key business processes and ability to advise on setting up commensurate controls
GPE Secretariat management	• Holistic view of risks encountered by GPE as a partnership and organization at any given time • Ability for risk-informed planning and decision making

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[1] GPE Charter: https://www.globalpartnership.org/content/charter-global-partnership-education
[2] GPE goals and objectives are in the Strategy 2016-2020
 https://www.globalpartnership.org/content/gpe-2020-strategic-plan
[3] ISO 31000:2018(E)

	• Comprehensive view of the risks in key business processes and ability to set up commensurate controls
GPE Secretariat Risk Owners	• Ability to prioritize and raise awareness of the most significant risks in their area of responsibility • Ability to weigh risks against objectives in order to facilitate prioritization and allocation of resources • Ability to address and document risks and opportunities in a structured and systematic way • Ability to involve, in a structured way, other staff members who collaborate with the risk owner in the management of risk
GPE Secretariat staff	• Ability to view risks encountered by GPE as a partnership and organization at any given time • Ability to better understand own role in risk management
Risk and Compliance Team	• Common language and minimum standards on risk • Harmonization of risk assessment approaches within GPE Secretariat • Ability to provide guidance and training on risk management • Ability to provide advice and assist GPE Secretariat staff in developing processes and controls to manage risks and issues
Stakeholders in the Partnership	• Understanding how GPE conceives of risk, including Partnership, Secretariat, and external/contextual risks • Understanding of own role in managing Partnership risks
Other external stakeholders	• Global understanding of GPE's approach to risk management • Confidence in the quality of GPE's risk management practices

2. Components of the Framework

The GPE Risk Management Framework is based on internationally recognized standards and guidance[4] and is comprised of:

✓ A risk appetite statement (RAS) which provides a high-level indication of how much risk GPE is willing to take, accept or tolerate to achieve its goals and objectives;

✓ A three lines of defense (3 LOD) model which describes the roles and responsibilities of key stakeholders of the partnership with regards to risk management;

✓ A set of risk management processes and tools, as follows:

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[4] ISO 31000 and COSO guidance

Table 2: Set of risk management processes and tools

For risk identification	- A risk taxonomy which provides an exhaustive list and classification of all the risks that GPE is facing at a given point in time.
For risk analysis and evaluation:	- A list of corporate risk indicators as part of a corporate risk dashboard. The different indicators are metrics used to monitor risk exposure over time and ensure controlled amount of risk-taking within the risk appetite. - An internal operational risk monitoring template part of grant monitoring. The operational risk monitoring template ensures that risk in programs is monitored and mitigated against objectives.

✓ A risk management policy further detailing roles and responsibilities pertaining to risk in the different process as well as the frequency at which the Risk Management Framework should be reviewed and by whom.

The Framework does not replace or supersede risk management mechanisms already implemented in specific areas (e.g. host security risk management, host IT risk management, etc.). Risk management is also interrelated to many other practices that are currently implemented (e.g. result-based financing, monitoring, compliance and accountability) or will be rolled out in the future (e.g. integration of risk in performance management).

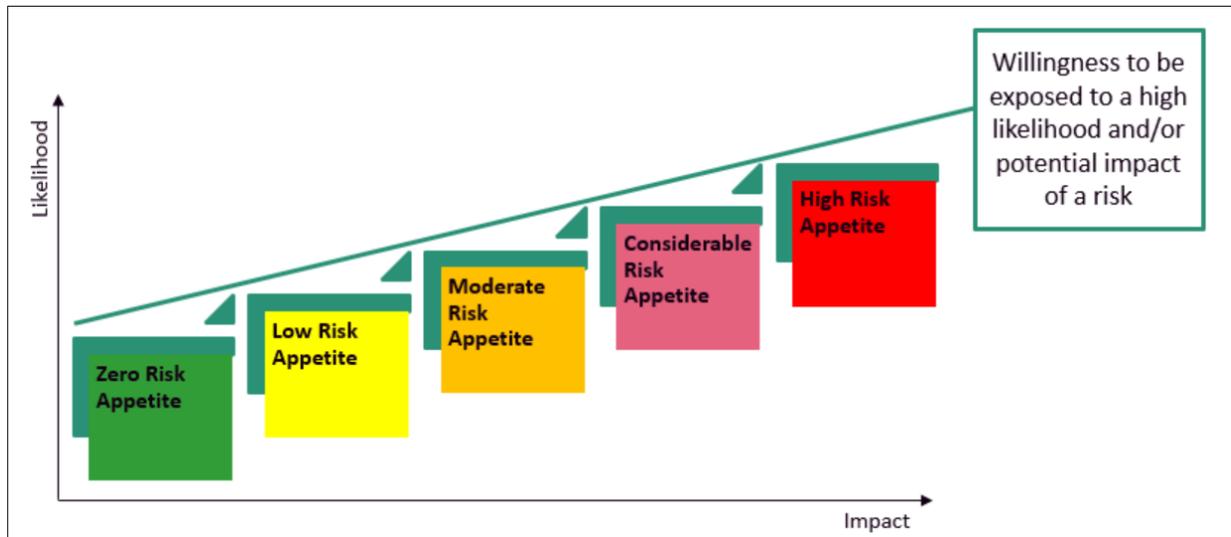## 2.1   Risk Appetite Statement

The risk appetite is an expression of the type and amount of risk an organization is prepared to take, to accept, or to tolerate to achieve its strategic goals and objectives. The appetite considers the level of risk and risk combinations that an organization is prepared to take, accept, or tolerate together with the level of risk shock that the organization can withstand. Acceptance of some risk is necessary given the trade-offs between GPE's mission and the fact some of the risks faced are systemic in nature and would require significant investment and time to mitigate. Acceptance of some risk is also often necessary to foster innovation and growth.

For the Global Partnership for Education, the purpose of having a Board-approved risk appetite statement is to align and guide stakeholders across the Partnership in taking the right amount of risk to deliver on GPE's strategic goals and objectives. Clarity around risk appetite promotes consistent, 'risk-informed' decision-making that is aligned with strategic aims and it also supports robust corporate governance by setting clear risk-taking boundaries, thus enabling consistent and transparent decisions between risks and rewards. It also helps to drive more efficient, risk-based resource allocation.

The risk appetite statement, available in Annex 1, is defined at the GPE goals and objective levels on a five-point scale between zero risk appetite and high-risk appetite (see figure 1 below). The risk appetite represents the willingness of the Partnership to be exposed to a high likelihood and/or a high impact of a risk. Strategic goals and objectives influence the level of risk the GPE should be willing to take.

- **High risk appetite:** The GPE believes aggressive risk taking is justified and is willing to accept a large negative impact in order to pursue strategic goals and objectives (Risk seeking).
- **Considerable risk appetite:** The GPE is willing to take greater than normal risks and to accept some negative impact in order to pursue strategic goals and objectives (Risk tolerant).
- **Moderate risk appetite:** The GPE takes a balanced approach towards taking risk. Potential negative impacts and completion of strategic goals and objectives are given equal consideration (Risk neutral).
- **Low risk appetite:** The GPE takes a cautious approach towards taking risk and is only willing to accept a small negative impact to pursue strategic goals and objectives (Moderately risk averse).
- **Zero risk appetite:** The GPE takes caution and accepts as little risk as possible. The GPE is not willing to accept any negative impact to pursue strategic goals and objectives (Risk averse).

Figure 1: Risk Appetite Scale

There is no right or wrong type and amount of risk the GPE is prepared to take, to accept, or to tolerate. However, it is important to understand the implications of setting a risk appetite statement at a low versus a high level. For example, if GPE has a low risk appetite to fund programs which do not sufficiently further its objective of equity, learning and system strengthening, it may accept that this requires an appropriately high

investment in country support to develop and quality assure such programs. However, if GPE has a moderate to high risk appetite to fund programs which do not sufficiently further its objective of equity, learning and system strengthening, it may accept a lighter-touch approach to such processes.

Risk Appetite Review Guidelines

The risk appetite statement:

- Should be comprised of clear and concise high-level statements following the five-points described above.
- Should be aligned with GPE goals and objectives as set in the Strategy.
- Should address key risk areas and specific operations. Hence there is not a risk appetite statement for each risk in the taxonomy; rather the risk appetite guides risk taking in areas where it is necessary to clarify the trade-offs between GPE's mission and the inherent risk of this field.
- Should be used by the Secretariat to define risk tolerance thresholds (including key risk indicators and target risks) in relevant areas of GPE operations as well as triggers for management action and escalation in the Framework to further monitor GPE's principal risks.

2.2   GPE Three Lines of Defense Model

The roles and responsibilities of GPE stakeholders are documented in the GPE Charter. **The roles and responsibilities discussed in this document pertain solely to risk management.**

In GPE's business model, diverse stakeholders work together and manage risk daily to help the Partnership achieve its goals and objectives, including the GPE Secretariat, DCPs, GAs, LEGs, and CAs. Given that risk management and controls are split between these stakeholders, it is necessary to define clear roles that enable each group of stakeholders to understand the boundaries of their responsibilities and how their positions fit into GPE's overall risk and control structure.

GPE's structure as both a partnership, and a fund, and with a Secretariat, does not easily lend itself to a traditional three Lines of Defense (3 LOD) model. Each of the stakeholders in the Partnership play a distinct role within GPE's global and country level governance framework per the Charter. Given the unique structure of GPE as a multi-stakeholder partnership and funding platform that outsources grant management; and given the principles adopted by the Board in 2018 to improve effectiveness and efficiency of GPE's country-level operations, GPE has tailored a 3 LOD model that can better serve the Partnership, based on its different activities:

- **Pillar 1: Grant Management:** The implementing partner, whether it is (1) the Government of the DCP or (2) the Grant Agent, ensures that operational risks associated with the GPE-funded programs at the country level are managed in line

with their own policies and procedures and the applicable terms and conditions of any grant or financing agreement in place.

(1) The Implementor(s) (typically but not exclusively a Ministry of Education) in a given country acts as the first line of defense when implementing GPE funded-programs while the Grant Agent, both at country and headquarter level, provides challenge and oversight as part of the second line of defense role. The Supreme Audit Institution (SAI) of the country or a contracted firm provides independent assurance as part of the third LOD role.

(2) The Grant Agent at country level acts as the first line of defense when implementing GPE funded-programs while the same Grant Agent at headquarter level provides challenge and oversight as part of the second line of defense role. The Grant Agent's internal and external audit provides independent assurance as part of the third-line of defense role.

Implementing partners are exposed to country risk[5], which is an external/contextual risk that arises from events outside of the implementer's control and can positively or negatively affect the implementation of GPE-funded programs.

- **Pillar 2: Partnership Management:** All GPE Partners hold risk-related responsibilities as part of their respective roles set out in the GPE Charter. In line with mutual accountability, GPE partners co-own Strategic risk, Reputational risk, Fragmented Global Aid Architecture Risk, and sector-related Operational Risks according to the GPE risk taxonomy[6]. While risk oversight is shared between all the partners, corporate risk monitoring and risk reporting is handled by the Secretariat. The Financing and Funding Framework and GPE Results Framework provide oversight and challenge as part of the second line of defense role, while the third line of defense is the GPE Independent Evaluations.

- **Pillar 3: GPE Secretariat Management:** With regards to risk ownership within the Secretariat, the first line of defense comprises of GPE Staff within different teams in the Secretariat. A three-step risk management process has been developed within the first line-of-defense to collect data on risk and provide information on mitigation actions from the different teams and levels of responsibilities, with all GPE Managers and the GPE Chief Executive Officer (CEO) acting as risk owners[7]. The Risk and Compliance Team provides oversight and challenge as part of the second line of defense, while the Internal Audit function of the World Bank and Independent Evaluations provide independent assurance as part of the third line of defense role.

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[5] *See Part 1 Section 2.5 Country Risk Index.* Country risk is an inherent risk (i.e. before mitigation actions are applied).
[6] *See Part 1 Section 2.3.1 Risk Identification* - Strategic risk is an internal risk managed by all the partners. Reputational Risk and Fragmented Global Aid Architecture Risk are hybrid risks that arise mainly from events outside of GPE's control but can also arise from events within the organization.
[7] *See Part 1 Section 2.3.2 Risk Analysis and Evaluation*

The Board of Directors, the Committees and the GPE CEO provide overall direction and oversight. A visual capturing the architecture of the GPE 3LOD model can be found in Figure 2.

Figure 2: Architecture of the Partnership 3LOD model
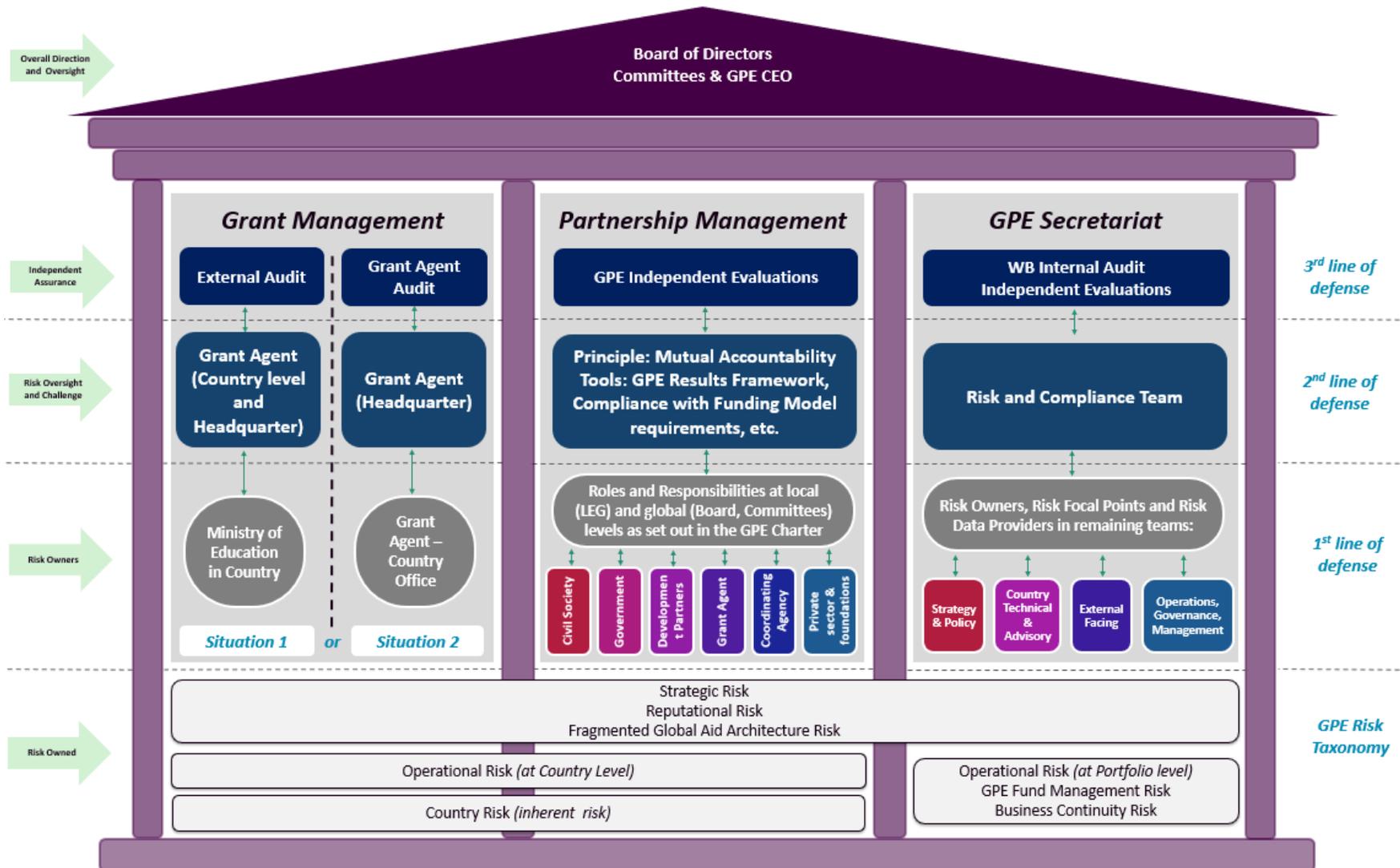
* GPE's unique structure as both a partnership, and a fund, and with a Secretariat, does not easily lend itself to a traditional three Lines of Defense 3 LOD model. This illustration covers the most common relationships within GPE.

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3 LOD Model Review Guidelines

Three lines of defense model:
- Should be aligned with common risk management standards while being adapted to the needs of the GPE Partnership as a fund that outsources grant management and a partnership.
- Should provide clear guidance on roles and responsibilities of Partners.
- Should distinguish among three groups or lines involved in effective risk management (i.e. 1st line owns and manages risks, 2nd line provides challenge and oversight and 3rd line provides independent assurance). The same entity and particularly the same function cannot be in several lines of defense, the goal of the 3 LOD being to challenge the line below.
- Should structure risk and control processes and take into account the technical, financial and material capacity of the different entities involved so they can provide effective risk management.
- Should be completed by appropriate policies and role definitions. Risk and control functions operating across the different lines should appropriately share information to ensure all functions can accomplish their role efficiently.

2.3   Risk Management Processes

The risk management process involves the systematic application of policies, procedures and practices to the activities of communicating and consulting, establishing the context and assessing, treating, monitoring, reviewing, recording and reporting risk. This process is illustrated in figure 3.

Figure 3: Risk Management Process (Source: International Standard ISO 31 000, 2018)
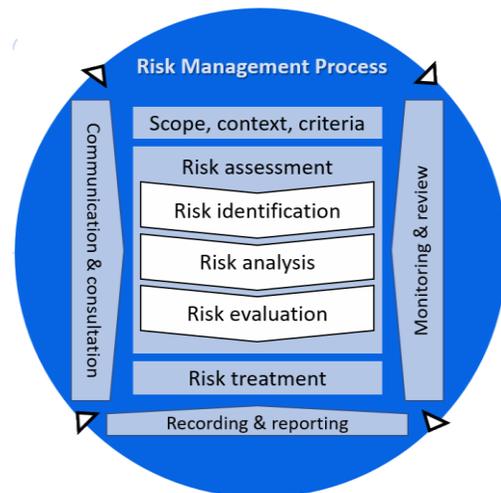
2.3.1 Risk Identification

An important part of analyzing a risk is to determine the nature, source or type of impact of the risk. Evaluation of risks is enhanced using a risk classification system for risk identification. The risk taxonomy, available in Annex 2, provides an exhaustive list and classification of all the risks that GPE is facing at a given point in time.

A comprehensive set of risk categories and sub risks facilitates the identification process as it enables those in charge of risk identification to consider <u>all</u> types of risks that could affect the organization's objectives. It also facilitates the aggregation of risks from across the organization and gives the ability to produce comparative analysis of the GPE's risks over time.

The taxonomy outlines an approach to categorizing and aggregating risks that is tailored to the specific needs of the GPE Partnership as a fund, that outsources grant management, and a partnership. Thus, the taxonomy differentiates external risks from internal risks, and Partnership risks from Secretariat risks within the latter:

- **External/Contextual risks** are risks that arise mainly from events outside of the organization's control and tend to be less predictable than internal risks. External/Contextual risks can offer positive and/or negative outcomes. The organization cannot influence the likelihood of these risk events but can reduce the cost of impact by focusing on recognition and early reaction (e.g. political changes in a country). For the GPE, there are two types of external risks:

  o **Hybrid risks** (e.g. Reputational Risk or Fragmented Global Aid Architecture Risk) are risks that requires special management since they are shaped both inside and outside of the organization, and since all risks have the potential to ultimately damage the GPE's reputation. The Secretariat ensures day-to-day risk monitoring and risk reporting.

  o **Inherent risk** (e.g. Country Risk) that is defined in terms of how different aspects of the local context (e.g. governance, risk of conflict or disaster, economic factors etc.) could negatively or positively affect the implementation of GPE-funded programs. The Secretariat ensures day-to-day risk monitoring.

- **Internal risks** are faced by an organization from within and arise during the normal operations. These risks can be forecasted with more reliability, and therefore, an organization has a good chance of reducing internal risks. For the GPE, there are two types of internal risks.

  o **Partnership risks:** internal risks managed by all the partners, including the Secretariat (e.g. ESPIG performance risk).

  o **Secretariat risks:** internal risks managed by the Secretariat, that have a negative impact on the Partnership should they occur (e.g. operating expenses risk).

The taxonomy comprises of:

- **Risk categories** that give a structured overview of the risks an organization is facing. Each category contains unique characteristics that require different measurement, analysis, and management techniques. The categories are sufficiently generic that they can be used to aggregate risks from various parts of the organization.
- **Sub risks** are subcategories of risks that are proposed for internal risks. Sub risks help to specifically identify what is happening within the organization by grouping risks drivers at a more granular level.

The risk taxonomy follows the bow tie structure, which enables a differentiation between proactive risk management (i.e. at the risk driver level) and reactive risk management (i.e. at the risk outcome level).

- **Risk drivers** are the causes, triggers, sources and factors contributing to risk occurring, or increasing likelihood of occurring.
- **Risk outcomes** are the negative consequences, effects, or impacts on the organization's objectives.
- **Risk event** is a situation with the potential to affect the achievement of an organization's objectives. A risk event may be positive or negative – in other words, it may be a threat or an opportunity.
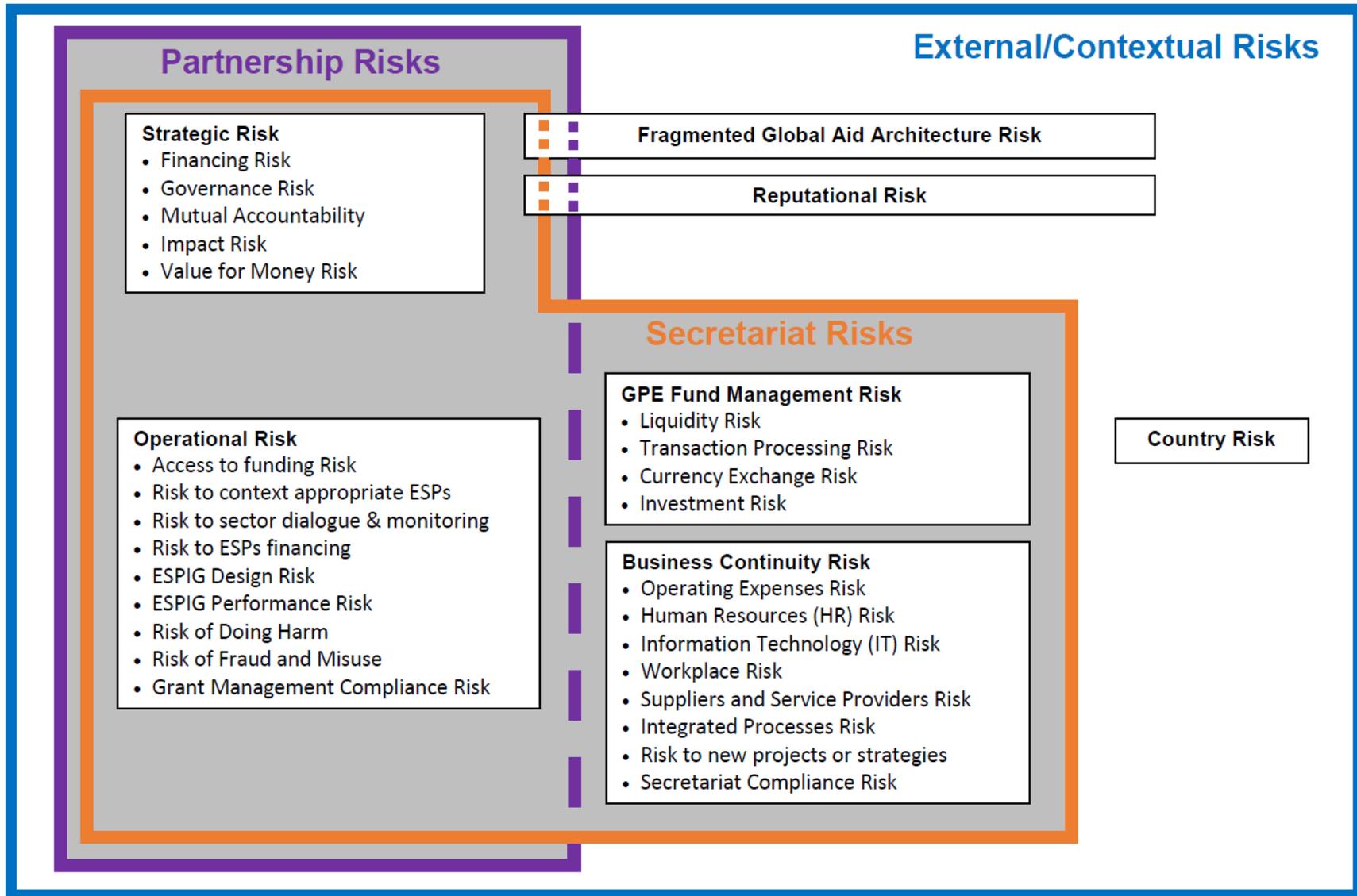
Figure 4: The Bow Tie Structure
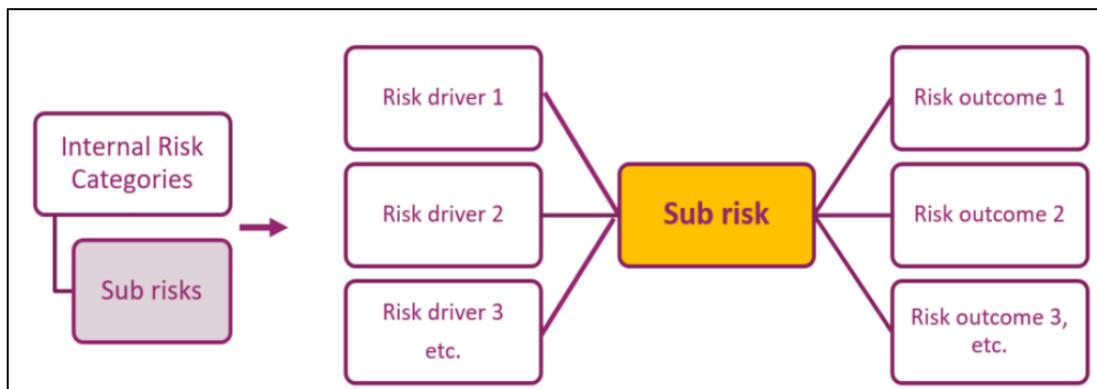
The risk taxonomy serves as the architecture of the risk management framework and is used for corporate risk processes, including operational risk at the portfolio level and for internal ESPIG monitoring, which covers operational risk at the country level.

Risk Taxonomy Review Guidelines

The risk taxonomy:
- Should be aligned with common risk management standards while being adapted to the needs of the GPE Partnership.
- Should comprise risk categories and sub risks that are mutually exclusive (i.e. no overlaps between risks) and collectively exhaustive (i.e. no blind spots so all the risks the organization is facing are covered).
- Should be used by the Secretariat as the supporting architecture, to cascade downwards the risk tolerance thresholds (including key indicators and target risk) in relevant areas of GPE operations.
- Should remain comprehensive and functional over time. While the review of the risk taxonomy can lead to changes in the formulation of risk categories, sub risks, risk drivers and risk outcomes, and to adding or removing new elements, it is recommended to aggregate as much as possible to keep the taxonomy comprehensive and functional. Thus, the pros and cons of making changes and adding new elements must be carefully weighed.

Figure 5: Architecture of GPE Risk Taxonomy – Risk categories and sub risks

Partnership Risks

Strategic Risk
- Financing Risk
- Governance Risk
- Mutual Accountability
- Impact Risk
- Value for Money Risk

Operational Risk
- Access to funding Risk
- Risk to context appropriate ESPs
- Risk to sector dialogue & monitoring
- Risk to ESPs financing
- ESPIG Design Risk
- ESPIG Performance Risk
- Risk of Doing Harm
- Risk of Fraud and Misuse
- Grant Management Compliance Risk

External/Contextual Risks

Fragmented Global Aid Architecture Risk

Reputational Risk

Secretariat Risks

GPE Fund Management Risk
- Liquidity Risk
- Transaction Processing Risk
- Currency Exchange Risk
- Investment Risk

Business Continuity Risk
- Operating Expenses Risk
- Human Resources (HR) Risk
- Information Technology (IT) Risk
- Workplace Risk
- Suppliers and Service Providers Risk
- Integrated Processes Risk
- Risk to new projects or strategies
- Secretariat Compliance Risk

Country Risk

2.3.2 *Risk Analysis and Evaluation*

Based on the risk taxonomy and the risk appetite statement, the GPE Secretariat has developed a set of risk indicators and scales to guide GPE operations within the risk appetite statement. The list of indicators, available in Annex 3, includes three types of indicators:

- **Key Risk Indicators (KRIs)** are metrics used to monitor identified risk exposures over time or the possibility of future adverse impact.
- **Key Performance Indicators (KPIs)** evaluate the success of an activity.
- **Key Control Indicators (KCIs)** are metrics that provide information on the extent to which a given control is meeting its intended objectives.

The methodology for assessing risk, also in Annex 3, is based on a risk scoring mechanism that uses ranking from 1-5 as a proxy for probability and impact and (ii) a set of risk indicators to guide risk taking for GPE operations within the overall risk appetite statement.

The online corporate risk dashboard[8] is the online system supporting risk data collection that allows GPE to perform risk analysis and evaluation. The dashboard enhances the ability of GPE Staff to prioritize and raise awareness of the most significant risks in their area of responsibilities, and to weigh risk against objectives to facilitate prioritization and allocation of resources.

To feed risk information into the online risk dashboard, three key roles have been identified and are associated with responsibilities across the GPE Secretariat, while the CFO and the Risk and Compliance team ensure continuity of risk management.

- **Primary Data Provider** is a Technical Staff member accountable for providing data for different risk indicators across the risk taxonomy.
- **Risk Focal Point** is usually a Team Lead accountable for drafting the mitigation action plan at the sub risk level.
- **Risk Owner** is a Management Team Member who is accountable for ensuring that the risk is managed appropriately within the Secretariat's mandate.

2.3.3 Risk Treatment

This step involves selecting and formulating risk treatment options. Several mitigation strategies are used by GPE when monitoring risk:

- **Avoid Risk:** Avoid the risk with specific measures such as deciding not to start or continue with the activity or remove the risk source or exposure to it.
- **Accept Risk:** Acknowledge the existence of a particular risk and make a deliberate decision to accept it without engaging in special efforts to control it.
- **Watch Risk:** Monitor the environment for changes that affect the nature and/or the impact of risk and prepare but do not act for now *(passive)*.

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[8] Accessible to GPE Staff on the GPE Exchange and GPE Online Risk Dashboard available in Annex 4 and 5. https://fifsqa.worldbank.org/GPE/Pages/GPERiskDashBoard.aspx#/ViewAll

- **Control/Reduce Risk:** Proactively implement action to minimize the impact or likelihood of the risk (e.g. by adjusting program requirements, funding or schedule) *(active)*.
- **Transfer Risk:** Transfer the risk to another stakeholder with specific measures (e.g. sharing the risk through insurance, transferring the risk to partners whose risk assessment allow them to carry out the objectives).

Risk responses are then identified depending on the risk treatment option chosen. They can be:

- **Preventive** or aiming to prevent the risk from occurring or diminish the likelihood of occurring (Control/ Reduce Risk).
- **Detective** or aiming to inform risk assessment on early signals of evidence where the risk has materialized (Watch/Monitor risk).
- **Responsive** to diminish the severity of the consequences should the risk materialize.

Risk responses vary in length and depth depending on the severity of the risk and other factors (such as e.g. context, stage of the grant process, etc.), but are generally composed of:

- **Actions** (e.g. communication, escalation to the manager or person above, mission to the country, training, pilot project, consultation, meeting, training, etc.).
- **Mechanisms** (e.g. monitoring, development of a framework, a policy, a process, or a tool, etc.).
- **Controls** (e.g. fiduciary oversight, review of audit reports or progress reports, audit, reporting, risk management, etc.).

Risk responses vary based on the risk treatment option selected, as follows:

Risk mitigation strategy	Action required
Avoid risk	No mitigation action plan required
Accept risk	No mitigation action plan required
Watch risk	**Mitigation action plan required**, including explanations on why the risk is monitored and how (e.g. methodology, frequency, etc.) and possible solutions that could be implemented if a threshold is exceeded.
Control/ reduce risk	**Mitigation action plan required**, including information on risk mitigation strategies and planning, implementation and progress monitoring.
Transfer risk	No mitigation action plan required

The mitigation action plan is used for monitoring and reporting activities, as GPE's decision makers and other stakeholders (e.g. donors, country partners, etc.) need to be aware of the nature and extent of the remaining risk after treatment and use it to prioritize certain risks for escalation.

Risk Indicators Review Guidelines

The risk indicators:

- Should be aligned with the current GPE Strategy and Risk Appetite Statement so the risk-taking remains within the risk appetite.
- Should provide useful information about risk exposure, control effectiveness or performance and be predictive. In particular, they should enable the identification of emerging risk trends and issues or flag events that have materialized in the past and could occur again.
- Should be quantitative and qualitative. Should be quantified as an amount, a percentage, a ratio, a time, an objective to meet. They should be measurable at a specific point in time, have values that compare over time for monitoring (i.e. to track risk event history) and be cost-effective to collect and auditable.

Risk Treatment Guidelines

Risks with a risk appetite

It is the primary responsibility of the risk owner to ensure that for risks where the Board has defined a Risk Appetite, the risk treatment strategy is in line with the appetite. Essentially this means that for any risk with a risk appetite, the treatment strategy needs to be 'Control/Reduce' or 'Watch'. The Secretariat cannot choose to 'Avoid', 'Accept' or 'Transfer' a risk where the Board has distinctly expressed a wish to control that risk.

After risk data providers, focal points, and risk owners have performed their duties, the RCT verifies that the risk treatment strategies outlined in the corporate risk dashboard do not contradict the Risk Appetite Statement. Where any discrepancy is noted, the RCT will notify the risk owner and CFO so that action can be taken to control the risk.

For risks that are rated High or Very High, the RCT will flag these to the CFO in order to determine which ones appear to contradict the risk appetite. High or Very high-risk ratings might not necessarily contradict the RAS when the appetite is Considerable or High. However, when the risk appetite is Zero, Low or Moderate, it is likely that a high or very high-risk rating for a particular risk category or sub category will contradict the risk appetite.

Risks without a risk appetite

Not all risks have an appetite statement associated with them, as the Risk Appetite Statement is a high-level document. For these risks, the Secretariat must keep

a record of the mitigation strategy chosen for each sub-risk. For risks where the mitigation strategy is 'Control/Reduce' or 'Watch', the Secretariat must keep a record of the mitigation actions taken on a biannual basis.

Material risk exposure

Material risk exposure is defined as all risks under either of the following categories:
- High and Very High Risks
- Moderate Risks, where the Board has set a Zero Risk Appetite

Treatment and escalation of material risks

The escalation of material risks depends on two factors: the risk appetite and the chosen treatment strategy. Based on these two factors, the Secretariat has determined the following categorization for escalation processes.

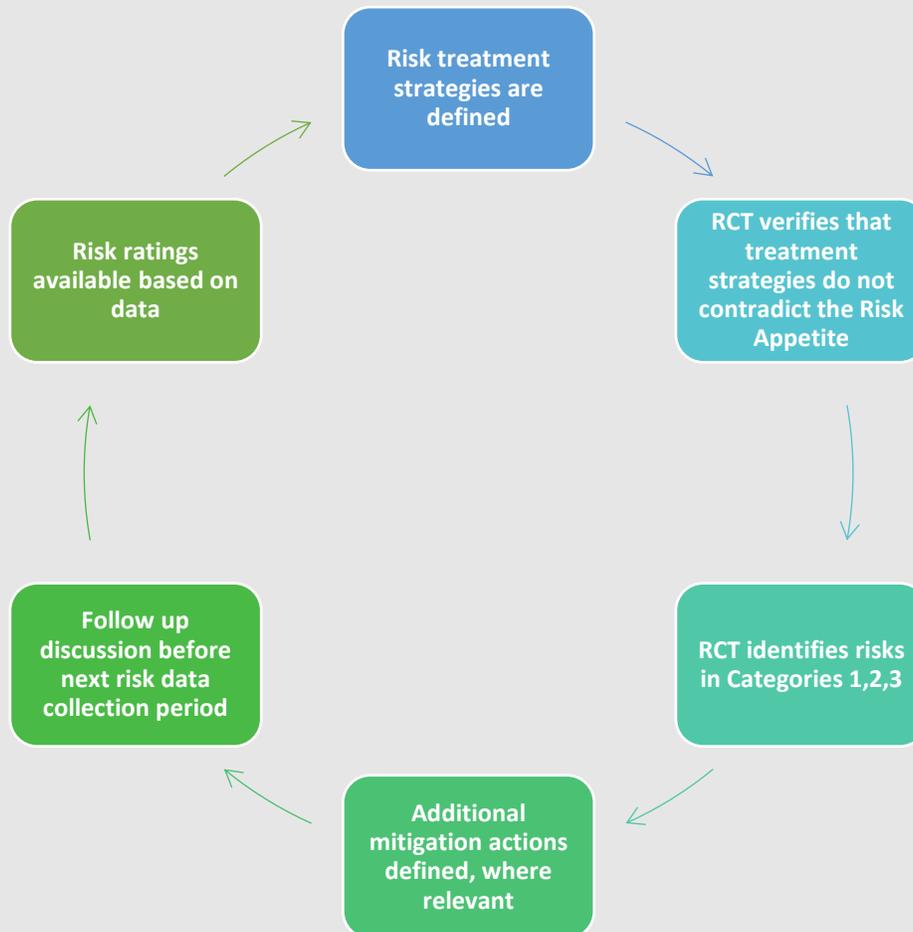*Figure 6: Relationship between risk appetite and risk treatment*

Table 3: Categorization of escalation process

	Risks with a risk appetite	**Risks without a risk appetite**
Accept	RCT verifies that treatment strategies do not contradict the risk appetite. If not, then these are Category 3	High and Very Risks = Category 3
Watch	High and Very High Risks → RCT flags to CFO for discussion which ones appear to contradict the risk appetite = Category 1	Very High Risks = Category 1
Control/Reduce		High Risks = Category 2
	Moderate risks, where the Board has set a Zero Risk Appetite = Category 1	
Transfer	n/a	n/a
Avoid	n/a	n/a

Additional risks that can be escalated:
- Risks where the risk rating has increased or decreased 2 points or more since the last risk report = Category 3

*Table 4: Escalation types and process for material risk exposure (All risks in corporate risk taxonomy*

Type of material risk exposure	Who escalates	To whom the risk is escalated	Responsibility of person to whom risk has been escalated
Category 1	CFO	CEO or DCEO	-Discuss with Management Team additional mitigation actions that are necessary to drive down risk and reflect on the impact on reaching GPE's goals and objectives and any contingency plan necessary
Category 2	RCT	CFO	-Discuss additional mitigation actions to be implemented in the next six months with the risk owner -Follow up discussion with risk owner in six months to check status of risk
Category 3.	RCT	CFO	-Organize discussion with risk owner if necessary

2.3.4 Recording and Reporting

The Risk and Compliance Team (RCT) is accountable for providing a biannual strategic overview of corporate risks to the Committees and Board. Corporate risk information is compiled from the online risk dashboard, analyzed and fed upwards. Each committee provides oversight for risk categories of sub categories assigned (see detail in Annex 6).

The present document "Risk Management Framework and Policy", the different elements of the framework and the reports for the Committees and the Board are available on the GPE intranet. While certain elements of the framework have restricted access (e.g. GPE Secretariat internal documents such as the methodology and list of risk indicators), all other documents and particularly the biannual corporate risk reports for the Committees and Board are posted on the GPE website (see the list of Annex for detail on different levels of confidentiality).

Figure 7: Summary of GPE Risk Management Processes, Timeline and Ownership of different elements of RMF
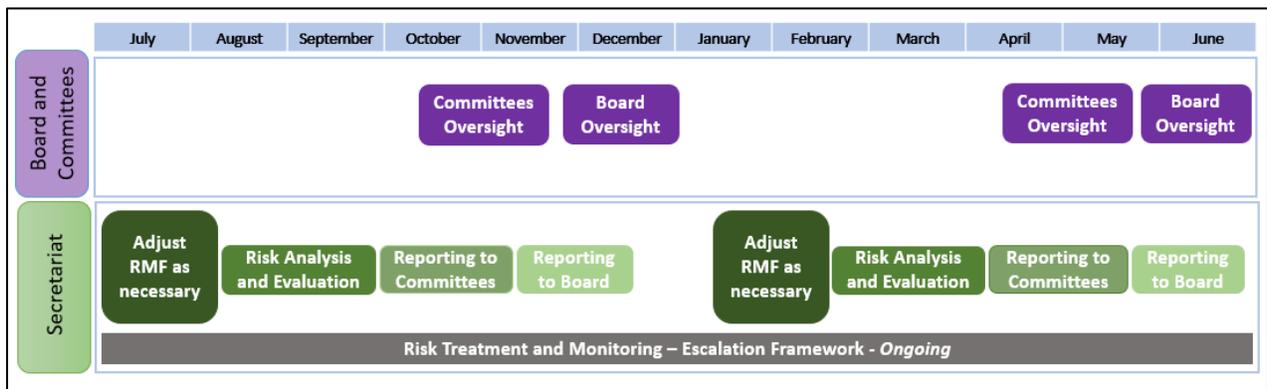
Recording and Reporting Guidelines

The Risk and Compliance Team analyzes and compiles risk information in order to provide a biannual strategic overview of corporate risks to the Committees and Board. The review should take place at the beginning of each Committee and Board meeting, so the information provided can inform strategic discussion and decision-making throughout the meeting.

Reporting is differentiated by the oversight pertaining to each Committee. Meanwhile, all material risk exposure is reported to the FRC and the Board. Material risk exposure is defined as:
- High and Very High Risks
- Moderate Risks, where the Board has set a Zero Risk Appetite

The Secretariat will prioritize risk reporting for the Board's attention in the following way:

Table 5: Risk Reporting for the Board

| Priority	Types of risk
Higher priority / for discussion	• Very High or High Risks that the Secretariat is trying to Control/Reduce or Watch • Moderate Risks, where the Board has set a Zero Risk Appetite • Risks where Committees disagree on risk exposure
Lower priority / for information	• Very High and High Risks that the Secretariat has chosen to Accept, Avoid or Transfer

2.4 Operational Risk

Operational risk is managed at two levels because of GPE's partnership approach:

At the country level, Grant Agents employ their own risk management process to identify, analyze, and manage risks. Risks identified through these processes are included in program documents received by the GPE Secretariat. Depending on the risk, risk treatment includes actions by the Grant Agent, government, and potentially other partners. Grant Agents are required to report regularly to the GPE Secretariat on progress of grants, including submission of available audit reports (see Figure 8 for an illustration of the relationship between risk management at the Secretariat and country level). Meanwhile, governments should identify and analyze risks to the education sector in sector analyses and plans, with the support of partners.

At the portfolio level, the Secretariat maintains an overview of operational risks through its corporate risk indicators. The indicators for operational risk are largely drawn from existing data collection processes within GPE, including the Results Framework and Portfolio Review. Information on operational risk at the portfolio level is included in reporting to Committees and Board, thus allowing for oversight of the grant portfolio and sector-related risks.

Figure 8: Relationship between risk management processes at Secretariat and country levels
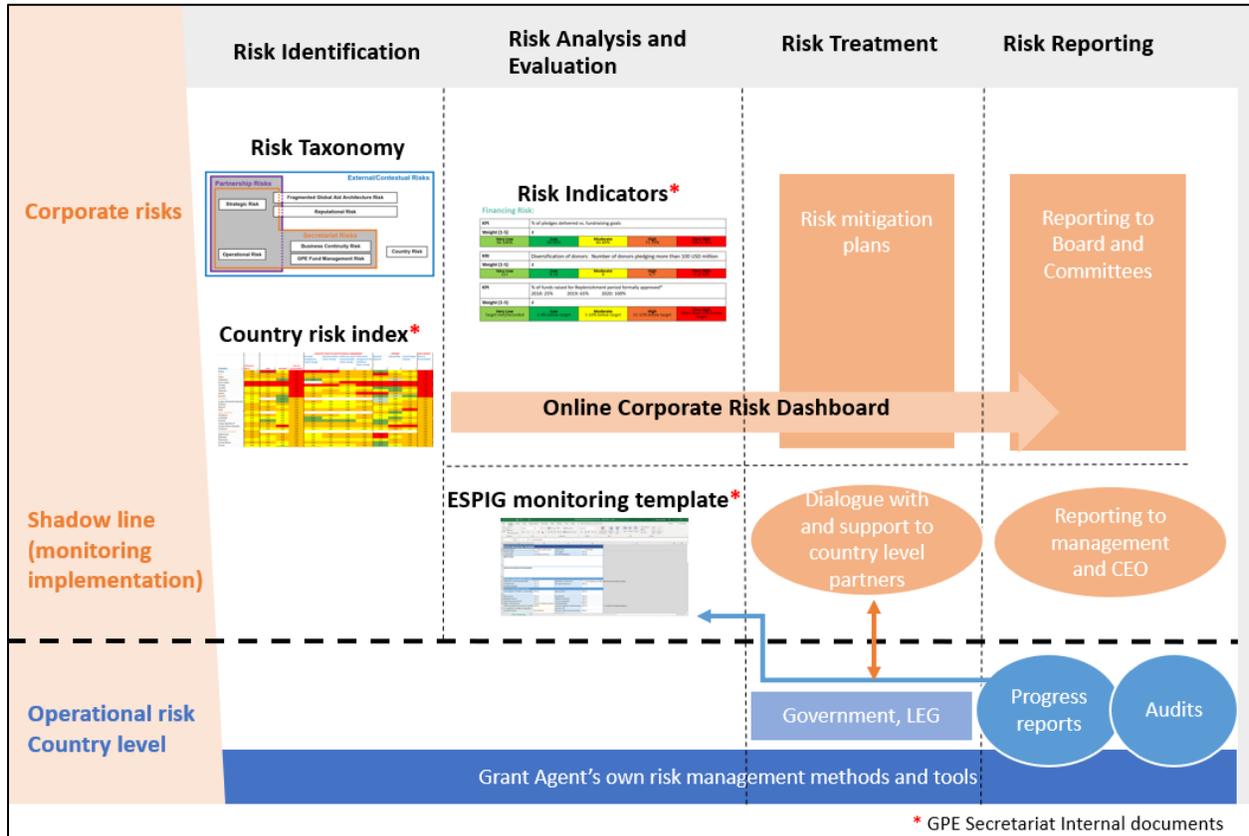
The Secretariat's role in operational risk management consists of three components:

1) **Overseeing that Grant Agents and governments are fulfilling their responsibilities as set out in Board decisions and relevant GPE policies.** This applies to grant-related risks such as grant performance, risk of doing harm, risk of fraud and misuse, and compliance on issues such as Board decisions and reporting on grant progress. The Secretariat employs measures both upstream prior to grant approval and downstream during grant implementation. Prior to grant approval, it carries out Grant Agent accreditation and a quality assurance process for the proposed grant. During grant implementation, the Secretariat monitors grant performance including by reviewing progress reports and audits and engages in dialogue with Grant Agents and relevant partners where major issues are identified.

2) **Applying the funding model requirements and using GPE's Results Framework to provide a challenge function for sector-related risks.** These include risks to context appropriate ESPs, sector dialogue and monitoring,

and ESP financing. Through the application of funding model requirements, e.g. on the quality of sector plans and commitment to domestic financing, the Secretariat is able to provide a challenge function on sector-related risks. The GPE results framework also provides relevant information around these risks, for example on the level of domestic financing and the organizational quality of Joint Sector Reviews. Making Results Framework data available and providing technical support based on it is therefore another way through which the Secretariat provides a challenge function to sector risks.

3) **Ensuring effective risk management of the two operational risks that are owned by the Secretariat**, namely (i) the risk that partners do not or are not able to apply for GPE funding; and (ii) the risk of approving programs that do not support equity, efficiency, and/or learning in an efficient and effective way. The Secretariat mitigates the first risk through having in place a Country Support Team that engages with DCPs and guides them through GPE's model, requirements, and the grant application process. Regarding the second, the Secretariat has in place a thorough quality assurance process, which at each stage ensures that proposed grants sufficiently align with GPE's objectives of equity, efficiency, and/or learning. While the responsibility for approving grants rests with the Grant and Performance Committee, and ultimately with the Board of Directors, the Secretariat can be considered the first line of defense as it plays the role of verifying that countries meet requirements associated with the GPE funding model.

Operational Risk Guidelines

As Grant Agents and governments use their own tools and methods for operational risk management, **this guideline consists of the tools and methods used by the Secretariat to carry out its roles in operational risk management.**

The purpose for using the ESPIG Monitoring template is to take a coherent approach to tracking and mitigating risks across the portfolio, using a common tool and process. The common tool ensures that major issues and risks are recorded along with the actions the Secretariat has taken as a consequence, whereas the common process ensures consistency in how issues and risks are escalated. The tool is an internal document to allow for a candid assessment of progress and any issues. The ESPIG Monitoring Template is aligned with the operational risks as outlined in the risk taxonomy as well as with key corporate risk indicators. The primary avenue of reporting on grant progress to GPC is through the Grants Performance Report. The Secretariat also employs a standard approach to reviewing audit reports.

The Secretariat has internal standard operating procedures (SOP) for each process, which outline roles and responsibilities (see Annex 7). These SOPs outline the

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escalation mechanisms through which major issues and risks are escalated to appropriate managers.

Table 6: Examples of internal escalation processes for grant-related issues and risks

Type of issue	Escalation, where necessary
Issues identified in progress reports, including delays in receiving reports	• Regional Manager escalates to Country Support Team Manager • Issues can be further escalated to DCEO and CEO depending on nature and gravity of issue • Regional Manager confers with Risk and Compliance Team Lead on need for additional mitigation actions
Issues identified in audit reports, including delays in receiving reports	• Issues can be escalated to CST Manager and CFO, depending on nature and gravity of issue

2.5   Country Risk Index

GPE country risk is an inherent risk that is defined in terms of how different, aspects of the local context could negatively or positively affect the implementation of GPE-funded programs. Such aspects include economic factors, governance, risk of conflict/natural disasters, and civil society space.

GPE draws upon three established and reputable indices for its Country Risk Index, available in Annex 8:

- **Country Performance and Institutional Assessment (CPIA),** developed by the World Bank. CPIA assesses the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth, and the effective use of development assistance.
- **INFORM Index,** developed through a collaboration of the Inter-Agency Standing Committee Reference Group on Risk, Early Warning, and Preparedness, and the European Commission. INFORM provides a crisis and disaster management framework by looking at three major dimensions: Hazard and Exposure, Vulnerability, and Lack of Coping Capacity.
- **Governance Indicators** developed by the World Bank. This index consists of six indicators, but specifically the Voice and Accountability indicator is used as a proxy for civil society space for the purposes of GPE.

These three indices were chosen following a thorough review of available indices, where the criteria used for inclusion were: credibility of the organization that developed

and uses the index; clarity and thoroughness of the stated methodology; availability of data on GPE eligible countries; and the frequency of data updates.

Drawing upon these three indices, GPE's Country Risk Index consists of the following seven components:

Index	Components	Sub-components
CPIA	Economic Management	Macroeconomy, fiscal policy, debt policy
	Structural Policies	Trade, financial sector, and business regulatory environment
	Public Sector Management and Institutions	Rule-based governance, corruption, budgetary and financial management, revenue mobilization, quality of public administration
INFORM Index	Hazard and Exposure	Past history or threats from natural disasters (floods, cyclones, etc.) and man-made disasters (conflicts, insurgencies, etc.)
	Vulnerability	Socio-economic vulnerability, inequality (including gender), aid dependency, vulnerable groups
	Lack of Coping Capacity	Institutional and infrastructure
Governance Indicators	Voice and Accountability	Extent to which a country's citizens are able to participate in selecting their government, freedom of expression, freedom of association, free media

The Country Risk Index is available for Secretariat staff to provide background information on the countries in which GPE is engaged, and to inform dialogue and technical support.

PART 2: GPE RISK MANAGEMENT POLICY

Part 2 is a series of high-level statements that outline roles, responsibilities, and expectations for specific tasks and how the review of the GPE Risk Management Framework is conducted (frequency and actors).

1. Risk Appetite Statement

The risk appetite statement is **reviewed by the FRC with delegated authority from the Board at least once every two years or more frequently as needed, for the FRC to recommend to the Board any material changes for approval.** The other GPE Committees can also suggest to the FRC material changes to the risk appetite statement, and it is at the discretion of the FRC to recommend to the Board such changes for approval. The Board can also review the risk appetite statement directly as frequently as needed.

The risk appetite statement is approved by the Board. Furthermore, it is the Board's responsibility to ensure that the risk appetite statement is embedded in the organization, holding the GPE, CEO and risk owners accountable for its effectiveness.

Table 7: Roles and Responsibilities with regards to risk appetite

Roles and Responsibilities with regards to risk appetite	Board	FRC	Other Committees	CEO	CFO	RCT	Risk Owners
➢ Establish a risk appetite that is consistent with the GPE's short/long-term vision and strategy, FFF, risk capacity.	✓	✓	✓	✓	✓	✓	
➢ Be accountable for the integrity of the risk appetite, including the timely identification and escalation of breaches in risk limits and of material risk exposures.				✓	✓	✓	
➢ Ensure that the risk appetite is appropriately translated into risk limits and that risk appetite is incorporated into strategic and financial planning as well as into GPE operations.				✓	✓	✓	✓
➢ Provide leadership in communicating the risk appetite to internal and external stakeholders and partners to help embed prudent risk taking in GPE's risk culture.				✓	✓	✓	
➢ Dedicate enough resources and expertise to risk management, audit and IT infrastructure to help effectively oversee adherence to the risk appetite.	✓	✓		✓			
➢ Review the risk appetite at least once every two years or more frequently as needed.		✓					

➤ Approve any changes to the risk appetite ensuring consistency with the organization's short- and long-term vision and strategy, FFF, and risk capacity.	✓					

2. Three lines of defense model

The three lines of defense model is **reviewed by the FRC with delegated authority from the Board as needed, for the FRC to recommend to the Board any material changes for approval.** The other GPE Committees can also suggest to the FRC material changes to the three lines of defense model, and it is at the discretion of the FRC to recommend to the Board such changes for approval. The Board can also review the risk appetite statement directly as frequently as needed.

The **three lines of defense model is approved by the Board.** Furthermore, it is the Board's responsibility to ensure that the three lines of defense model is aligned with the roles and responsibilities entailed in the current GPE Strategy and ensure that the entities chosen to assume risk management roles and responsibilities have the material, technical, and financial capacity to do so.

3. GPE Risk Management Processes

3.1 Overall Risk Management Processes

The Chief Financial Officer (CFO) is accountable for the integrity of the overall Risk Management Framework, including the timely identification and escalation of material risk exposures. The CFO and the Risk and Compliance Team ensure the integrity of risk management techniques and management information systems that are used to monitor the organization's risk profile relative to its risk appetite. This includes ensuring that the GPE has appropriate processes in place to effectively identify, measure, monitor and report on the risk profile relative to risk appetite, strategy, FFF and risk capacity on a day-to-day basis.

The World Bank Trustee provides information to the GPE Secretariat to help GPE manage financial risks associated with administration of the fund and its resources until they are transferred to the GAs.

3.2 Risk Identification

The risk taxonomy **is reviewed by the GPE Secretariat at least once every two years or more frequently as needed,** with the list of changes presented to the FRC for information and comments at the beginning of each reporting period. The Board, the FRC and other GPE Committees can suggest material changes to the risk taxonomy.

3.3 Risk Analysis and Evaluation

The risk indicators are **reviewed by the GPE Secretariat at least once every two years or more frequently as needed,** with the list of changes presented to the

FRC for information and comments at the beginning of each reporting period. The Board, the FRC and other GPE Committees can suggest material changes to the risk taxonomy.

Table 8: Roles and Responsibilities with regards to risk indicators

Roles and Responsibilities with regards to risk indicators	Board	FRC	Other Committees	CEO	CFO	RCT	Risk Owners	Risk Focal Point	Risk Data Provider
➢ Enter the quantitative or qualitative risk assessment score and value as well as the source of data for the assigned risk indicators.									✓
➢ Enter the mitigation strategy and the action plans based on the calculated risk scores for assigned sub risks.								✓	
➢ Review and if needed, update the risk mitigation plans for assigned sub risks.							✓		
➢ Review the risk dashboard. Option to send risks back to the Risk Owner for update of migration action plans.					✓				
➢ Be accountable for the integrity of the indicators and adequacy of risk mitigation plans, including the timely identification and escalation of material risk exposures to the CFO and the CEO.					✓		✓		
➢ Ensure that the risk indicators are up-to-date and reviewed regularly to provide useful information about risk exposure, control effectiveness or performance.				✓	✓				
➢ Advise on relevance of different risk indicators used by GPE Secretariat to calculate risk exposure.		✓							

3.4 Risk Treatment

Risk owners are accountable for ensuring that risk is managed appropriately, within the Secretariat's mandate. There may be multiple personnel

who have direct responsibility for, or oversight of, activities to manage each identified risk, and who collaborate with the accountable risk owner in his/her risk management efforts. The risk owner is responsible for ensuring that mitigation action plans accurately reflect ongoing Secretariat efforts to manage risk and that they highlight any additional measures that are necessary to improve risk management in the specific area.

When risks are not detected by the online risk dashboard but by other means, such as internal or external audits or internal monitoring activities, risk owners must respond to the observations or recommendations made and have a duty to give effect to such recommendations. They are also responsible for taking these risks into account in their future risk assessment exercise.

3.5 Recording and Reporting

The Risk and Compliance Team is accountable for providing a biannual strategic overview of corporate risks to the Committees and Board. Corporate risk information is compiled from the online risk dashboard, analyzed and fed upwards.

Each committee provides oversight for risk categories of sub categories assigned and the FRC provides oversight on high and critical risk and sub risks in addition to assigned risk categories and sub categories. While the Committees provide oversight for risk categories of sub categories assigned in order to flag any material issue to the Board, they cannot change a risk rating of a sub risk or a risk category when the views of Secretariat and Committees differ. They instead flag the issue for Board attention, explaining why risk exposure differs.

4. Operational Risk

The Country Support Team is accountable for ensuring that the ESPIG monitoring template: (i) is aligned with the corporate risk taxonomy; (ii) uses key corporate indicators for operational risk; (iii) records actions to be taken by the Secretariat to mitigate/manage major risks.

The Risk & Compliance Team advises on the integration of risk into the monitoring template and ensures that controls are set up and functioning, including an escalation mechanism.

5. Country Risk Index

The Risk and Compliance Team is accountable for updating the country risk index on an annual basis, after the data of the different indices is released.

Table 9: Summary of responsibilities for reviewing and approving changes to the Risk Management Framework and frequency

RMF Components	Reviews	Approves changes	Frequency
Risk appetite	FRC	Board	At least once every two years
Risk taxonomy	GPE Secretariat	FRC	
Risk indicators	GPE Secretariat	FRC	
Risk Management Framework and Policy	GPE Secretariat	FRC for information	As needed
Lines of defense	FRC	Board	
Country Risk Index	GPE Secretariat	FRC	As needed
ESPIG monitoring template	Country Support Team and Risk & Compliance Team	GPE Secretariat management	

List of Annexes

The different components of the Risk Management Framework can be found in the following annexes. They are aligned with the policies and guidance outlined in the Risk Framework and Policy, but they can be revised independently of revisions of the policy. Where relevant, the latest version approved by the Board or the Finance and Risk Committee (c.f. Part 2) is the version in effect.

Annex	Title	Public Document	Internal Document
1	GPE Risk Appetite Statement	✓	
2	Risk Taxonomy	✓	
3	Methodology and list of risk indicators		✓
4	Online risk dashboard user guide		✓
5	List of contributors to online risk dashboard and committee oversight		✓
6	ESPIG Monitoring Template		✓
7	Standard Operating Procedure on Monitoring		✓
8	Country Risk Index – Methodology and Ratings		✓