

➤ NOVEMBER 30, DECEMBER 1 AND 3, 2020

MEETING OF THE BOARD OF DIRECTORS

VIA VIDEOCONFERENCE

BOD/2020/11/12 DOC 09

FOR DECISION

MODIFICATIONS TO THE CONTRIBUTIONS AND SAFEGUARDS POLICY

Please note: Board documents are deliberative in nature and, in accordance with the GPE Transparency Policy, are considered public documents only after their appraisal by the Board. It is understood that constituencies will circulate Board documents among their members prior to Board consideration for consultation purposes.

Input from the Finance and Risk Committee following its November 3-4, 2020 meeting:

1. Contributions and Safeguards Policy

- FRC members noted that the changes to the policy would be required to implement the innovative finance approaches but that if any should not be approved the changes would not be applied
- While there was general understanding of the need for changes, there were mixed views with some members uneasy about having too much flexibility in the policy and the potential for increased distortion.
- Questions were raised as to transaction costs of targeting and the Secretariat clarified that this would be limited as donors would continue to sign standard contribution agreements, reporting would not be more than what was routinely provided, and there were limits in terms of the extent of earmarked contributions that could be accepted.
- Members emphasized that the principle of unearmarked contributions should remain, and that safeguards should ensure that earmarked funds do not unduly influence the work plan of the Secretariat. Another point was that there should be a general provision stating that

the Board can decide on ad-hoc exceptions rather than making the statement under separate points

- The World Bank advised to specify in the Board document that the targeted contributions by a contributor would be accomplished through a notional allocation within the GPE Fund, and not by earmarking of the contribution in the Contribution Agreement with the Trustee
 - The Secretariat committed to including such language

Objective

1. This document outlines the proposed modifications to the Contributions and Safeguards Policy (CSP) necessary to operationalize the approach to financing and funding GPE2025.

Recommended decision

BOD/2020/11/12-XX—Contributions and Safeguards Policy: The Board of Directors:

1. Approves the **relevant** changes proposed in Annex 1 of BOD/2020/11/12 DOC 09 to the Contributions and Safeguards Policy and requests the Secretariat to update the provisions of the policy and assessment template accordingly.

Note for Reader – should any of the innovative finance approaches or the gender thematic window not be approved by the Board, the related changes in Annex 1 will no longer be deemed “relevant”

Background and overview

2. The Board approved the CSP in 2017 as part of a set of decisions related to the operationalization of the GPE Finance and Funding Framework for the 2018–2020 period. The policy outlines the circumstances in which donors can contribute to the GPE Fund including the circumstances and safeguards that govern the use of targeted or earmarked contributions. Implementation of the policy has been regularly reviewed by the Finance and Risk Committee under delegated authority from the Board.

3. Overall, the policy has not resulted in any distortion to GPE Funds or a significant increase in transaction costs. The policy has been necessary to facilitate a number of donor contributions to the GPE Fund.

4. The Board recognized in its recent decision (BOD/2020/09-02) the challenges of mobilizing finance to deliver GPE2025 considering the economic impact of COVID. It acknowledged that incentives and greater flexibility regarding targeting may be warranted in certain circumstances, and accordingly requested the Secretariat to consider the necessary modifications to the CSP. The Secretariat believes the CSP must be adapted to facilitate operationalization of the innovative finance approaches proposed for Board

consideration (BOD/2020/11/12 DOC 08), and the creation of a thematic targeted window focused on girls' education (BOD/2020/11/12 DOC 07). There are also opportunities to maximize resources to facilitate the enabling objective notably through KIX and EOL, and to both mobilize additional funds and reduce transaction costs at country level in support of transformative change. Mobilizing additional finance is a key objective of GPE 2025 and in a challenging economic environment created by COVID, GPE needs to have flexible tools that can facilitate this objective.

5. Greater flexibility however necessitates an increased risk appetite. Nonetheless, the Secretariat believes that the risks of distortion and substitution are low and can be managed through setting appropriate parameters and safeguards for how contributions are made, and through continued oversight of implementation of the policy by the FRC.

6. The general changes in approach are outlined in Annex 1 and subject to Board approval, the text of the policy will be suitably amended to give them effect. Annex 2 provides an overview of the potential changes to the Safeguards in the policy.

Annex 1 – OVERVIEW OF PROPOSED MODIFICATIONS TO THE CONTRIBUTIONS AND SAFEGUARDS POLICY

Topic	Current Approach	New Approach	Implications
KIX / EOL	Donors may target at the thematic level but can't fund individual initiatives/grants within a thematic area or at sub-regional level	<p>Allow donors to target funding to specific initiatives/grants or geographies provided those grants have first been selected as eligible for funding through an open competitive process. i.e. the availability of potential additional financing will have no impact on the process to select quality proposals for funding and the prospective donor would not be permitted to request modifications to the grant.</p> <p>Example – If six grant proposals in a thematic area were deemed to meet quality standards after a call for proposals and independent review process, but the core GPE fund allocation was only sufficient to fund four, a prospective donor could agree to finance one or more of the six grants through the GPE Fund. As a result, the core GPE Fund allocation could fund the other ones and improve prospects of all grants being funded.</p>	<p>+ Raises the prospects of securing additional financing by allowing prospective donors to see exactly what they would be funding in terms of quality assured proposals</p> <p>+ Would free up core GPE fund resources allowing more quality proposals to be funded than may otherwise be the case in a situation where quality proposals exceeded available funds.</p> <p>-Needs to be more coordination between Secretariat, Grant Agent and prospective donor to ensure contributions are made in a timely manner to facilitate onward disbursement</p>
Girls' Education	If approved, Donors could target the higher of 25% of their	In order to reach the desired target proposed of US\$250 million, the Board could allow donors to target the higher of 50% of their pledge or	+ Raises the prospects of reaching the target for the window and provides a more compelling offer

Topic	Current Approach	New Approach	Implications
Thematic Window	allocation of US\$25 million to this window	<p>US\$50 million to this window. Once the target was reached, the 25% and US\$25m lower levels would return.</p> <p>Example – if the desired target for the window was US\$250 million, and a donor decided to pledge US\$300 million to the GPE Fund, it could direct that US\$150 million (50% of the pledge) be used towards financing of the window.</p>	<p>for a large-scale contribution to GPE</p> <p>+ Would incentivize earlier pledging to the window and GPE Fund to avail of the limited additional flexibility</p>
Debt Forgiveness Operations	No suitable approach that would allow an increase in the size of an allocation	<p>Under GPE's proposed initiative to facilitate debt forgiveness operations (DFOs), suitable contributions would be permitted to be targeted in a manner that would increase the size of an individual country grant allocation provided any such contribution was additional to a donor's core pledge to the GPE Fund.</p> <p>Example – If a donor cancelled US\$50 million from a loan to a DCP in exchange for the DCP making contributions to the GPE Fund of US\$30 million (counted as an additional contribution on behalf of the donor), the US\$30 million could then be added back to that DCP's grant allocation (along with an additional US\$10 million from the Multiplier, if relevant).</p>	<p>+ Provides the necessary flexibility to ensure that Developing Country Partners and Creditors fully benefit from the initiative</p> <p>+ There are no material financial implications as the increase in the allocation size for a DCP will correspond with the same amount of contributions into the GPE Fund through the initiative.</p>

Topic	Current Approach	New Approach	Implications
Matching Grants	No suitable approach apart from KIX/EOL at the thematic level that would allow an increase in the size of an allocation	<p>Non-Sovereign Donors (i.e. Business Community and Foundations) would be permitted to provide a contribution to the GPE Fund that would be earmarked for a specific country or mechanism and result in a corresponding increase in the size of the allocation to that country or mechanism</p> <p>Example 1 - If a foundation contributed US\$10 million to the GPE Fund to support Country X, then we would increase the size of the grant allocation to Country X by US\$10 million plus a US\$10 million matching allocation from the Multiplier.</p> <p>Example 2 - Linked to the proposed Thematic Window focused on Girls' Education if approved, Non-Sovereign Donors would also be permitted to target up to US\$25 million in total to that window (10% of target) for the purpose of triggering a matching contribution of up to US\$25 million to the window from within the overall Multiplier envelope.</p> <p>Example 3 - A Foundation makes a \$50 million pledge to the GPE Fund towards ECE in support</p>	<p>+ Reduces transaction costs at country level by avoiding the need for the non-sovereign donor to establish its own program with Government/Implementing Partners</p> <p>+ Provides a greater incentive to contribute and raise resources particularly from non-sovereign donors that don't have sufficient country presence to engage in the LEG or oversee their own programs</p>

Topic	Current Approach	New Approach	Implications
		<p>of countries that have prioritized this approach. During the course of developing the compact in a number of countries, the Secretariat identifies programs where the intention is to include ECE as a component, and allocates an additional portion of funds from the Foundation pledge along with unlocking a corresponding amount from the Multiplier for the country.</p>	
Multiplier	<p>No suitable policy that would allow an increase in the size of an allocation</p>	<p>Just like the matching grant approach above, there may be situations in which the additional co-financing may be channeled through the GPE Fund and then provided in the form of a grant. The safeguard would ensure that any such funds must be additional to a donor's core pledge to the GPE Fund</p> <p>Example – If a sovereign donor wanted to support a package of finance to trigger the multiplier but couldn't easily integrate their funds into a new separate program with the Government or contribute directly to the Grant Agent, the funds could be channeled through the GPE Fund where they would be combined with the Multiplier and made available to the Grant Agent. The donor would need to clearly demonstrate the additionality of these funds.</p>	<p>+ Reduces transaction costs for Donor, DCP, and Grant Agent</p> <p>+ Ensures that the additional finance materializes</p>

Topic	Current Approach	New Approach	Implications
Crowding in Additional Financing	No suitable policy that would allow an increase in the size of an allocation	In the interests of reducing transactions costs, external financing partners could elect to channel their country level contributions in support of a systems transformation grant through the GPE Fund to be combined with GPE's own allocations to create a single larger systems transformation grant that would be overseen by a Grant Agent. Again, this could be only done where funds are additional to a core pledge, and the commitment would need to be made during the process of negotiating the GPE grant allocation for that country	<ul style="list-style-type: none"> + Increases prospects for aligning partner funds with the systems transformation approach + Reduces transaction costs particularly on DCP through a single grant rather than multiple separate grant agreements with varying donor requirements + Increased benefits of economies of scale and impact of much larger programs that are likely to benefit from close monitoring by interested partners

Annex 2 – SAFEGUARDS

Required Changes in **Red Text** or ~~Strikeout~~

The policy will continue to emphasize the preference for unearmarked contributions to the GPE Fund, will note that the Board may make exceptions to the policy as it has done in the past, and that targeted contributions by a contributor to specific initiatives or geographic areas would be accomplished through a notional allocation that is mutually accepted within the GPE, and not by earmarking of the contribution in the Contribution Agreement with the Trustee.

The following Safeguards shall apply to all contributions to the Global Partnership for Education Fund and address the specific risks of mission/partnership distortion, financial substitution and administrative burden:

Safeguard 1: All targeted financing offers must be assessed by GPE Secretariat for compatibility with GPE 2025, GPE Charter and GPE Contributions and Safeguards Policy, and put to GPE’s Chief Executive Officer for authorization. Where Secretariat assessment or the CEO judges a case as unclear or there is a risk of substitution, mission distortion or undue influence on the work of the Secretariat, any targeted financing proposal will be put to the Finance and Risk Committee (FRC) for decision. The FRC will review and report on decisions on targeted funding to the Board of Directors on a **biennial** basis with particular attention to the effectiveness of the safeguards in mitigating risk. The FRC will additionally undertake a full review of the Contributions and Safeguards Policy on a **biennial** basis.

Comment – reinforces existing practice with a review by FRC every 2 years.

Safeguard 2: All contributors must formally disclose any conflicts of interest and where relevant, indicate their formal agreement to GPE’s Corporate Engagement Principles.

Comment – No change to existing safeguard

Safeguard 3: No contributions will be accepted for countries not eligible for GPE funding under the GPE allocation model, and any contributions that are notionally allocated on a geographic basis must not exceed the value of existing or planned allocations.

Comment – No change to existing safeguard

Safeguard 4: Any contributions that are notionally allocated on a thematic basis under the GPE allocation model must not exceed the value of components for that thematic area in GPE's existing approved grants. No contribution amount can be both thematically and geographically targeted below the regional level **by a sovereign donor**.

Comment - The proposed change would still restrict sovereign donors from earmarking at both a geographic and thematic level to individual countries to avoid transaction costs in trying to match contributions with allocations. Non-Sovereigns would be permitted in line with the approach to create the necessary incentives for contributions from these actors. The risk is not expected to be significant considering that amounts from non-sovereigns are likely to be smaller, fewer, and therefore easier to accommodate.

Safeguard 5: No contributions will be accepted for any funding mechanisms outside of the GPE allocation model not preapproved as eligible for targeted contributions by the GPE Board of Directors.

Comment – No change to existing safeguard

Safeguard 6: No funding mechanism can be solely financed from targeted financing by a single contributor and should always be partly financed from unrestricted resources to ensure all GPE donors have a financial stake and ownership.

Comment – Specific exceptions to this would cover the thematic window focused on girls' education where it's possible funding may only come from a few donors unless a matching contribution from the core fund was triggered by contributions from non-sovereigns. This is a Board decision for December

Safeguard: All bilateral (sovereign) donors will have the total of their targeted contributions to **eligible mechanisms that results in an increase in the size of funds available for that mechanism** capped at the higher of either 25% of their total contributions to GPE or \$25 million for each financing period to prevent financing substitution. **Targeted contributions may be capped or rejected in order to prevent exceeding the Board approved ceilings for the mechanism and avoid distortion.**

Comment – An exception for the Thematic window focused on girls' education if approved by the Board would temporarily allow a higher threshold than the 25% / \$25m until the target for the window was reached. Other eligible mechanisms such as KIX or EOL would have targeted ceilings also.

Safeguard 8: No contributor can require separate technical or financial reporting beyond routine reports provided by the Secretariat or information normally provided to satisfy routine contributor queries.

Comment – No Change proposed and designed to keep transaction costs low.

Safeguard 9: Individual targeted contributions to Reinforcing mechanisms and their thematic areas are to be that result in an increase in the size of a GPE allocation for eligible activities are subject to minimum threshold amounts as determined by the CEO. Such contributions must be demonstrably additional to a contributor's core pledge to the GPE Fund and their average annual contribution from the previous financing period to prevent risk of substitution. specified in the formal design of such mechanisms as approved by the GPE Board.

Comment – The ability of the CEO to determine a minimum contribution provides flexibility to balance needs with administrative costs. For example – a targeted contribution that increases an allocation by \$100k on a US\$100 million program may not be worth the effort involved. The additional language regarding additionality prevents a donor attempting to reduce its core unrestricted pledge or usual funding levels to the GPE fund in an attempt to shift to targeting their funds to increase allocations to preferred countries. While this risk is deemed low to begin with, the change in safeguard language provides greater assurance to prevent it occurring.

Safeguard 10: Targeted contributions shall include sufficient financing to cover any additional administrative costs arising from the targeting.

Comment – No change to existing safeguard

Safeguard 11: All contributors will sign GPE's standard contribution agreement used for the GPE Fund, irrespective of whether contributions are targeted or not.

Comment – The Board has already approved an exception in relation to opening a dedicated sub-account of the GPE Fund for West Bank and Gaza.