

➤ NOVEMBER 30, DECEMBER 1 AND 3, 2020

MEETING OF THE BOARD OF DIRECTORS

VIA VIDEOCONFERENCE

BOD/2020/11/12 DOC 08

FOR DECISION

INNOVATIVE FINANCE

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. Innovative finance approaches

- In line with previous Board deliberations in September, the FRC was supportive of efforts to seek out and operationalize novel approaches to increasing efficiency and impact and mobilizing further resources for education, and noted that the economic environment for education financing –both for domestic resources and external support-- is likely to be challenging. There were a range of different views expressed on each approach, and the general advice to the Board from the FRC is for GPE to concentrate efforts on the approaches that the Board considers are most promising.
- While members raised important issues for consideration on all approaches proposed, there appeared to be more consensus in favor of Debt Forgiveness Operations, Matching Grants, and the Thematic Window focused on Girls' Education subject to further consideration on a number of issues by the Board in December.
- The approaches around Frontloading the Multiplier and Enhanced Convening were viewed as interesting but had less consensus with questions raised on the need to demonstrate the potential value add of these approaches. Members did note however that the proposal on Frontloading the Multiplier was to seek a mandate to develop the operational details in conjunction with interested financing partners, and therefore there would be further opportunities for FRC and Board review. It was also noted that if the Board approved the

approach on enhanced convening, the Secretariat would come back to the Board in June 2021 on resource needs through the Operating Expenses budget and the plan was to test the concept on a pilot basis in a limited number of countries.

- The proposal on impact bonds and a partnership with Education Outcomes Fund (EOF) also had less consensus with some members noting the potential of the approach and the importance of coordination and leveraging the expertise of other actors in the education architecture. However, there was also some skepticism raised on the effectiveness of impact bonds generally. CSO reps gave the view that a proposal to proceed with a formal partnership with EOF was premature.
- The committee stressed the importance of due consideration be given to transaction costs involved relative to benefits and human resource implications for all approaches.
- The importance of working closely with World Bank legal and Trustee to operationalize these approaches was also raised.
- Specific points on each approach are set out below

2. Debt Forgiveness Operations

- Support was expressed for the proposal from a number of members including from the DCP representatives.
- Questions were raised about transaction costs of such arrangements and the Secretariat noted that from a Secretariat perspective this wasn't particularly challenging or complex apart from the usual efforts to explain the approach and coordination with partners involved. It was acknowledged that transactions between a DCP and Lender can be high given the need for finance and legal involvement on each side but that it was a matter for both parties to decide if they wanted to pursue such arrangements.
- Committee members noted that given complexity and effort involved there may not be many cases and the Secretariat agreed noting that a maximum of 1-2 per year could be envisaged which will naturally keep Secretariat costs down. The Secretariat stressed however that in these limited cases, there could be significant benefits for the countries involved in terms of reducing debt, increasing education expenditure, and unlocking the multiplier.
- Concerns from the World Bank on behalf of Legal and the Trustee were addressed by confirming that the proposal involved no changes to the standard donor contribution agreement

3. Matching Grants

- FRC members were generally supportive noting the positive input from the Private Sector, and Private Foundations constituencies, and from the DCP representative who noted the positive collaboration with a foundation in his own country towards mobilizing the Multiplier.
- Members raised questions as to whether the rationale of a 1:1 match would really result in greater engagement with business and foundations. The Secretariat noted that the match alone would not be the key driver but the combination of a tangible incentive like this when combined with greater flexibility around targeting should significantly increase prospects for greater engagement

- Questions were raised as to whether reducing the co-financing threshold to 1:1 would weaken the multiplier and the Secretariat flagged that overall it would not as it was unlikely that we would be mobilizing such high amounts from business and foundations to distort the overall numbers. However, the Secretariat was confident that we should be able to mobilize far more than the current levels which were very small by comparison to other major funds.
- Members further noted the link between the match and the multiplier and emphasized the importance of the evaluation of the Multiplier in order to continue to improve its effectiveness. The Secretariat assured the FRC that such an evaluation was planned and that the efforts on innovative finance help respond to concerns around making it easier and offering more options for DCPs to unlock multiplier support.
- The World Bank raised concerns about the risk of engagement with the business community being used by companies as an entry point for a business advantage and emphasized the importance of consultation with Legal and Trustee on the roll out. The Secretariat noted that such engagement would take place.

4. Impact bonds

- The FRC thanked Amel Karbout and Jared Lee from EOF for their presentation on the work of EOF (EOF then dropped off the call to allow members deliberate)
- While some members were skeptical of the value add of impact bond modalities – it was noted from the Secretariat’s analysis that there is no policy preventing impact bond modalities being operationalized within GPE grants provided they met all applicable policies and followed standard processes for approval of GPE grants and disbursement of funds through a Grant Agent. It was further noted that the Secretariat would not advocate for such approaches but would only respond to demands from DCPs for such arrangements
- Members stressed the need for GPE engagement in any such approaches to consider long-term sustainability of results, alignment with the education sector plan, and national ownership.
- There were mixed views from members in terms of having a formal partnership with EOF with some members noting the benefits of working with other actors in the education sector that had specific skills and mandates rather than trying to replicate this in GPE. Other members were more skeptical of the approach taken by EOF, while CSO members stressed that it would be premature to develop a formal partnership with EOF at this stage.

5. Frontloading

- Members did not express a strong view for or against the approach but focused on a number of issues
- Committee members sought assurances about Grant Agent selection processes under this approach, and were informed that Grant Agent selection would follow the normal process for a Multiplier in terms of elaborating on this at the time an expression of interest for the Multiplier was prepared. It was further noted that countries would not be required to use

their Multiplier funding through the potential instrument and that countries would continue to have benefit from a choice of grant agents (GAs) for their other grants.

- Members raised the issue of the compatibility with IFFEd. It was clarified that as IFFEd funding flows through regional and multilateral development banks, that the Multiplier was fully compatible given such organizations act as Grant Agents and co-finance programs funded by their own resources and GPE grants. The Secretariat also noted that while IFFEd is primarily focused on LMICs, the reach of the Multiplier including through this frontloading approach goes beyond it and covers Low Income Countries.
- Members questioned the potential for additionality through this approach and it was clarified that commitments on additionality would be assured and built into the operational design. It was also noted that the Secretariat believes that several hundred million in additional funds would have been mobilized if such an arrangement was already in place for the 2018-2020 period.

6. Enhanced Convening

- FRC was positive regarding GPE's overall role and potential for convening with members emphasizing the importance of engaging with existing partners with specific expertise and to support domestic financing efforts
- Some doubts/concerns were expressed about the costs of the proposed approach to enhanced convening and its value add. However, members acknowledged that the proposal is to pilot this on a small scale and that budget details will be included in the FY22 Operating Expenses budget that will go to the Board in June 2021.

Objective

1. This document sets out the technical analysis on the five innovative finance approaches that the Board agreed to explore in September 2020 in order to make a determination on which proposals to proceed with, those that merit further work, and whether we should not proceed with any now.

2. The purpose of these approaches is to support implementation of the GPE2025 country level objective to “mobilize coordinated action and financing to enable transformative change”. The proposals should be considered in the context of an economic crisis caused by COVID which increases the importance of this objective, and the consistent feedback from Developing Country Partners to adapt GPE.

3. This document also outlines preliminary resource considerations for the Secretariat not only related to innovative financing but to the broader strategic plan. The Secretariat believes that additional investment will be required to successfully implement GPE2025. While this cannot be quantified now, the Secretariat is fully confident that such additional investment would not result in costs exceeding the 5-7% of total disbursements from the

GPE Fund and achieving the financing campaign target of at least US\$5 billion is likely to result in costs being at the lower end of the range.

Recommended decision

2. BOD/2020/11/12-XX—Innovative Finance: The Board of Directors:

1. Approves the approach to facilitate debt forgiveness for education as set out in Annex 1 of BOD/2020/11/12 DOC 08
2. Approves the approach to matching funds for the Multiplier and Girls' Education Window to incentivize contributions from the business community and private foundations as set out in Annex 2 of BOD/2020/11/12 DOC 08.
3. Approves the approach to enhanced convening as set out in Annex 3 of BOD/2020/11/12 DOC 08 and requests the Secretariat to outline the necessary resources to pilot the initiative in up to 3 countries in FY22 (July 1 2021 – June 30 2022)
4. Notes the potential for frontloading Multiplier resources and authorizes the Secretariat to develop the proposed operational details in accordance with the parameters set out in Annex 4 of BOD/2020/11/12 DOC 08 for consideration by the Finance and Risk Committee and recommendation to the Board in 2021.
5. Notes that GPE funds can be used as part of an impact bond modality as described in Annex 5 of BOD/2020/11/12 DOC 08 provided such arrangements fully comply with the GPE operating model and all applicable and proposed safeguards. Encourages cooperation with relevant partners including through a formal partnership arrangement to support demand from eligible Developing Country Partners.

Background and overview

In September 2020, the Board instructed the Secretariat to develop technical analysis on five different innovative finance approaches that may be relevant to support implementation of GPE2025 (BOD/2020/09-02), particularly the country level objective to mobilize coordinated action and financing. The details of this analysis are set out in the Annexes below. It should be noted that these proposals are all based around compatibility with GPE's operating model. The role of the Secretariat would be primarily facilitating such arrangements and convening the appropriate technical capabilities. Such approaches do not require development of deep technical expertise beyond what the Secretariat already possesses. The most recent DCP consultation on October 8th noted *"The proposed approach of using the Compact to identify and drive co-financing and innovative financing discussions is far preferable and is an important way to encourage greater alignment."*

[Annex 1 – Debt Forgiveness for Education](#)

[Annex 2 – Matching Fund to incentivize Non-Sovereign Donors](#)

[Annex 3 – Enhanced Convening](#)

[Annex 4 – Frontloading Co-financing](#)

[Annex 5 – Enabling Conditions & Safeguards for Impact Bonds and Outcomes Financing](#)

The conclusion of this analysis from the Secretariat’s perspective is summarized below:

Debt Forgiveness for Education – subject to the necessary amendments to the Contributions and Safeguards Policy (CSP), this approach may mobilize additional resources for education, reduce debt, and unlock the Multiplier in countries where both a debtor and creditor are willing to engage in such arrangements. The resources involved would fully align with existing GPE grant mechanisms and processes. There is no unmanaged risk of substitution of donor resources. Transaction costs at the Secretariat level would not be significant and would be linked to the number of transactions which is not envisaged to be large. Approval now requires no modifications to any policy other than the CSP. It would allow engagement with potential donors (new and existing) as part of the financing campaign and beyond. This is likely to be apposite in only a handful of countries.

Matching Funds to Incentivize Non-Sovereign Donors – subject to the necessary amendments to the Contributions and Safeguards Policy (CSP) to facilitate such arrangements, the matching fund could both incentivize contributions from the business community and private foundations and increase the levels of resources and engagement in the partnership from such actors. Financial contributions from such sources to the GPE Fund are negligible compared to other Global Funds and the lack of incentives and flexibility in ways to engage have contributed. A similar incentive scheme in GAVI attracted an additional US\$111 million over 4 years from multiple philanthropic and business partners.

The approach proposed requires a modification to the multiplier to lower the co-financing threshold from such sources from US\$3 to US\$1 to US\$1 to US\$1 to create the matching incentive. The same matching incentive could be used to incentivize contributions to the Girls’ Education Window if approved. Approval of this decision now will enable engagement with potential donors as part of the financing campaign. There are no other operational implications since these arrangements would be fully compatible with the operating model. There may be benefits to expanding the scope of this matching arrangement to strategic capabilities, KIX, and EOL but this is not a decision that the Board needs to make now.

Enhanced Convening – would seek to mobilize resources through a country- or issue-specific convening operation, owned by the government and supported by the GPE

Secretariat using its expertise in resource mobilization. There is no immediate rush on this issue, as roll-out would be scheduled from July 2021 onwards and resource implications included as part of the FY22 Operating Expenses Budget. Based on strong demand from partner countries, the Secretariat believes there is potential that should be tested and proposes to pilot the approach in FY22 in up to three countries. Based on the results, the Board could make a determination whether to continue with it and the related level of investment in subsequent years. This fully aligns with GPE2025 objectives and there are no implications for our operational model or policies.

Frontloading Co-Financing – The Secretariat’s analysis indicates there is potential to mobilize significantly more additional financing in support of the systems transformation approach beyond the standard US\$3:1 co-financing requirement and unlock financial contributions from partners that are currently untapped. This can be done in a way that makes it easier for a group of countries to avail of significant external finance for education without restricting their choice of grant agent or source of co-financing to access the Multiplier. The next steps would be to identify a suitable partner organization and develop a joint proposal that would be agreed by the GPE Board and the relevant partner in 2021 (the Islamic Development Bank has already expressed interest). The proposed approach would be fully consistent with GPE’s operational model and related policies. No separate mechanism is required to operationalize the facility as set out.

Enabling Conditions and Safeguards for Impact Bonds and Outcomes Financing – The Secretariat’s analysis concludes that such arrangements, while appearing complex, are compatible with GPE’s operating model either through the fixed part of a Systems Transformation Grant, or through the variable part. There may be benefits in exploring a strategic partnership with the Education Outcomes Fund to facilitate demand from Developing Country Partners for financing from such modalities. To be clear, this would not involve GPE hosting EOF or setting up its own impact modality, but would rather be about working collaboratively to support DCPs with such transactions in a manner that promotes better coordination of actors within the education sector and minimizes transaction costs for DCPs while incentivizing additional financiers. The only decision requested is to acknowledge that impact bonds are compatible with our operating model and whether we should explore a partnership.

Resource Considerations

The Board requested the analysis to include consideration of resource implications which have been incorporated into the respective annexes. However, it is important not to look at individual elements of GPE2025 but rather to look at the whole in terms of implications. While quantifying resource implications now is not possible as explained below, the Secretariat is

confident that we can maintain operating expenses within the 5-7% of total disbursements range in line with guidance agreed by the Board.

Work is ongoing in the Secretariat with respect to what it will take to deliver GPE2025 and for GPE to be consistently disbursing at least US\$1 billion per year in line with the Case for Investment target of at least US\$5 billion for 2021-2025.

It is also important to recognize that the Secretariat has invested significant time and attention towards making our internal processes more efficient and has restructured to better prepare for the challenges that lie ahead. Such efforts will continue.

There are several important issues that will impact this assessment

Firstly – Secretariat workloads are heavily driven by Committee and Board expectations and significant time is spent in preparing documentation, responding to queries, and requests for additional analysis and explanations. The contrast between GPE’s ability to approve and disburse more than 60 COVID grants this year worth over US\$500m when granted delegated authority compared to the time it takes to work through Committee approval processes is stark. The impact of the Governance review and decisions related to approval processes for the operating model will play a key role in determining resource implications.

Secondly – the new operating model is untested and the early experiences in rolling it out in 2021 will be important to gain a solid understanding of what it will take to successfully deliver in all eligible countries and to identify opportunities to further reduce transaction costs.

Thirdly – The success of the financing conference will not be known until July 2021 and will have a direct impact on allocations and the number of countries that can access the Multiplier. A successful financing campaign will see a lift in funding for most countries and correspondingly a poor outcome may result in the need to prioritize resources which could limit access and would limit resource needs in the Secretariat.

Of course, we do not know what the unknowns are that could arise over the 2021-2025 period. For example – the emergence of COVID and the need to develop a rapid response required a significant increase in workloads beyond sustainable levels for a large number of staff over a period of several months, and therefore we will need to continue to have an agile approach where staff and budget can be redeployed quickly to emerging priorities. There are important lessons in our COVID response including rapid Board decision making,

delegation to the Secretariat, strong coordination with Grant Agents, use of online collaboration tools, and cross-Secretariat task teams bringing multi-disciplinary expertise to bear on a specific challenge.

However, there are several issues which we can anticipate at this stage even if we can't quantify resource implications with precision. These include:

- A 5-year funding cycle will allow us to smooth out workloads to some degree by ensuring countries have allocations that should be applied for within designated periods (e.g. 2021/2022 for countries with expiring grants, 2022/2023, and 2023/2024). This will assist in managing workloads of teams involved in supporting grant applications.
- With a large and active grant portfolio and the need to have a greater focus on monitoring performance, country engagement, and mobilizing partners, there will either need to be greater efficiencies generated on proposal development processes to free up time, or an increase in resources.
- Grant workloads are expected to remain high with Multiplier eligibility in all countries, systems capacity grants having a greater scope, and more flexibility in when applications are received.
- The ability to mobilize the partnership in terms of resources and capabilities will bring important benefits particularly at country level but will require an investment in staff time to cultivate relationships, support the necessary agreements, administer the agreements and manage relationships and ongoing country engagement and policy dialogue. .
- Investments in information systems and automation of processes will bring efficiencies over time to limit costs but requires an investment in time and money to develop them.
- Support functions need to be well staffed as underinvestment in such areas over the past few years means more technical staff and management time are deployed to lower value activities.
- Cultivating more organizations to act as Grant Agent takes time and effort to accredit and support but is a worthwhile investment that can provide DCPs with greater options to meet their needs.
- Investments in thematic expertise will strengthen the uptake of evidence in GPE's country engagement and funding, enhancing the likelihood of success for the system transformation approach.
- A successful financing campaign also brings its own pressure in terms of profile of GPE, demands from partners, media, and the public not to mention higher funding

levels. This will increase workload across teams notably in the Executive Office, Results & Performance, External Relations, and Finance and Grant Operations.

Over the coming weeks, the Secretariat will:

- Refine assumptions based on the operating model feedback
- Identify people, process, technology and other needs of the Secretariat
- Consider budget implications
- Identify partner needs/considerations/fit
- Identify constraints, risks, and mitigation strategies
- Begin addressing needs that can be addressed prior to finalization of the operating model

It is important to also note that a successful financing campaign will lead to an increase in overall resources for the GPE Fund, and while there will undoubtedly be a need for increased investment in operating expenses, there should not be any reason for that to exceed the existing guidance of 5–7% of total disbursements from the GPE Fund.

The progress on these efforts will be discussed with the Board in December.

Annex 1 – Debt Forgiveness for Education

A debt forgiveness operation (DFO) converts a current or future loan to a GPE partner country into an investment in education. The creditor (lender) forgives the loan in exchange for increased education spending. This lowers the debtor (borrower) country's debt burden and increases overall resources for the sector.

As such, a DFO is a supplemental way for development partners to increase spending on education. This modality complements other types of education financing and supports the partnership's country-level objective to "Mobilize coordinated action and financing to enable transformative change" (BOD/2020/06-04).

There are many approaches to DFOs. Specific details depend on the context and participants. Three main models are congruent with GPE's operating model:

- **A:** a borrower and lender agree that some value of outstanding debt will be written off if the borrower spends more on education. The borrower increases domestic spending on education. The value of the additional spending on education enables the borrower to unlock a Multiplier allocation.

Example: Lender A agrees to cancel US\$75 million of an outstanding loan to Borrower Country B in exchange for Borrower B committing to increase domestic education spending / investments by US\$45 million. This in turn allows Borrower B to access US\$15 million from GPE through the Multiplier (based on the 3:1 additional co-financing requirement). The agreement is between the Borrower and Lender. There is no GPE involvement other than confirming that the agreement stipulates the increased education investment as evidence to trigger the Multiplier. GPE records the funding mobilized as leveraged funding for education.

- **B:** as above, with the addition that the lender stipulates that the resources should be invested through the GPE Fund to ensure funds are used effectively with due safeguards and monitoring and evaluation. The borrower contributes the funds to GPE like any other contributor except they are counted as a contribution to GPE on behalf of the lender. The borrower receives the equivalent amount back through a top up to an implementation grant (the systems transformation grant and / or the Multiplier).

Example: Lender A cancels US\$75 million of an outstanding loan to Borrower Country B in exchange for Borrower B committing to increase education investments by US\$45 million. Both countries agree that the investment must be made through the GPE Fund. Borrower B signs a standard donor contribution agreement with the GPE Trustee to make the payments

to the GPE Fund over an agreed number of years. These payments will be publicly recorded in GPE documents as a contribution from Borrower Country B on behalf of Lender A. In return, GPE provides a US\$60 million allocation to Borrower B (US\$45 million contribution and an additional US\$15 million from the Multiplier).

- C: as above, with the addition that a lender agrees to write off outstanding debt if specific targets are achieved. (A third party might commit to repay the lender if the targets are achieved.) The expected value of debt forgiveness can be used to secure a Multiplier allocation, which is committed when the debt is forgiven.

Example: Lender A agrees to cancel a loan of US\$ 75 million if Borrower B achieves pre-agreed levels of progress in specific indicators, for example the number of marginalized children completing primary school. (Lender A might be paid for this by a third party, for example Foundation C). The value of debt expected to be forgiven can be used to secure a Multiplier allocation. The allocation is only committed when the debt is forgiven. GPE reports the funding mobilized as leveraged funding for education.

These approaches could increase a country's allocation and / or enable a country to access the Multiplier but they do not create a new grant instrument or mechanism. Implementing any resulting funding mobilized through existing GPE instruments will keep transaction costs low.

Because DFOs are agreed between borrowers and lenders, GPE would support these operations opportunistically as they arise.

This document explains the broader context, sets out how DFOs can be integrated into GPE grant instruments, identifies potential transaction costs, and examines relevant risks and risk mitigation strategies.

Context

Forecasts indicate that the 2020 Coronavirus outbreak will cause a global recession. The net effect will be to shrink tax bases in many partner countries, reducing government resource mobilization and constraining spending, including for education. At the same time, given shrinking economies, the volume of overseas development assistance is likely to be lower than in previous years and could prioritize other sectors. Cumulatively, governments in many GPE-eligible countries will generally raise fewer resources which could be mobilized for education systems and are likely to receive less in foreign aid.

In this context, it is particularly valuable to reduce borrowing countries' liabilities, as well as investigate new ways for development partners to mobilize critical support for education. In the short term, debt service--the sum of interest and principal repayments--is the relevant metric, rather than the total level of outstanding debt. A country's total borrowing costs

comprise payments from the public sector (repayments on loans governments have taken on or on loans that government-backed firms have taken on) and the private sector (repayments on loans to firms). Since the private sector would not otherwise be spending its money on public education, we should focus on the public sector's debt service.

A simple but useful measure from the education sector's perspective is the ratio of debt service on public sector (government and / or other national authority) borrowing to annual education spending. This tells us how much of a year's education budget a government could pay for using what it spends in annual debt service. For the 75 GPE-eligible countries for which we have data on debt service and government education spending, 30 (over four in 10) spent the equivalent of half or more of their annual education budgets servicing public sector debt in the most recent year for which data is available. Twenty-one of these 30 are low-income countries (LICs), or small island / landlocked developing states.¹

In GPE-eligible LICs, government repayments to overseas multilateral and bilateral creditors account for more than 52% of annual debt service costs. The implication is that rescheduling or forgiving debt owed to such donors could have a large effect on poorest countries' debt service obligations.

Fit with GPE's operating model

A DFO requires a creditor country (lender) to agree to write-off (forgive) all or a portion of an existing or future loan. In exchange for agreeing to forgive the full value or a share of the loan, the creditor can request that the borrowing country or a third-party increases spending on education in the borrowing country.

Because designing and monitoring effective education programs is challenging, the creditor would require that the increased spending is implemented through GPE. This ensures that the money is used in support of an evidence-based approach to achieve transformational change.

From the perspective of country-level programming, the result of a debt forgiveness operation is simply additional funding to enable transformative change. As with all resources committed by GPE, grants mobilized by a DFO and invested through GPE would meet all quality-assurance standards and be subject to all risk mitigation strategies, including policies on the misuse of funds and the private sector engagement policy. As with other resources, grants from GPE will be implemented through a grant agent. (The grant

¹ World Bank. International Debt Statistics 2020. <https://data.worldbank.org/products/ids>. Accessed: September 3rd, 2020.

agent selection process does not need to be changed for resources mobilized through a DFO.)

To lower transaction costs and maximize impact, resources mobilized through a DFO would be combined to the greatest extent practicable with a country’s existing or future GPE grant. This would be done through increasing the size of a planned allocation or allowing additional financing to an already approved program. Because all countries eligible for GPE support are eligible for some form of education sector implementation funding, no new grant modality needs to be developed.

Because debt is held by single countries, DFOs mobilize resources for specific GPE partners. To account for this, GPE’s contributions & safeguard policy (CSP) would be adapted for the narrow case of targeting for debt forgiveness arrangements.

This is a transfer of resources, not a transfer of ownership of the debt. The intermediary (here, GPE) would only receive a transfer of funds from the borrower or a third-party. GPE would not take ownership of the loan at any point.

Based on these parameters, GPE would create operational guidance for three types of DFO:

Model	Summary	GPE’s role
A	The lender and borrower agree to cancel an outstanding loan on the condition the borrower increases domestic spending on education. The borrower increases domestic resources committed to education and does not transfer the funds through GPE. The increased contribution to education can be used to unlock the GPE Multiplier. The borrower could elect to transfer the increased funds off budget for implementation through the same grant agent /same program as other GPE grants, including the Multiplier.	<ul style="list-style-type: none"> - Providing operational guidance on the GPE’s grant modalities to borrower and lender countries pursuing debt forgiveness - Supporting debt forgiveness through convening to bring borrowers and lenders together as an element of enhanced convening - Reviewing and approving the request for a Multiplier allocation, where appropriate
B	The lender and borrower agree to cancel an outstanding loan on the condition the borrower increases domestic spending on education by	<i>As in Model A and:</i> <ul style="list-style-type: none"> - Accepting and redeploying resources

	investing through GPE. The borrower transfers an agreed level of funding to GPE. GPE disburses this funding in addition to any other grants the country can access through an enlarged overall allocation. The value of the transfer from the borrower to GPE can be used to unlock the Multiplier.	from the borrower in line with the agreement between the borrower and the lender
c	The lender and the borrower agree to a cancel / offset an outstanding or future loan based on improvements in education indicators. (This cancellation could be based on a contingent payment to the lender by a third party). The borrower can request the Multiplier to be allocated based on the expected future loan forgiveness. The Multiplier is only committed to the grant agent at the time the loan is forgiven.	<i>As in Model A and:</i> - Reviewing and approving the request to secure a Multiplier allocation contingent on expected future loan forgiveness

Value-add

As set out above, increasing debt burdens in low- and lower-middle income countries can crowd out national spending on critical social sectors, including education. As a global fund and partnership, GPE is well-placed to intermediate between lenders and country partners.

From the perspective of partner countries, reducing debt burdens raises overall fiscal space (by lowering the cost of future repayments on debt) and can therefore raise overall spending on education.

From the perspective of lenders, supporting debt forgiveness creates a further modality to support education and shared commitments to achieving SDG4. Requiring resources to be invested through GPE for implementation in the country benefiting from the DFO reduces transaction costs for both donors and recipients, and ensures the funds are invested effectively.

Some donors may be able to mobilize resources through debt forgiveness but not otherwise increase their contributions to the GPE core fund. A DFO would create a compelling fundraising offer for these countries. Safeguards would be put in place to ensure that such arrangements are additional to any core pledge to the GPE Fund from the respective donor.

Lessons learned from similar organizations

Debt swaps and analogous transactions have an extensive track record across multiple sectors (including health, education, and the environment), development partners

(including Development Assistance Committee members and multilateral institutions), and recipients (including both low- and lower middle-income countries).

While a comprehensive survey is beyond the scope of this document, select examples include: an agreement between France and Cameroon in 2006 liberated €60 million from debt repayments for the latter's education sector plan; in health, a ¥6.29 billion loan conversion for Polio eradication between Japan and Pakistan (with the Bill & Melinda Gates Foundation offsetting the loan's value) was agreed and met its eradication targets; in nutrition, a 2017 debt swap in which Russia forgave debt owed by Mozambique liberating US\$ 40 million that the country invested through the World Food Program.

Several global funds in GPE's peer group have developed and scaled up DFOs. Notably, The Global Fund to Fight AIDS, Tuberculosis and Malaria has a long-running debt swap modality in place. Most recently, the *Debt2Health* initiative mobilized more than €36 million for critical health interventions in Cameroon, the Democratic Republic of Congo and Ethiopia.²

The Secretariat and GPE Board explored DFOs in the 2016/2017 period as part of the work to develop the current Financing and Funding Framework (FFF). (Separately, the Education Commission also analyzed DFOs). The approach was deemed potentially significant and beneficial in 2017 but was not pursued because GPE's experience in innovative finance was limited at the time, and DFOs were likely to be of relevance in only a few places. The focus was to invest efforts on large-scale approaches like the Multiplier.

The Secretariat's analysis suggests that DFOs have a valuable role to play in mobilizing resources for global education if appropriate safeguards are in place to limit transaction costs and risks of distorting the GPE model. Circumstances have changed from 2017 which make this initiative potentially relevant to adopt now:

- GPE has successful experience in innovative financing approaches. The Multiplier is well-established.
- The economic environment as a result of global Coronavirus pandemic is challenging. All relevant avenues for mobilizing education investment should be available.
- The call particularly from Developing Country Partners to be flexible and adaptable to circumstances means that GPE should tailor its approach to opportunities and needs in individual countries, including those facing high debt

² "Spain, three African countries and the global fund launch new Debt2Health initiative." The Global Fund to Fight AIDS, Tuberculosis and Malaria. <https://www.theglobalfund.org/en/news/2017-11-29-spain-three-african-countries-and-the-global-fund-launch-new-debt2health-initiative/>.

burdens that are struggling to mobilize significant external resources for education.

- There is momentum around the topic of debt relief globally. This may stimulate opportunities, especially when combined with the recent decision by the OECD’s Development Assistance Committee (DAC) to count some forms of debt forgiveness as ODA-eligible.

Resource and risk considerations

GPE’s approach should account for several risks to maximize impact and minimize distortion and other downsides. The table below sets out the Secretariat’s analysis of relevant risks and proposed risk mitigation strategies to account for them.

Risk	Potential mitigation strategy
<p>Targeting risk. Donors are encouraged to invest through the GPE core fund which redistributes resources based on a transparent, needs-based formula. Debt forgiveness operations target a specific country.</p>	<p>Amend GPE’s contributions & safeguard policy (CSP) to enable targeting only in the narrow case of debt forgiveness.</p>
<p>Substitution: creditors (including donors) that hold bilateral debt are also encouraged to invest directly through the GPE core fund. For a debt swap to be additional, funding liberated by a debt reduction deal must supplement any commitments from the donor to GPE.</p>	<p>To encourage both types of contribution, GPE will track both and account for them separately. Cash contributions and cofinancing contributions, including funding mobilized through debt forgiveness, will be reported separately. Debt forgiveness will be additional to any commitments to the GPE core fund.</p>
<p>Displacement: In parallel to a substitution risk at the donor / global level, there is</p>	<p>GPE will clarify that funding transferred to GPE should be in addition to and separate from domestic resources. These will be recorded as a contribution</p>

<p>a risk that countries will score liberated funding as domestic resource mobilization.</p>	<p>by the creditor (lending) government, not the debtor.</p>
<p>Transaction cost: Analysis of previous debt forgiveness transactions by other actors or in other sectors indicates that transaction costs can be high for lenders and borrowers because arrangements are tailored to specific countries and negotiations can be prolonged.</p>	<p>GPE Secretariat-related transaction costs are expected to be low: as DFOs are bilaterally agreed between lenders and borrowers, and, where appropriate, GPE is facilitating a contribution through the GPE Fund and a grant allocation through existing mechanisms and processes. There is no new modality or instrument from GPE’s perspective.</p> <p>Time will need to be invested in explaining the modality to prospective creditors and borrowers and liaise between interested parties based on mutual interest. Based on relative payouts and transaction costs, the Secretariat would use its discretion as to whether to pursue transactions involving very low amounts.</p>

DFOs are a modality that would seek to mobilize further resources, and there are no resource implications for the GPE core fund. Implications for Secretariat capacity are modest and would be primarily based on demand for the approach which is not expected to be significant in terms of volume of transactions.

Annex 2 – Matching Fund to incentivize Non-Sovereign Donors

The strategic purpose behind a proposed one-to-one matching instrument is to provide greater incentives for non-sovereign donors (primarily foundations and business community) to engage directly in the partnership and contribute their resources (assets, expertise and funding) at global level and/or country level to support systems transformation. Cross-sector partnerships with the business and foundation communities will be focused on the development of solutions, innovations and learning partnerships that meet country needs and priorities.

The approach envisaged is a matching incentive using the GPE multiplier envelope as a source of cofinancing where for every US\$1 raised, or its in-kind equivalent, from the business community and private foundations, an additional US\$1 would be provided from the GPE Fund. Matching funds would come from the multiplier and contributions could be targeted to a specific country and/or thematic area, subject to the provisions of an updated contributions and safeguards policy (CSP) (BOD/2020/11/12 DOC 09).

There are currently two avenues proposed to trigger the matching fund with a potential third avenue to explore in 2021. In the first instance the matching incentive to help countries to access GPE's multiplier can be simply applied by reducing the additional co-financing threshold from US\$3 to US\$1 for grant funding or in-kind support provided by private foundations and the business community. To facilitate financial contributions, greater flexibility in the CSP is proposed to allow such contributors the ability if they wish to contribute directly to the GPE Fund and target their resources for specific countries to trigger the multiplier.

Secondly, Should the board approve the establishment of a thematic window for girls' education (BOD/2020/11/12 DOC 07), we recommend the use of matching funds for up to a maximum of 10% of the total target for the window (currently proposed at US\$250 million) to attract additional resources from non-sovereign donors on a 1:1 basis. Essentially such contributors can make contributions of up to US\$25 million to the GPE fund targeted to the window and the funds available will then be increased by a corresponding amount drawn from the overall multiplier envelope.

Thirdly, to strengthen GPE's enabling objective, a matching incentive may be beneficial to incentivize business partners and foundations to mobilize their strategic capabilities to support countries, and for raising finance for KIX and EOL. This element will be further explored as part of the ongoing work on the enabling objective and submitted for Board consideration in 2021

Background

While non-sovereign actors (business community and foundations) contribute to the GPE Fund and play an important role in other ways, the overall contributions to the GPE Fund from such entities are relatively very low compared to other major global funds. GPE's new strategy 2025 underlines the need to continue diversifying the GPE donor base, cultivate and strengthen existing relationships to help transform education systems fit for the 21st century.

A survey of GPE board members and other key stakeholders within the education sector, called for an adaptive and 'out-of-the-box' approach, that promotes innovations in delivery, scale & impact.

GPE is well positioned to marshal resources within the philanthropic and business community to explore new models of learning and prepare children for the future of work. GPE is also uniquely positioned to add value to social impact programs and facilitate the alignment between government priorities and corporate/philanthropic initiatives. These partnerships can make a pivotal difference in resolving bottlenecks that impede the delivery of quality education to millions of children.

For example, following the Education Data Solutions Roundtable, several business community partners expressed interest and commitment to work with GPE to strengthen data science, information technology and analytic capacities at country level. The COVID-19 pandemic also highlighted the significance of strengthening partnerships with the foundation and business community to build resilient education systems. Business and foundation partners have also expressed a willingness to work with GPE and partner governments to support holistic learning linked with labor market needs within the informal and formal sectors. To advance these partnerships and strengthen GPE's position as a partner of choice, necessitates the development of an incentive-based partnership mechanism that includes a streamlined decision-making process to sustain commitments and investments.

Benefits

- Significantly enhances the Secretariat's ability to engage non-sovereign actors in the Partnership at global or country level by having a tangible incentive combined with the flexibility for targeted finance that is not currently available under the existing contributions and safeguards policy. Many partner countries have already established relationships with such actors, but they have also flagged the opportunity for GPE to help broker agreements to bring such actors to the table.

- Positions GPE as an inclusive partner within the education and broader social sector. Noting other partners such as ECW, UNICEF and the Education Outcomes Fund have developed strategic partnerships with both communities, aligned with values of mutual interest.
- Diversifies the funding base whilst providing a clear mechanism and incentive for foundation and business community partners to invest at scale in the Partnership.
- Signals an interest to develop shared-value partnerships focused on sustainable solutions and models of alignment where the foundation and the business communities' assets and resources can be fully utilized within the education sector.
- Provides a clear pathway to leverage expertise and the comparative advantage of the business and foundation communities to address priority needs and learning opportunities through a differentiated approach to help transform education.
- Builds on positive existing experience in mobilizing resources from non-traditional donors. Notably, in The Gambia, where a foundation partner provided the necessary external financing to access the Multiplier and where a business community partner allocated expertise in-kind to clean up ten years of historical education management information systems data.
- Builds on demonstrated success of this approach in GPE's peer group of global funds, multi-stakeholder partnerships where business and philanthropic investments have been mobilized to catalyze innovations, test solutions and tackle systems change in support of national priorities.

Approach

The Secretariat will draw on its existing networks and develop new relationships with non-sovereign donors to mobilize resources (assets, expertise and funding) at global level and/or country level to support operational bottlenecks and strengthen system capacities to support Systems Transformation. Mobilized resources, where applicable, may enable countries to access the GPE Multiplier at a differential rate of US\$1 in Multiplier resources for each US\$1 sourced in cash and in-kind equivalent contributions.

Only financial contributions to the GPE Fund would trigger the match for the girls' education window if approved. The multiplier however may be triggered with in-kind contributions of at least US\$1 million subject to compliance with guidelines to be developed by the Secretariat for the valuation of such contributions.

All such contributions (financial or in-kind) and engagement with the business community will need to comply with the CSP, and any other relevant policies including those of the World Bank as host of the GPE Secretariat and Trustee to the GPE Fund. The Secretariat will consult with World Bank legal and/or the Trustee where necessary.

In-kind contributions (expertise/capabilities) through the mechanism as per the approved private sector engagement strategy, are expertise-based partnerships based on a shared-value principle that provides value to the country, GPE and business community partner. In-kind contributions will be limited to a small number of partnerships focused solely on system and capacity strengthening from reputable and socially responsible partners with long term commitments to education and social development. Given the need to streamline and manage transaction costs, the GPE Secretariat will not consider a mass product donation (e.g. laptops) as expertise-based partnerships for the purposes of unlocking the multiplier.

Lessons Learned

Over the last decade, a number of multilateral and development organizations have created strategies to incentivize the foundation and business communities to contribute financial or in-kind resources. For example, the Gavi Matching Fund attracted an additional USD \$111 million dollars to Gavi over a 4 year period, providing an ability for the Gavi to diversify its partnerships from a narrow focus (e.g. with vaccine manufacturers) to engaging a diverse pool of philanthropic and business community partners across multiple industries, sectors and regions to focus on operational challenges related to vaccine delivery. Key success factors include developing catalytic funding and programming approaches focused on co-creating solutions with a potential for sustainability and scalability.

Risk Mitigation

There are three potential risks to such an approach. The table below sets out risks identified by the Secretariat and risk mitigation strategies.

<i>Potential risk</i>	<i>Risk mitigation strategy</i>
Reputational risk if a disreputable partner provides co-financing through in-kind or financial support (for	The Secretariat will conduct due diligence as per the Multiplier requirements and business

example, if a partner that has behaved unethically or illegally seeks to provide co-financing)	engagement partnerships, for any potential source of private sector co-financing prior to determining the feasibility of a partnership.
Country-level coordination does not include relevant business community and foundation partners to identify needs, priorities and implementation plans.	The Secretariat will encourage the Government and Coordinating Agency to include interested business community and foundation partners as part of the country engagement framework and country level convenings.
Failure to deliver promised support from all parties (non-sovereign donor, country or implementing partner).	The Secretariat's Private Sector and Foundations team will take a lead on managing relationships in partnership with the Secretariat's country and finance teams and implementing partner.
Measurement risk from incorrectly valuing in-kind contributions (for example, if in-kind contributions are valued more highly than they should be, lowering the Multiplier's mobilization effect)	To encourage transparency, the Secretariat will review any statement of the value of in-kind support based on an agreed upon methodology between the Secretariat and partner.
<i>Quid pro quo</i> risk that a partner will require the government to use or purchase further services or goods as a condition of the contribution (for example, if a firm makes an in-kind contribution with the requirement the government or grant agent purchase follow-on services)	The Secretariat will apply the relevant existing GPE policies and guidelines, including GPE 'Corporate Engagement Principles' (2016) and 'Avoiding Conflicts of Interest: Guidelines for Business Engagement' (2016). Private sector co-financing will be required not to imply a quid pro quo for future purchasing.
<i>Crowding out</i> risk that enabling support from non-traditional donors at the local level could reduce mobilization effort	The Secretariat will maintain its advisory support to Local Education Groups to maximize the Multiplier's incentive effect

from external bilateral or multilateral partners.	by prioritizing larger, better-aligned, and / or better harmonized financing packages.
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Resource implications

The Secretariat’s Private Sector and Foundations team will take the lead on the engagement with the business and foundations communities. However, successful engagement will require working closely with other parts of the Secretariat, especially the Country Engagement and Policy team, and Finance and Grant Operations. The exact mix of resources will depend on the nature of the engagement. Whilst existing resources should be sufficient to manage a limited number of engagements per year, there’s a risk that engagements with high transaction costs could require re-allocating staff time in the short term. If the approach is very successful and demand is high, then further support would be required.

Annex 3 – Enhanced Convening

The strategic purpose behind the ‘Enhanced Convening’ resource mobilization approach is to harness external financial resources, know-how and political capital in order to engage and guide funders to deliver effective responses to Education sector needs behind DCP leadership. Essentially, the tool would crowd-in additional external resources to address the differentiated needs of countries in support of the transformation of education systems, and to ensure the delivery of a quality education fit for the 21st century.

The objective is to mobilize “more and better” support for an education intervention or policy change by targeting high-level decision-makers from a range of funding organizations and donors including and beyond those active in the LEG, including non-sovereign actors such as local and international business partners and foundations.

Please note, while this document only refers to efforts to mobilize resources from external sources, the approach will complement efforts to mobilize domestic resources. This includes through development of the Partner Compact, a focus on domestic financing commitments as part of the operating model, ongoing advocacy efforts, and engagement with the Ministry of Finance. Support for such efforts is an eligible activity in the System Capacity Grant (BOD/2020/11/12 DOC 05 Annex 1).

A convening operation of this type is fully consistent with GPE objective to “Mobilize coordinated action and financing to enable transformative change” through catalyzing more and better external funding for education. It would be fully complementary with the approach to the operating model particularly the development of the Partnership Compact, and incentives being proposed such as the matching fund, multiplier, and the provisions proposed in the contributions and safeguards policy. DCPs have supported and requested this support from GPE with the most recent consultation on October 8th noting

“The proposed approach of using the Compact to identify and drive co-financing and innovative financing discussions is far preferable and is an important way to encourage greater alignment.”

Background

The Board identified “Mobilize coordinated action and financing to enable transformative change” as a critical country-level objective in GPE’s 2021-2025 strategy.

Many DCPs face obstacles accessing external finance and aligning it behind national priorities. DCPs may lack the technical skills, convening ability or simply the bandwidth to pro-actively fundraise for education priorities, as identified by the government, national authorities and the local education group.

Potential donors that are new to the Education field or don't have established relationships in a country of interest may face difficulties hindering their abilities to engage in the sector. Emerging donors, including non-sovereign donors, might lack knowledge, access, direct contacts, and in some cases the ability to convene larger scale campaign to generate systematic and lasting change in the field of education. In cases of fragility and conflict, donors may shy away from engagement due to political sensitivity and security issues.

As the overall financing landscape is going to be challenging given the economic impact of COVID-19, GPE will maintain efforts to sustain and maximize resources for education, while improving the efficiency and effectiveness of how those resources are used.

One of GPE's core capabilities is to convene actors to generate financial and policy support in support of national priorities. GPE has a high comparative advantage for mobilizing resources to support national governments' priorities in strengthening national education systems and its ability to deliver quality learning.

While non-sovereign actors have provided contributions to the GPE Fund and play an important role in other ways, the overall resources contributed to the GPE Fund from such entities are extremely low compared to other major global funds.

Approach/integration into Operating Model

The approach for this engagement targeting financial mobilization would be a country- or issue-specific convening operation, owned by the government and supported by the GPE Secretariat using its expertise in resource mobilization.

In addition, an enhanced convening tool would harness the power of the collective through bringing know-how, expertise, political capital of various actors to bear within a limited geographic or thematic scope.

It is not envisaged that there would be enough opportunities or Secretariat resources to support these operations in every country. However, they could be supported in a select few countries based on opportunity, timing of GPE grant cycles, Secretariat bandwidth, and most importantly demand and commitment from developing country partners.

Enhanced Convening would be used to complement the proposed approach in the operating model of developing a Partnership Compact. The strategic purpose of the Compact is to elevate the partnership at the country-level to focus on specific system reform priorities, beyond GPE grants, and to align all partners' assets behind these priorities.

Any additional funds mobilized through this approach could be contributed through the GPE Fund and targeted to the country in the form of a grant per the proposed changes to the Contributions and Safeguards Policy. Alternatively, the contributor could work directly with

the Grant Agent to form part of a co-financing operation or develop their own program which would be aligned with national priorities.

The recommended approach builds on the detailed analytical work done (with Committee and Board review) to develop the Education Sector Investment Case (ESIC) model. ESIC is a “pitch” that uses the education sector plan (ESP) to identify an area or underfunded priority issue and make the case for support. ESIC’s development was based on “supply side” analysis of a range of traditional and non-traditional donors about what would help to shift their investment decisions. An ESIC pilot is currently underway and is showing very promising initial results.³

To ensure value-add, it would be critical that the request for a convening operation be made by the Government and build on or supplement LEG-level discussions, for example by involving more and different potential funders, particularly those not active in education in the country or not yet active in the country.

Country capacity to plan and lead a convening operation could be strengthened by including specific activities in a System Capacity Grant. The SCG aims to strengthen country education system capacity to develop and implement policies and programs and could also be applied to build capacity of the country to mobilize the necessary resources. Through the SCG, support for engagement with Ministry of Finance and national budget processes are also eligible and therefore there is room for the enhanced convening approach to complement such efforts.

Enhanced Convening operations will promote the use of GPE’s Multiplier and the newly proposed Matching Funds for non-sovereign donors as tools to crowd-in additional resources.

Benefits/Added Value

The opportunity to mobilize additional resources in support of GPE2025 through a resource mobilization tool such as ‘Enhanced Convening’ is significant, including resources from non-sovereign actors (primarily business partners and private foundations).

³ GPE secretariat piloted the ESIC approach with the Qatari foundation Education Above All/Educate A Child (EAA/EAC) in Somalia. EAA/EAC confirmed to the Secretariat that they are currently in the negotiations phase of funding requests submitted by GPE grant agents in Somalia. The proposals were based on ESIC pitches developed by the Secretariat. Recently, EAA/EAC has expressed interest in exploring other countries to jointly roll out ESIC.

Through its government-led approach to supporting local education sectors, GPE is in an ideal position to help donors, including foundations and the business community to establish and strengthen relationships with respective education officials and circles.

GPE’s experience hosting replenishment pledging conferences and its connection with local education partners denote the strong expertise the secretariat has to successfully help countries or regions to realizing financing conferences to support education.

A wealth of knowledge: with its history of working directly with government and partners on the ground, GPE has a robust understanding of the needs DCP partners in the education sector. Building upon the recently piloted Education Sector Investment Case (ESIC), GPE can ensure that investment opportunities presented to donors at mobilization conferences are based on robust evidence and offer high value for money, leading to large impact.

Innovation: GPE operates the largest fund dedicated to Knowledge and Innovation (KIX) in Education globally. A GPE convening role will be centered around pitches that take into consideration relevant evidence and actionable research from KIX encourages donors/DCP to support implementation and scaling up.

GPE Convening ability: a strong international network of Donors engaged through a highly professional team of External Relations experts that could be deployed conservatively in between major replenishment surges.

Tools and resources: operationalizing a GPE convening tool would contribute to availing more financing to DCP countries through unlocking the multiplier; or other innovative finance tools being envisaged as part of the GPE2025 strategy/operating model.

Lessons Learned

While there are plenty of examples of issues of country specific pledging events (usually in response to crisis situations) that can inform operational and logistical considerations, the overall approach being proposed is somewhat different in that the GPE Secretariat would be working closely with the Government to develop a campaign and/or event to mobilize resources behind its own national priorities. The proposed approach to roll this out in up to three countries in FY22 will be expected to generate significant lessons that can determine the future of this approach.

Risk Mitigation

Potential risk	Risk mitigation strategy
Reputational risk if a disreputable partner provides additional resources (for example, if a partner	The Secretariat will conduct due diligence on any potential source of non-sovereign donors and especially the private sector

that has behaved unethically seeks to provide co-financing)	funding prior to determining the feasibility of a contribution.
<i>Crowding out</i> risk that enabling support from non-traditional donors at the local level could reduce mobilization effort from external bilateral or multilateral partners.	The Secretariat will maintain its advisory support to Local Education Groups to maximize the Multiplier’s incentive effect by prioritizing larger, better-aligned, and / or better harmonized financing packages.
Transaction costs	The Secretariat proposes to pilot this approach in FY22 (July 2021 – June 2022) in no more than 3 countries and will seek to limit the costs involved to the extent possible by piggybacking on any planned events, aligning with existing processes in country to develop the Partnership Compact and Systems Transformation Grant and relying on in-house capacity.
Operation within fragile and politically sensitive contexts:	GPE maintaining neutrality and inclusivity at all times.
Threatening the partnership approach with donor governments taking the lead.	Donor governments taking the lead in initiating a request for an enhanced convening option. Should a donor government request the option, then GPE Secretariat will ensure DCPs are involved in the process of setting priority areas.

Resource Implications

It is expected that with the financing campaign concluded, elements of the Secretariat’s External Relations Team can be redeployed to the extent practicable to support this approach. Resource implications will depend on the scope and scale of the campaign/event which will be tailored to specific country circumstances. A provision will be included in the FY22 OPEX budget for Board consideration to conduct up to three such operations on a pilot basis. Depending on the results, the Board can decide whether to continue such an approach in FY23 and beyond along with the related level of ambition and investment.

Annex 4 – Frontloading Co-financing

GPE’s Board of Directors has determined to allocate up to 20% of available grant resources to the GPE Multiplier (BOD/2020/09-02) in the 2021 – 2025 period.

Evidence from stakeholder consultations and the Independent Summative Evaluation (ISE) shows that the Multiplier has gained traction, but some countries struggled to access the grant due to the time, complexity, and transaction cost of sourcing and agreeing additional external funding with potential cofinancing partners.

GPE can explore securing significant additional cofinancing for a large group of eligible countries right away.

This funding would be available to a large group of countries right away as one potential approach to unlocking their Multiplier allocations. The total level of cofinancing would be significantly above the baseline of US\$ 3 in external finance for each US\$ 1 in GPE grants. The goal of the approach is to help mobilize a larger overall volume of resources and help ensure they are available for countries that could otherwise struggle to mobilize the Multiplier.

To do this, a share of funding allocated to the Multiplier would be pre-allocated to an external partner on the condition that the partner commits significant cofinancing to a large number of jointly eligible countries. (For example, at a rate of US\$ 4 – US\$ 5 to US\$ 1, exceeding the US\$ 3 to US\$ 1 requirement for other types of cofinancing).

This would give a partner access to GPE resources on the condition they mobilize significant funding. The partner would deploy these instruments as the grant agent with due consideration of the level of concessionality and borrowers’ debt sustainability, and in accordance with GPE’s operational model, quality assurance procedures and safeguards. **Countries would not be required to use their Multiplier funding with this partner but could choose to do so. Similarly, countries could freely use other grant agents for other GPE grants. The approach would simply seek to create a further, “premobilized” source of cofinancing for eligible and willing countries that seek to take it up.**

This approach has the potential to address a major transaction cost in deploying Multiplier resources and would create a significant new source of funding for education. From GPE’s perspective, this could be tested using a modest share of the overall Multiplier envelope in exchange for a higher return on investment. For example, a 4:1 mobilization requirement implies that US\$ 100 million GPE resources would mobilize US\$ 500 million in total resources. If practicable, other partners could jointly participate, mobilizing further cofinancing or grant funds.

Subject to the Board’s review and approval, the next steps are for the Secretariat to identify potential partners based on fit, ability to provide funding consistent with GPE’s requirements

and model, and ability to mobilize significant additional funding immediately. The Secretariat and potential partners would jointly develop an operational model for final approval by the Board in 2021.

Amongst others, the Islamic Development Bank has expressed high-level interest in pursuing such an opportunity by leveraging both its own capital and by using its convening power to attract further potential partners to such an arrangement. Thirty six (36) countries were jointly eligible for IsDB and GPE resources during the current (2018–2020) strategic plan implementation period, of which 19 were Low-Income Countries. It is therefore likely that an initial US\$100 million investment from the Multiplier to mobilize significant further cofinancing would be fully absorbed by a small sub-set of these countries, particularly those that might otherwise struggle to attract additional cofinancing for education.

Fit with GPE's Operating Model

GPE would earmark a fixed level of grant capital to a partner seeking to deploy concessional lending. The partner would commit to providing significant additional resources to eligible countries at a lower cost (that is, with a larger *grant element*). It would act as GPE's grant agent for resulting programs.

Country partners would be free to choose other grant agents for their other GPE grants, including sourcing co-financing to unlock the Multiplier from other partners. Financing mobilized through the facility would simply be one further GPE-consistent instrument that countries could choose to take up in order to meet the additional co-financing requirements of the Multiplier. Therefore, eligible countries would not be placed at a disadvantage but would rather have additional choice and a ready-made path to access the Multiplier. This could be particularly beneficial for countries that struggled to find additional co-financing.

GPE's funds would be drawn down as the pipeline of education-focused products is committed. The parties would agree on levels of education lending from the cofinancing partner above historical benchmarks to ensure GPE's resources subsidize *additional* resource mobilization (lending that is unlikely to have occurred without the subsidy) from the partner. To ensure the resulting additional resources are used effectively, programs would be fully consistent with GPE's funding model requirements. They would be jointly quality assured by the Secretariat and the partner's project teams to ensure that they are effective, in line with the current approach to cofinancing.

This will increase resource mobilization for education. From GPE's perspective, this approach would facilitate larger overall programs in eligible countries than could otherwise be achieved if these grants were used directly without blending. From the partner's perspective,

lowering the cost of investment to the client would increase demand, growing the organization's pipeline and portfolio.

GPE has an established track record in using grants to facilitate increased investments through the GPE Multiplier, an innovative finance window which provides US\$ 1 in resources for every US\$ 3 mobilized in new external support for education.

Developing such a facility, particularly with a regional development bank such as IsDB, may also open the door to further investment from regional financiers which could unlock even larger sums for education from previously untapped sources.

Value add

Overall levels of resource allocation to education will not be sufficient to meet shared commitments to SDG 4. GPE's Board reaffirmed the Partnership's commitment to supporting Partner countries to realize this Goal in December 2020.

Funding and technical support from external actors play a critical role in achieving gains in access and learning. Relatively low levels of international investment in education reflect the perceived costs of investing in education compared to the benefits. For example, a recent report surveyed World Bank clients and country directors and concluded that the principal reason that governments are reluctant to invest non-concessional/ordinary lending in education is competition from sectors "with clearer cash flow."⁴

Lowering the cost of external support from external financing partners like Multilateral and Regional Development Banks (M/RDBs) will encourage governments to use larger shares of their non-concessional/ordinary resource allocations for the education sector. However, this will not, on its own, increase the social and fiscal returns from those investments. To that end, ensuring that the loans are invested in effective and accountable programs is critical.

A facility to frontload Multiplier cofinancing would address both constraints. First, it would increase demand by both lowering the price of ordinary lending to client government. Second, it would raise the resulting programs' effectiveness (and so social and fiscal returns) by leveraging collective technical expertise in program development, design, implementation and monitoring.

⁴ "Enhancing Multilateral Loans for Education Intervention Rationales, Mechanisms, Options and Decision Criteria." Andrew Rogerson and Maria Ana Jalles d'Orey. Overseas Development Institute (ODI). November 2016. <https://www.odi.org/publications/10635-enhancing-multilateral-loans-education-intervention-rationales-mechanisms-options-and-decision>.

Lessons Learned from Similar Organizations

Other comparable facilities exist. They operate either by lowering the cost of M/RDB products by adding grants to non-concessional loans, or by offering concessional loans with larger grant elements integrated into them.

The GPE Multiplier grant is an example of the former approach. Consultations for the GPE 2025 strategy indicate that stakeholders, including DCP representatives and cofinancing partners, value the Multiplier's flexible design. However, partners also indicated concerns with the difficulty of sourcing and securing additional cofinancing required to access the Multiplier.

The Islamic Development Bank's Lives and Livelihoods Fund (LLF) is one example of the latter. The US\$ 2.5 Billion facility combines grants from a range of development partners with lending from the IsDB. Clients agree to access the resulting blended instruments on different terms depending on their income status / classification, with larger grant elements for lower-income countries and / or those with greater debt sustainability challenges.

Another relevant comparator for this approach to frontloading cofinancing is the International Financing Facility for Education (IFFEd), originally proposed by the Education Commission and currently being operationalized. IFFEd seeks to increase lending for education from R/MDBs by combining credit guarantees from donors to mobilize new lending with grants to lower the interest payments on these loans to the levels of World Bank IDA.

IFFEd's design calls for it to be an "upstream" financing facility. Countries would interact directly with the R/MDBs that offer loans enabled by the entity, rather than with a new agency or institution. (The development banks will apply their standard procedures, lending terms, and safeguards). The facility aims to work through an initial group of Development Banks comprised of the World Bank, the Asian Development Bank (ADB), the African Development Bank (AfDB), and the Inter-American Development Bank (IADB).

There is likely to be additional demand for education investment that cannot be satisfied through IFFEd alone (especially amongst low-income countries that are not eligible for loans mobilized by IFFEd). Countries accessing lending would also be eligible for support through the facility discussed here, enabling clients to maximize their flow of concessional resources to education. As set out above, GPE already closely works with M/RDBs through the Multiplier grant facility.

Existing approaches would not secure substantial cofinancing in advance for countries that might otherwise struggle to do so. The proposed approach would earmark a share of Multiplier grant funding on the condition a cofinancing partner commits a significant amount of financing targeting a large number of jointly-eligible countries.

Risk Considerations

Risk	Potential mitigation strategy
<p>No net increase in cofinancing. The cofinancing partner might not increase resource mobilization for education beyond what it would do without the pre-allocated grant finance from GPE.</p>	<p>Require that the institution selected as a partner agree to a generous cofinancing ratio, above the minimum required to access the Multiplier (for example US\$ 4 to US\$ 1 rather than US\$ 3 to US\$ 1). Furthermore, require that the partner increases resource mobilization for education above a relevant historical benchmark level as a result of the facility.</p>
<p>Crowding out. Countries might face reduced choice in terms of grant agents.</p>	<p>The instrument will be only one type of GPE financing available. Countries would be eligible for all other GPE grants, including GPE Multiplier funding. Other GPE grants can be implemented by any accredited Grant Agent. A country would have the choice to access the Multiplier through this facility or work to source its own co-financing from an alternative partner and choose a different Grant Agent.</p>
<p>Debt sustainability. The resulting instrument may be a concessional loan.</p>	<p>Require that the resulting instrument is deployed in accordance with international best practice regarding the sustainability of public borrowing, including relevant internationally agreed safeguards and any limits on public borrowing that are in place.</p>
<p>Excessive targeting. Countries would be eligible for both GPE and partner institution resources.</p>	<p>To ensure that resources are not excessively targeted, the partner institution will be required to have a sufficiently broad geographic eligibility, covering a large number of GPE-eligible countries.</p>
<p>Displacement. The resources would be drawn from the overall Multiplier</p>	<p>The approach would increase and pre-agree cofinancing using Multiplier grants for a large group of countries. To further limit any resulting risks, GPE's contribution would be capped at a</p>

allocation, potentially reducing resources available for countries.	highly conservative level (for example, 11% of total Multiplier funds / and just 2% of overall funds under the base case financing campaign target of US\$5 billion).
Consistency. Committing funds through a partner organization may lead to resources being used in a manner inconsistent with the Systems Transformation Approach	The combined financing instrument would be required to meet GPE’s funding model requirements, including all GPE quality assurance standards and be fully consistent with safeguards, such as GPE’s private sector policy and the policy governing misuse of funds.

Resource Considerations

To ensure a meaningful level of joint resource mobilization through frontloaded cofinancing, GPE could commit up to US\$ 100 million of resources earmarked for Multiplier grants (up to 20% of total grants), which is equivalent to just 2% of the Financing Campaign base target of “at least US\$5 billion”.

A relevant cofinancing partner would then be identified using a transparent process to ensure a high-level of overall joint resource mobilization for education, fit with GPE’s operating model, and ability to successfully commit and implement high-quality education programs. Subject to traction and interest, it may also be possible to facilitate further grant investments from other partners, including foundations or other non-traditional donors.

Resource implications for the Secretariat are primarily linked to the overall scale up in the multiplier with the need for more intensive effort in the design phase being compensated by greater efficiencies in supporting individual countries access the Multiplier over the following years.

Next steps

Based on the Board’s review, the Secretariat would explore the feasibility, operational approach, cost, and impact of a frontloading approach with a range of potential partners. An operational proposal would be shared with the Finance and Risk Committee and the Board for review and, if deemed appropriate, endorsement.

The Islamic Development Bank (IsDB) has expressed high-level interest in collaborating with GPE on a frontloaded financing approach.

Annex 5: Enabling Conditions & Safeguards for Impact Bonds and Outcomes Financing

The Board requested the Secretariat to analyze the appropriate use of impact bond modalities and potential engagement with the Education Outcomes Fund (BOD/2020/09-02).

Stakeholder consultations and Secretariat dialogue with countries indicates interest in confirming that funds can be used for innovative types of results-based finance (RBF), including impact bonds. For example, a country in Central Asia sought to use GPE funding for a Development Impact Bond (DIB) and a country in Sub-Saharan Africa sought resources to support an outcomes fund to improve learning quality.

Separately, the Education Commission recommended the establishment of the Education Outcomes Fund (EOF) to support governments to develop, fundraise for, and deploy these approaches. EOF is now operational as a UNICEF-based trust fund. It is the only global institution exclusively focused on technical support and resource mobilization for RBF in education.

The Secretariat analyzed potential RBF structures, including impact bonds, to respond to the Board's instruction. The Secretariat's conclusion is that such Instruments are already compatible with GPE's operating model and approach for the 2021-2025 financing period if countries choose to use their GPE funds in this way. Specifically, the *fixed part* of GPE grants can be used to support upfront payments for implementation, as it already does. Similarly, the *variable part* of GPE grants is already used to support outcomes payments. To ensure compatibility with GPE's private sector strategy, the Secretariat recommends a modest tightening of safeguards to specify that GPE funds can only be used to pay for reasonable program costs, not excess payments above cost to external funders.

In addition, the GPE may benefit from expanding the range of coordinated technical support it can offer to countries seeking to implement RBF approaches. In line with the proposed approach to *strategic capabilities* (BOD/2020/11/12 DOC 05 Annex 4), the delivery of technical know-how and other types of support can be sourced through closer coordination and partnerships with relevant entities.

A coordination framework with the Education Outcomes Fund (EOF) could seek to create such a strategic capability by enabling more coherence and alignment of EOF's work with GPE programming, harmonizing the aid architecture for education, and facilitating overall resource mobilization for the sector. It would not involve hosting EOF within GPE nor would it involve GPE setting up a new impact bond mechanism. Approval would mandate the Secretariat to explore a proposed partnership framework in 2021 in accordance with the parameters agreed for the Strategic Capabilities (BOD/2020/11/12 DOC 05 Annex 4) for appropriate review and potentially Board approval

Background

An outcomes funding approach provides working capital or justifies the allocation of working capital for implementation by ensuring that funders pay out for successful outcomes. There are at least two participants: an implementer and outcomes payer. The actors agree on conditions that trigger disbursement. For example, these might be growth in enrollment levels or an increase in value-added literacy and numeracy scores. Specific subpopulations may be the focus, such as girls or marginalized children.⁵

A development impact bond (DIB) is an outcomes-based funding arrangement in which a third-party (investor) pays the upfront costs of implementation by the implementing agency. The investor is repaid by an outcomes payer if pre-agreed results are achieved⁶. A government or national authority could take on any of these roles (paying up front, implementing, or paying only for results).

These approaches can align participants' incentives to support the intervention. They also free the implementing organization to innovate, because the contract is based on outcomes rather than inputs.

The Education Commission identified outcomes funding modalities and impact bonds as a complementary solution to address the learning crisis. The Commission catalyzed the creation of the Education Outcomes Fund (EOF). The EOF supports governments to develop and implement a full range of results-based financing to improve outcomes and mobilize funding from non-traditional donors.

Fit with GPE's operational model: using GPE funds

GPE's grants include components that support the upfront costs of interventions ("Fixed" allocation) and an outcomes-based payment that is disbursed if pre-agreed results are demonstrated ("Variable" allocation).

Specifically, the *fixed* allocation is paid upfront and would be the equivalent to GPE playing the role of an investor by providing the working capital. Should results be achieved using these resources, an outcomes payer could pay the Government. An alternative approach

⁵ Outcomes funding approaches may have more actors and additional forms of financing. For example, a multilateral agency might agree to support an after-school program for marginalized children and fund this intervention out of its own working capital. If the afterschool program is effective in raising outcomes (for example, literacy and numeracy), the government might pay the implementing agency for these successes based on the pre-agreed contract.

⁶ A Social Impact Bond (SIB) is a DIB in which the outcomes payer is the public sector, like a local or national government actor.

would use the *variable part* and requires countries to commit to transformative strategies to strengthen their education sector and use performance-based indicators to trigger disbursement if targets are met. The variable part has to account for at least 30% (and up to 100%) of implementation grants above a certain threshold (currently US\$ 10 million). In this case a third-party investor may be providing the working capital that allows the variable part indicator to be achieved. If results are achieved, the variable part would be paid to the Grant Agent per normal arrangements, and the Grant Agent would in turn transfer the funds to the investor. Such an arrangement would require a safeguard that the payments using GPE funds to the investor if not the Government would be limited to actual investment costs. Any premium to the investor would need to come from an alternative source of funds (e.g. EOF). In both cases, the use of grants must be consistent with quality assurance processes and safeguards.

From a policy perspective, the use of such arrangements are possible, however it should be recognized that there would be a level of complexity that would need to be addressed in the design phase, and therefore the GPE approach in such circumstances would be to support any demand from DCPs to explore such arrangements, however the Secretariat would not actively promote them.

Fit with GPE's Operational Model: Strategic Capability in Results-Based Financing

In addition to putting in place relevant safeguards detailed above, GPE can explore a partnership framework with the Education Outcomes Fund (EOF). The partnership approach would create a *strategic capability* for results-based financing in partner countries (BOD/2020/11/12 DOC 05 Annex 4). This would not entail EOF being housed at GPE. EOF would remain fully independent.

For example, a country might identify literacy amongst girls from low-income families as a key indicator to improve. It may seek technical assistance in defining relevant measurements, contracting for delivery (for example, between the Ministry of Education and provincial governments), or managing payments. The GPE Secretariat may not have the full range of this expertise in-house. Developing it would require increased headcount and reduced specialization. GPE could instead respond to this country-level demand by leveraging its partnership with EOF. This would ensure information sharing, coordination in jointly eligible countries, and appropriate use of GPE grants.

Value-Add

First, ensuring that GPE grants can be used in this way would reflect DCP voice and ownership by responding to requests for GPE funding to be used through these modalities. It would also help to ensure that outcomes-based modalities are used for systems transformation in line with GPE's broader 2021-2025 strategy.

Second, it may increase resources for education as GPE's engagement may facilitate further resource mobilization from non-traditional donors like philanthropic foundations that are eager to invest in outcomes-focused approaches. (In the case of the EOF, a number of foundations that are key investors are also active members of GPE's Private Foundations constituency). This would supplement resources from existing donors and harmonize fundraising efforts.

Third, using GPE funds in these modalities can ensure national ownership and capacity for negotiating and agreeing outcomes-based approaches. While implementation has varied, few outcomes-based approaches have been thoroughly validated through discussion with relevant Local Education Groups. GPE's investments in this area and potential collaboration with EOF would channel outcomes-focused resources through the GPE model, including partnership-based program design.

Fourth, it could lower the transaction cost for country partners. For example, an impact bond in Rajasthan, India, significantly raised learning outcomes and enrolment but involved complex contracting and negotiation. Mainstreaming results-based financing expertise through GPE's programming can build national capacity for developing and deploying these arrangements where appropriate and in line with relevant safeguards.

These approaches would only apply to the use of existing instruments. It would not create a new instrument or mechanism and it would not modify any other aspects of GPE's operating model.

Lessons Learned from Similar Organizations

Impact bonds and related instruments were considered as part of the 2016/2017 work to develop the current financing and funding framework. It was agreed at the time not to pursue them due to limited evidence of their traction in education, and concerns around high transaction costs for low value projectized investments instead of larger systemic / transformational change. It was determined that they should be examined in the future when there was more evidence available.

Since 2016, the landscape has changed. There is more evidence on impact bonds and related structures. There are 194 impact bonds across 33 countries, of which the vast majority (183) are social impact bonds in which a government or national authority is paying for outcomes. Twenty-two (22) of these are in the education sector. Coverage includes multiple low- and middle income countries, including India (3 active impact bonds), South

Africa (2), Cameroon (2), Colombia (2), Argentina (1), Cambodia (1), Kenya, Uganda (1), Mali, Nigeria & DRC (1), Myanmar (1), Palestine (2), and Peru (1).⁷

Impact bond approaches in education in lower-resource settings have also demonstrated further results. The Educate Girls development impact bond in Rajasthan, India, mentioned above exceeded its targets on improved learning outcomes (nearly 80% higher) and enrolment of out-of-school girls (116% higher); the Quality Education India Development arrangement has increased the number of children achieving target learning outcomes by nearly one-third; the World Bank has launched a DIB to improve access and quality of early childhood education in in Uzbekistan.

Finally, with the launch of EOF, there is a dedicated actor within the education architecture focused on these issues, along with growing interest from some GPE developing country partners.

Risk Considerations

Risk	Potential mitigation strategy
Appropriate private sector engagement. Some outcomes funding arrangements involve repaying investors with a premium.	Update operational guidance to ensure that GPE funds cannot be used to pay a premium but only reimburse investment costs. Another source of funds (e.g. EOF) would need to pay the premium. The updated guidance would also ensure that all grants using RBF modalities are consistent with the private sector policy.
Overemphasis on outcomes. With a fixed total grant envelope, a country’s decision to increase spending on outcomes implies lower up-front funding.	Ensuring congruence with GPE’s model will limit the risk of programming undue levels of resources through RBF. For example, in the 2018–2020 period, countries with grants of US\$ 10 million or higher were required to allocate 30% or more through RBF (the Variable Part). Some countries elected to

⁷ Brookings Impact Bonds Snapshot – September 1, 2020. Brookings Institution Global Impact Bond Database. <https://www.brookings.edu/wp-content/uploads/2019/01/Global-Impact-Bonds-Snapshot-September-2020.pdf>. Accessed: September 17th 2020.

	allocate the minimum required amount while others elected to allocate a higher amount of their grant to RBF.
Aid fragmentation. Expanding the use of RBF may increase the number of donors supporting education projects, raising transaction costs for countries.	Updated operational guidance by GPE would create a multilateral channel for donors to support RBF. A partnership approach between EOF and GPE would align funding and fundraising to harmonize RBF wherever possible.
Non-disbursement risk. As with any type of RBF, countries may not receive or disburse the full value of their grants if results are not achieved.	The level of grants allocated to RBF would be totally determined by countries in consultation with local education groups, as per the GPE model. Countries that want to invest in outcomes-based approaches would have access to clear operational guidance and, in the context of a strategic capacity with support from EOF, additional and aligned technical support.
Transaction Costs Contracting results-based approaches can be complex and time consuming.	<p>GPE's approach would be aligned with existing modalities. Funding would be disbursed as usual to a grant agent, based on agreements negotiated at the country-level (for example, with the support of the EOF). GPE's quality assurance process would remain the same.</p> <p>In countries seeking the Secretariat's support for technical assistance for developing impact bonds or RBF, the Secretariat could connect this demand with the EOF's technical expertise. A partnerships framework would formalize this link and would further reduce the transaction cost on GPE.</p>

Resource Considerations

Managing the relationship with EOF and developing appropriate guidelines, along with supporting any such arrangements involving GPE Funds would be the extent of the resource implications on the Secretariat. On its own, this is not expected to be significant as it's unlikely there would be significant demand for such arrangements particularly in the first few years of the 2021-2025 financing period.