Risk Reduction & Risk Finance for Education

Board of Directors Meeting
December 5-7, 2017 | Paris
Purpose

• Propose a risk reduction and risk finance approach
• Based on analysis and review of options by an external firm and presented in June
• Proposal would supplement education planning support in a small number of countries
• Further integration: Mechanism or Theme
• Leverage existing Secretariat capacity
Board Dec., 2016

- Board approved exploratory grant from Rockefeller Foundation

Board June, 2017

- Presented findings to Board
- Secretariat to do a strategic analysis of options with FRC guidance

FRC August & October 2017

- Overview of strategic options given HR constraints

Board Dec 2017

- Review FRC recommendation

Preparatory work, scoping

Board decision
Malawi: Deadly floods menace tens of thousands

By Laura Smith-Spark, CNN

Updated 1500 GMT (2300 HIC)

Earthquake Devastates Nepal, Killing More Than 1,900

The New York Times

Tropical storm Erika unleashes destruction as four die in Dominica

- Bodies recovered after mudslides and flooding
- Other islands brace for more as storm moves across Caribbean
Challenge

- Education faces threats from natural disasters (storms, droughts, etc.)
- Cause physical damage (e.g. destroying schools) and social costs (lost education)
- Board commissioned research on how disasters affect education systems
Losses are bigger than social spending

Average Annual Losses exceed social spending (education, health, and social safety nets)
Millions of children affected annually

- Conflicts, 31.2 mn (36%)
- Drought, 35 mn (40%)
- Flood
- Cyclone
- Other
Conclusion: urgent challenge to solve

- Education systems carry risk
- Challenging to reduce or hedge political risk
- Natural disasters account for most losses
Mitigating risks

• GPE can accelerate funding to deal with some risks
• Education mainly depends on appeals after emergencies
• Appeals can be hard to mobilize and might not prioritize this sector
• Last 10 years: education got just 2.4% of humanitarian aid
Design options

Type of risk
- Focus on natural disaster risks (e.g., drought)
- Political risk hard to hedge or reduce; existing tools include GPE accelerated funding

Integration with FFF
- Match needs with existing risk reduction and finance instruments
- Potential scaling: Mechanism, KIX Theme 6

Depth of initial engagement
- Recommended: small number of ESPs
- Use existing Secretariat & Partnership capacity
Sovereign risk programs

ARC in Africa, PCRAFI in Pacific, CCRIF in Caribbean

- Governments & donors pay premiums
- Governments get payouts after storms, droughts, etc.
- Include 63 GPE countries
Catastrophe DDO

Faster concessional lending when disasters strike

• Recently expanded to cover IDA-eligible countries
Three elements

Integrate existing instruments into ESPs
Mainstream risk analysis, reduction, and finance approaches into a small number of Education Sector Plans

Policy intermediary
Secretariat is not a financial intermediary: a platform, not a counterparty

Advocacy and thought-leadership
GPE will advocate for education to benefit from existing disaster planning and resilience investments
Next steps

• Based on Board review, operationalize disaster risk reduction and finance approach
• Set out selection criteria and evaluation options for FRC’s review
• Scale up is a function of traction and success (Mechanism and / or KIX)
## Working within existing capacity

<table>
<thead>
<tr>
<th></th>
<th>Summary</th>
<th>Resource implications</th>
</tr>
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<tbody>
<tr>
<td>1 (recc.)</td>
<td>Support to Education Sector Planning processes in <strong>one to three</strong> countries</td>
<td><strong>Modest</strong>: partial time commitments from existing Secretariat staff; additional technical support from one – two consultants, possibly seconded</td>
</tr>
<tr>
<td>2</td>
<td>Support to Education Sector Planning processes in <strong>four to ten</strong> countries</td>
<td><strong>Significant</strong>: 75% time commitments from existing staff, substantial additional support required</td>
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<tr>
<td>3</td>
<td>Support to Education Sector Planning processes across <strong>all ESPIG- or GPE Multiplier-eligible countries</strong></td>
<td><strong>Infeasible</strong>: full-time commitments from large number of existing staff with significant additional headcount implications</td>
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FRC Feedback

Welcomed the proposed approach of integrating natural disaster risk reduction and risk finance into education sector plans by leveraging existing institutions and instruments.

Recommend the Secretariat’s proposed approach of mainstreaming this work into education sector planning, initially in a small number of countries emphasizing disaster risk mitigation and reduction alongside risk finance.

Based on the proposed approach gaining traction, the FRC suggest exploring whether it could then be further institutionalized through elements of the Finance and Funding Framework.

To ensure transparency and effectiveness, the FRC requested that—subject to the Board’s approval of the proposed approach—the Secretariat elaborate an evaluation approach and clear criteria for the selection of the small number of partner countries to be initially included.
Recommended decision (1/2)

BOD/2017/12 05 Option 1- Risk Reduction and Risk Finance for Education—The Board of Directors:

Instructs the Secretariat to:

a. Support the integration of disaster risk reduction, analysis, and planning as part of the Education Sector Plan development process as set out in BOD/2017/12-DOC 05 Option 1 and in alignment with national priorities.
b. Develop a Risk Reduction and Risk Finance Approach, including to supplement the education sector plan development process with risk measurement and risk mitigation for natural disaster risks in a small number of countries as set out in BOD/2017/12-DOC 05 Option 1.

c. Elaborate an approach to evaluation and transparent criteria for inclusion, and mandates the FRC to review these.
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RISK MANAGEMENT REPORT

Board of Directors Meeting
December 5-7, 2017 | Paris
Background

Policy & Tools

Processes
- FRC mandate with inputs from GEC, GPC, and SIC
- Semi-annual review
- **Board Input**: focus on critical risks, main changes between previous and current assessment, and ownership of 4 risks
Risk assessment

Risk Matrix
- Includes inherent risk (before controls are applied), residual risk (current assessment), and target risk (level of acceptable risk)
- Identification of additional mitigation actions to reach the target risk

Severity Chart

Risk rating = Probability x Impact

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<thead>
<tr>
<th>Probability</th>
<th>Impact</th>
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<tbody>
<tr>
<td></td>
<td>Minor</td>
</tr>
<tr>
<td>Very Likely</td>
<td>Medium</td>
</tr>
<tr>
<td>Likely</td>
<td>Low</td>
</tr>
<tr>
<td>Possible</td>
<td>Low</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low</td>
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</table>
Out of 35 risks:

- 29 risks have lower risk scores than their inherent risk rating
- only 6 risks meet their target risk rating
- 2 risks are seen as “critical” and 12 risks are seen as “high”
Residual risks in previous and current assessments

Comparison

- 35 risks vs. 34 in previous assessment → Private Sector and Foundations Strategies assessed separately (risk 1.1.7 and 1.1.8)
- 2 risks are seen as “critical” down from 4
- 5 risk ratings have decreased
- 1 risk rating has increased
Status of Key Risks

Critical Risks
✓ Complementarity/alignment with IFFEd (1.1.6 – Board – critical)
✓ Program Implementation Modality (2.3.3 – GPC – critical)

Risks owned by the Board => no change compared to previous assessment
✓ Complementarity/alignment with ECW (1.1.5 – medium)
✓ Complementarity/alignment with IFFEd (1.1.6 – critical)
✓ Secretariat Institutional Arrangement (4.2.2 – medium)
✓ Secretariat Capacity (4.2.3 – high)
Changes in Risk Matrix

1 risk rating has increased
✓ Monitoring of the Strategic Plan (1.1.2 – SIC – low ↗ medium)

5 risk ratings have decreased
✓ Foundations Strategy (1.1.7 – SIC – high ↘ low)
✓ Domestic Financing (1.2.3 – GPC – critical ↘ high)
✓ Choice of Grant Agents (2.1.3 – GPC – critical ↘ high)
✓ Quality Assurance - Grants (2.2.1 – GPC – high ↘ medium)
✓ Donor Pledges (3.1.1 – FRC – high ↘ medium)
Summary of FRC Deliberations

✓ Complementarity/alignment with IFFEd (1.1.6). ⇔ Addition of mitigation measure: GPE donors actively coordinate and share information related to IFFEd between them.

✓ Donor Pledges (3.1.1) ⇔ Risk to be examined closely at next review to consider pledges made in Dakar, with attention given to nature and consistency of pledges (how to treat risk of earmarked/conditional pledges).

✓ Domestic Financing (1.2.3) ⇔ Risk has decreased but close vigilance is warranted. Need to make maximum use of the financing conference in Dakar with respect to DCPs pledges. Formulation of the risk around the 20% figure may need to change.

✓ (2.1.3) Choice of Grant Agents ⇔ Addition of 3 new grant agents welcomed, but more needs to be done in this area (expand the number and use of bilateral agencies.)
Summary of GPC & SIC Deliberations

GPC
✓ Program Implementation Timeline (2.3.2) ⇒ Residual risk rating remains medium, but evidence that risk is dropping, hence the direction of travel is now seen as “improving”. Additional mitigation actions on timelines should help drive the risk down (extension of grant implementation period).

SIC
✓ Monitoring of the Strategic Plan (1.1.2) ⇒ While the Secretariat is able to monitor the Strategic Plan, it is too early to demonstrate progress on strategic plan objectives, due to the data challenge. Hence risk is increased from low medium.
✓ (1.1.7) Foundations Strategy. ⇒ Risk to be examined closely at the next review, and wording should be amended when the strategy is in place, as it currently refers to the “absence” of a strategy.
Next Steps

☑ Review and benchmark GPE current risk management policies and practices, with the aim for any major changes to be considered by the FRC (+ committees) and the Board at the next semi-annual review.
BOD/2017/12-XX—Risk Management Report: The Board of Directors:

1. Endorses the changes to the Risk Matrix, including modification of risks, revisions to the overall score of some risks, update on current mitigations actions and addition of future mitigation actions, as presented in BOD/2017/12 DOC.

2. Requests the Secretariat to review the Risk Management Policy, including further clarification of the risk ownership and to report back to the Finance and Risk Committee by April 2018.
Background

✓ Risk Management Report (RMR)  Portfolio level
✓ Operational Risk Framework (ORF)  Country level

✓ **Objective:** to support a **differentiated risk-based approach** to quality assurance and monitoring by ensuring **risks are managed on country-by-country and grant-by-grant basis.**

✓ **How:** through **differentiated allocation of Secretariat resources** to support the country, quality assure applications, and monitor implementation. Secretariat mitigation actions and level of effort are commensurate with the risk.

✓ The Operational Risk Framework is **not designed to replicate or duplicate** the risk management policies and procedures of GPE Grant Agents.
Progress on the implementation of the ORF

From June to December 2016
✓ Completed first risk assessment of GPE’s grant portfolio
✓ Developed risk management plans for critical & high risk contexts

From January to June 2017
✓ Implemented risk management plans for critical & high risk contexts
✓ Developed risk management plans for medium & low risk contexts
✓ Reviewed risk management plans for critical & high risk contexts

Since June 2017
✓ Implemented all risk management plans
✓ Extracted data from the results framework to be used as input to the risk assessment
✓ Completed second risk assessment of GPE’s grant portfolio
✓ Reviewed all risk management plans
# Sector and Grant Risks

<table>
<thead>
<tr>
<th>Risk Matrix</th>
<th>Sector Risk</th>
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<tbody>
<tr>
<td>1.2.1</td>
<td>The risk that the Partnership does not leverage its capacities to support the production of quality ESPs.</td>
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<tr>
<td>1.2.2</td>
<td>The risk that the Partnership does not support planning, financing, and monitoring (including ability to capture reliable data) during ESP implementation.</td>
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<tr>
<td>1.2.3</td>
<td>The risk that GPE Developing country partners which apply for an ESPIG fail to increase their public expenditure on education or maintain expenditure at 20% or above.</td>
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<th>Grant Risk</th>
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<td>2.3.1</td>
<td>The risk that Grant Agents are not always providing effective oversight.</td>
</tr>
<tr>
<td>2.3.2</td>
<td>The risk that grant objectives are not achieved within the expected implementation period.</td>
</tr>
<tr>
<td>3.2.1</td>
<td>The risk that significant GPE funds are diverted from their intended purpose through fraud or other forms of misuse.</td>
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Comparison Sector Risk 2016 - 2017:

✓ Overall sector risk has slightly increased across the group with movement in both directions: sector risk has increased in 10 countries and decreased in 7 countries
✓ Nearly 70% of countries continue to have medium or low sector risk
Grant Risk – Overall

Grant risk - 2017

- Critical Risk: 4%
- High Risk: 9%
- Medium Risk: 38%
- Low Risk: 49%

Grant risk - Change from 2016 to 2017

Comparison Grant Risk 2016-2017:
✓ Main direction of movement in grant risk has been down: the share of ESPIGs with high or critical risk has decreased from 30% in 2016 to 13% in 2017
✓ Grant risk has decreased in 11 ESPIGs out of 46 and has increased in only 3 ESPIGs
19 Key Focus context in 2016 vs. 9 in 2017:
Reduction is due to a **decrease in grant risk** and **some high risk grants closing**
Next Steps

Q1 2018 and beyond

✓ Reassess operational risk by April 2018 in order to strengthen linkages between country analytics and the operational risk framework

✓ From there onward reassess operational risk and risk management plans on an annual basis

✓ Operational Risk Framework to be included in External Review of Risk Policies and Practices
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Update on Misuse of Funds

Board of Directors Meeting
December 5-7, 2017 | Paris
Introduction

Update on four current or recent misuse cases, including where relevant lessons learned:

Zambia (New Case)
Afghanistan (Update on Previously Reported Case)
Ghana (Update on Previously Reported Case)
Uganda (Update on Previously Reported Case)
Government audit has identified a $350,000 fraud undertaken by three employees within the Ministry of Education.

The government are taking disciplinary measures against the individuals concerned including recovery of funds and DFID acting as grant agent has also referred the case to their counter-fraud unit for investigation.
Afghanistan (Update on Previously Reported Case)

Two cases of misappropriation of funds at two Provincial offices were identified and reported by the Ministry of Education, totaling US$121,714. Both cases were reported to the local police and authorities.

The cases were also recorded in the independent external audit carried out by Ernst & Young, contracted by UNICEF.

UNICEF has now received an official confirmation from the Ministry of Finance agreeing to refund the misused funds. UNICEF, Ministry of Education and Ministry of Finance are working on the refund process.
In 2015, Internal Auditors of the Ministry of Education identified approximately US$ 19,000 of funds from school grants which had not been properly accounted for and required repayment.

This money has now been **recovered from the head teachers involved**.

The World Bank acting as grant agent recognizes that the Ministry worked hard to address systemic weakness in public financial management at the sub-national level. The accountability system functioned well, but there is a need for continuous capacity building and strengthened monitoring of school grant programs in light of high staff turnover.
In August 2016 an anonymous complaint was made of alleged irregularities in the ongoing evaluation of the school construction bidding process under the Uganda Teacher and School Effectiveness Project.

The World Bank acting as Grant Agent referred the matter to the Integrity Vice Presidency (INT), an independent unit within the World Bank Group.

Based on the outcome of the preliminary reviews conducted by INT, the complaint was closed without further investigation.
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Contributions and Safeguards Policy

• Contributions and Safeguards Policy governs the circumstances under which contributions are accepted for GPE
• FRC decision included:
  o Shared mandate with SIC to approve themes for notional hard targeting under CSP
  o Approval of a standard assessment template for contributions received
  o Approval of timing for FRC progress updates on implementation to the Board
FRC and SIC Feedback

- Approach to notional allocations protects the interest of the partnership in a way that prevents excessive/imbalanced allocation
- Proposed template makes sense
- June 2018 is an appropriate time to update the Board on implementation of the policy, as it can factor in the outcome of any targeted contributions made in Dakar
- All assessment templates should be made available at FRC meetings to monitor application of the CSP on an ongoing basis
- Scope of formal review will be clarified and review undertaken for December 2018 or June 2019
SIC feedback

- Proposed 4 themes for notional hard targeting under KIX - Early Childhood Education, Strengthening Learning Assessments, Gender and Data Systems
- Clarify implications of notional targeting to ESPIGS and hard thematic targeting under KIX
- Review implications of targeting as part of routine CSP review
FRC/2017/10-XX—Contributions and Safeguards Policy: The FRC: 1. In line with its delegated authority from the Board, approves subject to endorsement of the Strategy and Impact Committee (SIC), that thematically targeted contributions to the ESPIG mechanism that are “notionally allocated for reporting purposes to existing or planned Board approved allocations and do not impact on the size of an allocation or the decision by the Board to approve an allocation” as set out in paragraph 3.2 of the Contributions and Safeguards policy may be received in any of the three GPE2020 goal areas of learning, equity, and systems provided the contribution complies with all applicable safeguards.
2. In the event of any proposed modifications to the above approach and language that may be proposed by the SIC, Mandates the Chair of the FRC to modify the above decision in agreement with the Chair of the SIC. Both the SIC and FRC will be given an opportunity to review any significant changes prior to finalization of the decision.

3. Approves the standard assessment template for the consideration of targeted contribution proposals as outlined in Annex 2. Completed template will be submitted to the FRC at each of its scheduled meetings to facilitate ongoing review and learning.
4. Agrees that FRC should present its annual update to the Board on implementation of the CSP at the first Board meeting of each calendar year with the first report due in June 2018 and a formal review of the policy to take place by December 2018 or June 2019 to be determined by June 2018.
Grant Agent Assessment

- FRC has delegated authority from Board to approve new grant agents
- CARE USA went through assessment process, results were provided to FRC for review
FRC Feedback

• No issue approving CARE USA as a grant agent based on assessment results
• Diversifying pool of grant agents is helpful
• Active and past Grant Agents include bilaterals, multilaterals, and INGOs
• Implementation of KIX and ASA may require different organizations to serve as grant agents
FRC/2017/10-XX – Accreditation of CARE USA as Global Partnership for Education Grant Agent:
The FRC:
1. Approves CARE USA as an eligible Grant Agent for Global Partnership for Education grants up to the value of US$ 5 million.
2. Notes that in line with the Board’s approval of the Eligibility Expansion Plan (BOD/2013/11-09) – CARE USA is also eligible to act as Grant Agent if nominated by a Local Education Group for grants in excess of US$5 million, subject to satisfactory completion of a further detailed grant level assessment to be completed as part of the Secretariat’s Quality Assurance Review process.
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