Key Events Since Last Forecast

- Major Donor unable to fulfill its pledge due to a shift in budget from Development to Humanitarian.
- Major strengthening of US Dollar against Sterling since Brexit referendum
- Significant increase in funding from the US, plus top ups for 2016 from Italy, Sweden, Switzerland, plus potentially one more donor
- Sufficient progress achieved to unlock first GBP 50 million tranche of UK pledge linked to performance
- Signing of EC Contribution Agreement and first payment tranche contributed in October
- Targeted Financing on track from a number of foundations
## Status of Contributions (USD Millions)

<table>
<thead>
<tr>
<th>Brussels Pledge + Post Brussels Pledges and Adjustments</th>
<th>Paid to Date (Sept 30, 2016)</th>
<th>Remaining Pledge Value (Sept 30, 2016)</th>
<th>Total Value of Pledge + Paid in (Sept 30, 2016)</th>
<th>FX Related Change in Value (as of Sept 30, 2016)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,226.3</td>
<td>665.1</td>
<td>1,171.0</td>
<td>1,836.1</td>
<td>(390.1)</td>
</tr>
</tbody>
</table>
## RESOURCES FOR FORECASTING

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Uncommitted Cash Balance 1 July 2016</td>
<td>185</td>
</tr>
<tr>
<td>Balance on Signed Contribution Agreements</td>
<td>429</td>
</tr>
<tr>
<td>Donor Pledges (after discounting for uncertainty)</td>
<td>726</td>
</tr>
<tr>
<td>Projections of Additional Contributions - Secretariat Recommended</td>
<td>123</td>
</tr>
<tr>
<td>Projected Carryover from 2015-2018 Approvals (20% of MCA)</td>
<td>241</td>
</tr>
<tr>
<td>RESOURCES FOR FORECASTING PURPOSES (A)</td>
<td>1,703</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Remaining Commitments to be made on Existing Approved Grants (2013-2016)</td>
<td>(797)</td>
</tr>
<tr>
<td>Provisions for other Grants (Plan Development, Program Development, CSEF)</td>
<td>(45)</td>
</tr>
<tr>
<td>Provisions for other costs (Supervision, Agency, Secretariat, Trustee)</td>
<td>(80)</td>
</tr>
<tr>
<td>General Provision (Leverage Fund and Contingencies)</td>
<td>-</td>
</tr>
<tr>
<td>Provision for Future Commitments based on MCAs for 2016-2018</td>
<td>(803)</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT TO BE SET ASIDE (B)</strong></td>
<td>(1,725)</td>
</tr>
</tbody>
</table>
Despite a forecasted shortfall, proximity to next replenishment, relatively small shortfall, and cash flow projections based on pipeline extending into 2018, no further prioritization measures are recommended at this time.

There is insufficient funding projected to be available to announce any new indicative allocations or reverse any of the previous prioritization measures.

<table>
<thead>
<tr>
<th>SUMMARY (USD Millions)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>RESOURCES FOR FORECASTING</td>
<td>1,703</td>
</tr>
<tr>
<td>AMOUNT TO BE SET ASIDE</td>
<td>(1,725)</td>
</tr>
<tr>
<td>PROJECTED SURPLUS / (SHORTFALL)</td>
<td>(21)</td>
</tr>
</tbody>
</table>

- Despite a forecasted shortfall, proximity to next replenishment, relatively small shortfall, and cash flow projections based on pipeline extending into 2018, no further prioritization measures are recommended at this time.
- There is insufficient funding projected to be available to announce any new indicative allocations or reverse any of the previous prioritization measures.
Recommendation by CGPC

- CGPC recommended an increase in the existing MCAs of US$5 million or less by US$200,000 for non-fragile countries and US$300,000 for fragile and conflict-affected countries.

- Recognizing its particularly difficult context, the CGPC recommends an increase to the MCA of Papua New Guinea, whose MCA is US$6.6 million, by US$450,000.

- From current round of ESPIGs onwards, Supervision allocation is now included in the MCA instead of additional. This disproportionately impacts small allocations.

- Overall Impact is US$3.25 million and does not materially impact the forecast.
Summary of GERF discussion

- Welcomed increasing contributions from some donors.

- Concerned about GPE’s continued exposure to foreign exchange risk.

- Stressed the importance of continued efforts to work with partners that are struggling to fulfil their pledges.

- No objections to the CGPC recommendation

- GERF noted that the positive movement in the forecast was cancelled out by the impact of exchange rates and a reduction in a donor pledge, but that there was no need at this stage to consider further prioritization.
RISKS AND IMPLICATIONS

- Potential for a further strengthening of the US dollar in 2017, particularly against Sterling and Euro

- Continued pressure in Europe on development budgets either results in further delays or reductions to donor contributions to the GPE Fund

- Any further reduction in projected available resources could trigger prioritization measures such as delaying of Board approval, or grant commitments as outlined in the Comprehensive Funding Guidelines approved by the Board in 2013.
BOD/2016/11-XX—Financing Options: The Board of Directors:

1. Notes that while additional prioritization measures are not currently anticipated, there is no scope to provide additional indicative allocations at this stage.

2. The Board calls on all partners to intensify their efforts to secure additional financing through the GPE Fund and for donors and developing country partners to fulfill their pledges in a timely manner.

3. Noting the risk to GPE’s liquidity, calls on those donors that are in a position to do so, to advance the timing of their contributions to the GPE Fund.
4. Noting the ongoing foreign exchange risks, requests the Secretariat to work with the World Bank as Host and Trustee to consider options to mitigate these risks in the context of development of the new Financing and Funding Framework and report back in June 2017.

5. Requests the GERF to conduct a review of the forecast of available resources at its next face-to-face meeting in 2017 and if possible to make recommendations for decision by the Board on potential positive adjustments to the Maximum Country Allocations for eligible countries impacted by the prioritization measures, and the resources available for the general provision.
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What is Currency Hedging?

Donor X pledges to pay 100 million euros in 12 months time

Today – 100 million euros = 107 million dollars

Next Year at time of payment – 100 million euros = ?

Risks - If euro weakens we receive less / if euro strengthens we receive more

To provide predictability – A foreign exchange forward contract could be established

Legally Binding Agreement with a counterparty to exchange our 100 million euros in 12 months time for 107 million dollars.
Why can’t we hedge?

- World Bank doesn’t provide service at present for FIFs.
- Assuming a policy – would likely require legally binding donor commitments.
- GPE is not a legal entity so requires World Bank to enter into any contract on its behalf.
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RISK MANAGEMENT

BOARD OF DIRECTORS MEETING
SIEM REAP, CAMBODIA

November 30 – December 2, 2016
Background

- Risk Policy since December 2014/ Semi-Annual Reviews / GERF mandate with SPC/CGPC input
- June 2016 – Approval of an Operational Risk Framework

Risk Matrix:

- Include Inherent risk (before controls are applied) / residual risk (current assessment) / target risk (level of acceptable risk)
- Identification of additional mitigations actions required to progress towards the target
- Severity Chart – Combines Probability with Impact to determine Rating.
Overview:

- 22 out of 29 risks are lower than the Inherent risk rating
- Only 5 out of 29 risks meet the Target risk rating
- 5 out of 29 risks on the register are assessed as Critical
  (1.2.3 Domestic Financing / 2.1.3 Suitable Grant Agent / 2.3.3 Program Implementation Modalities / 3.1.1 Donor Pledges / 4.2.3 Secretariat Capacity)
# Risk assessment – Severity Chart

<table>
<thead>
<tr>
<th>Probability</th>
<th>Minor</th>
<th>Moderate</th>
<th>Major</th>
<th>Severe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Likely</td>
<td>Medium</td>
<td>High</td>
<td>Critical</td>
<td>Critical</td>
</tr>
<tr>
<td>Likely</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>Critical</td>
</tr>
<tr>
<td>Possible</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Unlikely</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Medium</td>
</tr>
</tbody>
</table>
Recognized the significant progress made on risk management

The issue of risk ownership is an area that needs to be better explained and re-assessed when the new governance structures are in place.

The lack of dedicated risk management specialists in the Secretariat was noted as an issue for the Board to consider as part of the capacity assessment of the Secretariat.
Summary of Committee deliberations

On Risk 2.2.1 (The risk that quality assurance processes do not always detect poorly designed programs/grants and ensure they are remedied) and Risk 2.3.4 (The risk to GPE that not all poorly performing grants are detected and remedied in a timely manner)

- CGPC believed the target risk rating should be “Medium” and not “Low”
- The GERF understood the CGPC’s rationale and propose a “Medium” target risk for FCAS but a “Low” target risk for other grants.
- The GERF encouraged the Secretariat to further consider the role of the Grant Agent in mitigating these risks
- noted that achieving progress in reducing these risks towards the target level has resource implications for the Secretariat
Key risks identified by GERF

1.2.3 Risk of DCPs failing to increase or maintain domestic financing at 20%

- Noting efforts to strengthen this aspect are outlined in the report of the SFWG.
- Highlighting the importance of engagement with Ministries of Finance and the upcoming replenishment to reinforce DCP financing commitments.

2.1.3 Risk of not being able to identify a suitable Grant Agent for the context

- Mitigation actions are insufficient to reduce this risk to the target level.
- More bilateral and multilaterals need to offer their services as Grant Agents.
- The issue of legal entity status prevents governments from receiving GPE funds directly and needs to be examined again in 2017 in light of the Financing and Funding Framework, and the potential hosting of ECW.
2.3.3 Risk that by not using government systems where appropriate, GPE will not realize sufficient progress in strengthening systems –

- GERF noted this is related to risk 2.1.3, and is also being examined as part of efforts to strengthen the funding model

3.1.1 The risk that donors fail to deliver on their current funding pledges within the replenishment period

- Noting this risk has already occurred as outlined in the Financial Forecast. GERF highlighted the importance of diversifying the donor base through the next replenishment, successfully delivering on results, and ensuring active engagement with at-risk donors.
Key risks identified by GERF

4.2.3 The risk that the Secretariat’s technical capacity, organizational structure, financial and human resources are not sufficient to deliver on the responsibilities assigned to it by the Board

• GERF noted that the Board will consider this issue in the context of the Dalberg Capacity Assessment
BOD/2016/12-XX—Risk Management Report: The Board of Directors endorses the changes to the Risk Matrix, including the severity chart, 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/2016/12 DOC 06 Annex 2.
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OPERATIONAL RISK FRAMEWORK
**Background**

- **Objective:** to support a differentiated risk based approach to quality assurance and monitoring by ensuring the Secretariat understands and manages risk on a **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 will be 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.**
Background

Board Requested the Secretariat to:

“finalize the sector and grant assessment templates, including the completion of risk factors, and complete the risk identification, assessment, and development of risk management plans for each critical and high-risk country”

“Update the CGPC and the GERF on the implementation of the operational risk framework and the risk matrix for report to the Board at its next face-to-face meeting in 2016 for a full discussion and decisions on risk appetite and target risk levels”
# Sector and Grant Risks

<table>
<thead>
<tr>
<th>Corporate Risk Reference</th>
<th>Sector Risk</th>
<th>Corporate Risk Reference</th>
<th>Grant Risk</th>
</tr>
</thead>
<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>
<td>2.3.1</td>
<td>The risk that Grant Agents are not always providing effective oversight.</td>
</tr>
<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>
<td>2.3.2</td>
<td>The risk that grant objectives are not achieved within the expected implementation period.</td>
</tr>
<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>
<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>
</tr>
</tbody>
</table>
### Grant Risk Assessment

<table>
<thead>
<tr>
<th>Corporate Risk Reference</th>
<th>Grant Risks</th>
<th>Basic Indicators (<em>to be rolled out in 2017</em>)</th>
<th>CL narrative analysis/explanation for the risk assessment</th>
<th>Probability</th>
<th>Impact</th>
<th>Risk severity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3.1</td>
<td>The risk that Grant Agents are not always providing effective oversight</td>
<td>1yr+ grants: Portfolio Review red-light rating on implementation</td>
<td></td>
<td>Likely</td>
<td>Major</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1yr+ grants: Portfolio Review red-light rating on disbursement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.3.2</td>
<td>The risk that grant objectives are not achieved within the expected</td>
<td>1yr+ grants: Portfolio Review red-light rating on implementation</td>
<td></td>
<td>Possible</td>
<td>Major</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>implementation period.</td>
<td>1yr+ grants: Portfolio Review red-light rating on disbursement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.2.1</td>
<td>The risk that significant GPE funds are diverted from their intended</td>
<td>Context risk (Global Fund Rating)</td>
<td></td>
<td>Unlikely</td>
<td>Moderate</td>
<td>Low</td>
</tr>
<tr>
<td></td>
<td>purpose through fraud or other forms of misuse.</td>
<td>Current ESPIG amount (US $)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Summary of sector risks for public dissemination

**Overall Grant Risk**

Medium

Only if CL has overridden default overall grant risk, insert justification below:
Risk assessment - Implementation

Action:
- Risk assessments and risk management plans prepared
- Review by internal risk committee to ensure consistency
- Peer-review of all assessments and plans
- Review of risk management plans

Taken by:
- Country Support Team, including CST, Operations, SPP
- Leadership Team
- Country Leads

Country Support Team, including Monitoring Unit
Sector Risk – Overall

Sector risks tend to be higher (high or critical) when:

• There is fragmentation between stakeholders or a poorly functioning LEG
• When capacity and financing are inadequate for annual sector monitoring
• When domestic financial resources are limited

75% are FCAC
Grant Risk – Overall

Grant risks tend to be higher (high or critical) when:

- There is not consistent Grant Agent technical representative presence and oversight in country
- When disbursement and implementation is delayed early in the implementation cycle
- When capacity for implementation, monitoring, or Financial Management is limited in the implementing agencies

81% are FCAC
Focus contexts for GPE support

- Nigeria
- South Sudan
- Djibouti
- Chad
- Yemen
- Sudan
- Uzbekistan
- Somalia
- Federal
- Eritrea
- Guinea
- Bissau
- Liberia
- Niger
- Guinea
- Bissau
- CAR
- Cote D'Ivoire
- Afghanistan
- Uganda
- Sierra Leone

Sector Risk
- Low
- Medium
- High
- Critical

Grant Risk
- Low
- Medium
- High
- Critical

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Drivers of risk in the Top 19

The risk that GPE DCPs which apply for an ESPIG fail to increase their public expenditure on education or maintain expenditure at 20% or above.

The risk that grant objectives are not achieved within the expected implementation period.
Examples of Secretariat mitigation measures

Nigeria and Yemen – similarly assessed
Grant risks

- Reaching grant objectives in expected implementation period
- Elevated concerns around misuse of funds

Actions in Nigeria

- Clear roles and responsibilities defined for all actors in monitoring grant activities
- Review of Annual Work Plan, Joint Review Reports and Quarterly Status Reports
- Different safeguard measures in the design of the project
  - In-country mission to include Finance colleagues from the Secretariat

Actions in Yemen

- Reprogramming of grant to provide funding for emergency operations
- Reviewing fiscal safeguards and close monitoring of program implementation
Next Steps

**Q4 2016 and beyond**
- Implement the GPE Secretariat Risk Management Plans for high risk contexts

**Q1 2017**
- Develop Risk Management Plans for medium and lower risk contexts
- Internal risk committee to review the status of the Risk Management Plans and report to the Secretariat management on progress

**Q2 2017**
- Take stock of lessons learned from the pilot phase and examine ways to draw data from the Results Framework and Portfolio Review to strengthen risk assessment
- Inform CGPC and GERF of the status of implementation of Risk Management Plans
- Recommend to the relevant committee(s) any further revisions to the framework and proposed policy modifications (e.g. quality assurance and monitoring arrangements) for the Board’s consideration in June 2017
Summary of Committee Deliberations

- Broad agreement that the Operational Risk Framework is a tool that can improve the efficient use of Secretariat resources

- Operational Risk Framework can be strengthened through examining ways to link information from the Portfolio Review and Results Report
MISUSE OF FUNDS

BOARD OF DIRECTORS MEETING
SIEM REAP, CAMBODIA

November 30 – December 2, 2016
Introduction

Report given under Policy and Communications Protocol on Misuse of GPE Trust Funds (BOD/2012/06-09)

Seven cases currently ongoing or recently resolved:

- Uganda (2)
- Liberia (2)
- Benin
- Madagascar
- Country A
Uganda (1)

- A Financial Management review of the Uganda Teacher and School Effectiveness Project (UTSEP), conducted in August 2016 found ineligible expenditure of USD 203,800.

- This expenditure related to unaccounted for, undocumented or ineligible transactions within advances made to teacher training colleges.

- GPE Secretariat staff attended the mid-term review of this project in September.

- The USD 203,800 was refunded by the government in full by September and all recommendations from the August 2016 World Bank Financial Management Review have been complied with.

- Another joint WB / GPE mission is planned for December 2016.
Uganda (2)

• Anonymous complaint in August 2016 of alleged irregularities in the ongoing evaluation of schools construction bidding process of UTSEP.

• The Grant Agent has referred the matter to the Integrity Vice Presidency (INT).

• INT will assess whether the complaint should merit a full investigation.

• No money has been disbursed on this particular procurement.
Liberia (1)

The Liberia GPE Grant for Basic Education Project had a reported case of Misuse of Funds of US$35,000 in August 2014.

The alleged reason was that the Project Support Team’s Accountant falsified deposit slips. INT concluded its investigation, which substantiated the allegation.

The Bank worked with the Liberian Government to recover the missing funds, which have been returned in July 2016.

A subsequent audit indicated that financial management under the project was adequate. A number of lessons learned from this case to reduce the risk of a repeat have been taken on Board.
In October 2016, 229 cartoons of textbooks worth around US$ 28,000 were stolen by casual workers who allegedly colluded with one of the Ministry of Education staff.

The learning materials team discovered that the books were stolen and immediately informed the police.

The police arrested the alleged perpetrators and were able to retrieve all the stolen textbooks.

Currently, the alleged perpetrators have been forwarded to court awaiting trial.
From November to December 2014, fraudulent activities took place in school canteens in Malanville district, Benin. This was identified by a government audit in June 2015 and the government took measures against individuals involved.

The total amount of the misuse was US$69,300 and has been reimbursed by the Government to the program bank account.

Additional Audits conducted and planned for remaining districts

Lessons learned include the need for intensive supervision and 3 NGOs have been recruited to conduct daily supervision.
Madagascar

• Historic case relating back to teachers payments identified in 2013

• Verifications and a forensic audit were conducted thereafter by UNICEF’s Office of Internal Audit and Investigation (OIAI).

• In November 2015 this concluded that overall an amount equivalent to about US$ 62,000 was deemed ineligible.

• Today - the Government returned the funds to UNICEF
Country Case A

- In March 2016, the Secretariat was informed that the Grant Agent (World Bank) INT launched a full investigation into a potential Misuse of Funds case related to procurement.
- The matter under investigation originally occurred in December 2015 and it is understood that the amount concerned is less than US$100,000.
- The complaint alleged an attempt to interfere with a contract post award in a manner not in line with Bank guidelines.
- The attempt was not successful and ultimately there was no sign of any adverse impact on funds from the GPE or on the quality of deliverables.
- INT are currently finalizing their report.
Next steps

Operational model has already been strengthened by:
• strengthening fiduciary oversight in grant monitoring;
• minimum standards for all grant agents;
• roll-out of Operational Risk Framework identifying high risk grants.

In addition, Secretariat is seeking additional capacity for the establishment of a risk management function and additional program finance staff.

We will continue to discuss each misuse case at the GERF and examine if there are any lessons learned for GPE and whether any modifications are needed.
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ASSESSMENT FOR LEARNING – STRENGTHENING LEARNING ASSESSMENT SYSTEMS

Board of Directors Meeting Siem Reap December 2016
Background

June 2016 BOD:

• Board approval of KGPE Strategy (as recommended by SPC)
• Agreement on safeguards for targeted financing for KGPE
• Agreement on concept notes for BELDS and A4L and pre-designation for target financing, as recommended by SPC
• Present decision is to ensure targeted financing meets safeguards.
A4L Concept Note
(approved by BOD June 2016)

1. Develop and pilot diagnostic tool
2. Support international assessment tools
3. Support for regional assessment networks

• Building blocks for A4L country level work
• Promote global public goods to monitor progress on SDG4
• Foster knowledge exchange and capacity building

Potential Funding: US$2.5 to US$3.5 million between June 2016 and December 2017
Assessment for Learning

- Strengthening Learning Assessment Systems

1. Four components
   • Country level diagnostics piloted.
   • Support for regional assessment networks to build capacity.
   • Support for new assessment tools (e.g., MELQO).
   • Knowledge exchange activities administered by the Secretariat (includes 1 program officer).

2. Budget
   • $2,540,000 from one foundation
   • [Additional financing will be sought]
Key Issues Addressed/Clarified

1. Overall framework for KGPE activities – alignment to GPE2020 goals and results and GPE operating model;
2. Avoidance of fragmentation and transaction costs and sustainability of the initiative/alignment to country processes.
3. Selection of first 3 countries for diagnostic pilots.
4. Clarification on funding the regional networks.
5. Clarification on linkage to UIS and global metrics.
1. Approves the receipt and use of targeted financing for the A4L into the GPE pooled fund as outlined in BOD/2016/12 DOC 07.

2. Delegates authority to the Secretariat to review and approve proposals from grant agents to fund specified activities as outlined in BOD/2016/12 DOC 07.

3. Delegates authority to the Governance, Ethics, Risk, and Finance Committee to approve the arrangements for any additional targeted contributions in support of A4L activities.
4. Delegates authority for potential revisions to the A4L financing arrangements following final Foundation Board sign off to the Governance, Ethics, Risk, and Finance Committee, who may refer to matter back to the Board.

5. Requests the Secretariat to update the GERF, CGPC and SPC committees and Board annually on the status of this work, with particular attention on the issues of fragmentation and the transaction costs for the Developing Country Partners.
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