Objectives for Today

1. Overview of current financial position of GPE and Semi-Annual Financial Forecast – For Information
2. Currency Hedging – For Information
3. Euro Fund – For Information
4. Prioritizing Resources – For Decision
5. ESPIG Cap – For Decision
6. How to treat conditional pledges – For Decision
Background for forecast

➢ Forecast is used to provide information on the amount of funds projected to be available for allocation.

➢ Forecasts are subject to significant change – either temporary (timing issues) or permanent (impact of FX rates on contributions, decisions of donors on amounts).

➢ Current forecast covers remainder of this replenishment period (i.e. to the end of 2018). It does not factor in outcome of upcoming replenishment campaign.
Key Events Since Last Forecast

• The US Dollar has weakened reversing the previous projected shortfall.
• Significant progress has been made in the hedging discussions at the World Bank and an update will be provided in 2018.
• Contribution agreements have been signed and payments have been received from five foundations.
• The second tranche of the GBP 50 million UK pledge linked to performance has been approved for payment and was paid at the end of November.
# Resources for Forecasting

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Uncommitted Cash Balance 1 July 2017</td>
<td>189</td>
</tr>
<tr>
<td>Balance on Signed Contribution Agreements</td>
<td>414</td>
</tr>
<tr>
<td>Donor Pledges (after discounting for uncertainty)</td>
<td>408</td>
</tr>
<tr>
<td>Projections of Additional Contributions - Secretariat Recommended</td>
<td>75</td>
</tr>
<tr>
<td>Projected Carryover from 2015-2018 Approvals (20% of MCA)</td>
<td>241</td>
</tr>
<tr>
<td><strong>RESOURCES FOR FORECASTING PURPOSES (A)</strong></td>
<td><strong>1,327</strong></td>
</tr>
</tbody>
</table>
### Amount to be set aside

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remaining Commitments to be made on Existing Approved Grants (2013-2017)</td>
<td>(546)</td>
</tr>
<tr>
<td>Provisions for other Grants (Plan Development, Program Development, CSEF)</td>
<td>(34)</td>
</tr>
<tr>
<td>Provisions for other costs (Supervision, Agency, Secretariat, Trustee)</td>
<td>(20)</td>
</tr>
<tr>
<td>General Provision (Leverage Fund and Contingencies)</td>
<td>-</td>
</tr>
<tr>
<td>Provision for Future Commitments based on MCAs for 2017-2018</td>
<td>(674)</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT TO BE SET ASIDE (B)</strong></td>
<td>(1,274)</td>
</tr>
</tbody>
</table>
Summary

<table>
<thead>
<tr>
<th>Resources for Forecasting</th>
<th>1,327</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount to be set aside</td>
<td>(1,274)</td>
</tr>
<tr>
<td>Projected surplus/shortfall</td>
<td>51</td>
</tr>
</tbody>
</table>

- Despite a forecasted surplus, the Secretariat does not believe any reversals of previous prioritization measures should be made given the proximity to the GPE Financing conference and the need to announce new maximum allocations.
- The positive movement in the forecast is primarily attributable to a weakening of the US Dollar.
GPE’s financial position has improved slightly since the last update primarily due to positive exchange rate movements but FX volatility still a key risk.

It will be necessary to await the outcome of the GPE Financing Conference to have clarity on the financial position for the 2018-2020 period.
Currency Hedging-Overview

• GPE is exposed to FX risk as the majority of receipts are in currencies other than USD while funds are allocated in USD.

• Hedging is a way to minimize or eliminate FX risk.

• The most common form of hedging is forward rate contracts or options.
Currency Hedging-Forwards

For Financial Intermediary Funds such as GPE, the World Bank is considering the use of forward contracts.

- A Forward is a contract that locks in the exchange rate for a purchase (or sale) of a currency on a future date.
- The benefit is greater predictability, and reduced risk of loss in value. However it also removes the possibility to benefit from any FX gains, and comes with transaction costs and collateral requirements.
Currency Hedging- Implications, Next Steps

Issues still to be addressed by World Bank

- Administrative costs
- Collateral required
- Impact on Donor Contribution Agreements

Timeline:

- Expect further progress in 2018 from World Bank while outcome of Financing Conference will allow FX exposure to be determined.
FRC Feedback

• Welcomes the positive movement on options for currency hedging for Financial Intermediary Funds under development by the World Bank.

• Substantial technical details remain to be developed and significant further analysis on the viability for GPE to access any service provided by the Bank will be needed before a decision can be made.
Euro Grant Allocations

• Could create a natural hedge by reducing mismatch between contribution currencies and allocation currencies

• Countries where local currency is pegged to the euro would not be exposed to FX risk

• Technically feasible
Euro Fund-Challenges

• Administrative costs associated with managing multiple currencies for Trustee and Secretariat
• Timing of inflows and outflows of euros and dollars to avoid liquidity challenges
• Potential investment loss associated with holding large amounts of euros (until interest rates increase)
• Changes needed to donor contribution agreements
• Presents certain challenges depending on Grant Agent
FRC Feedback and Next Steps

• GPE should continue to explore options on the Euro Fund

• Consider demand from Developing Country Partners for a Euro Grant option (DCP constituency meeting feedback shows strong interest in having this option)

• Analyze the breakdown of donor contribution currencies arising from Financing Conference and related impact on Maximum Country Allocations for countries that may benefit from Euro allocations to assess potential supply and demand of Euros.
# Resource Allocation & Prioritization

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>US$ Millions</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Allocations for ESPIGs (includes existing/planned commitments)</td>
<td>2,200</td>
<td>71%</td>
</tr>
<tr>
<td>Allocations for Multiplier (ESPIGs)</td>
<td>300</td>
<td>9.7%</td>
</tr>
<tr>
<td><strong>Total Plan Implementation Funding (ESPIGs + Multiplier)</strong></td>
<td>2,500</td>
<td><strong>80.7%</strong></td>
</tr>
<tr>
<td>KIX</td>
<td>150</td>
<td>4.8%</td>
</tr>
<tr>
<td>ASA (including existing commitments to CSEF)</td>
<td>100</td>
<td>3.2%</td>
</tr>
<tr>
<td>Small Grants (Sector Analysis/Plan and Program Development)</td>
<td>50</td>
<td>1.6%</td>
</tr>
<tr>
<td>Provision for Agency Fees</td>
<td>75</td>
<td>2.4%</td>
</tr>
<tr>
<td>Secretariat Operating Expenses</td>
<td>150</td>
<td>4.8%</td>
</tr>
<tr>
<td>Contingency</td>
<td>75</td>
<td>2.4%</td>
</tr>
<tr>
<td><strong>Total Envelope</strong></td>
<td><strong>3,100</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
Prioritization - Principles

1. Existing GPE grant obligations
2. Resources for GPE's small grants programs
3. Routine operations of the Partnership
4. Resources for KIX, ASA, and the Multiplier at minimum levels established by the Board
5. New Maximum Country Allocations for ESPIGs at the minimum levels
Prioritization- Next Steps

• Maximum Country Allocations (MCAs) announced as soon as possible
• MCAs from the Multiplier approved by the Board in December 2017
• MCAs for new ESPIGs announced following the GPE Financing Conference.
• Allocations/Resource envelopes for all other types of financing determined by Board in June 2018
FRC Feedback

• The principles for how resources should be allocated and prioritized in the 2018-2020 period as proposed by the Secretariat make sense.

• An early announcement of maximum country allocations for ESPIGs is important as soon as possible following the GPE Financing Conference.
ESPIG CAP - Background

- MCAs for ESPIGs currently capped at US$100 million
- Countries can apply to access the GPE Multiplier for up to US$25 million more
- Cap artificially lowers certain country allocations compared to allocation formula
- Aimed at preventing small group of countries from being allocated bulk of GPE funds
- As agreed in 2014, the cap can be raised if MCAs are increased for all countries
Board agreed principles from 2014:

➢ If available resources for calculating the MCA for ESPIGs is US$2.25 billion or more - cap could be raised to US$125 million

➢ If resources reach at least US$2.75 billion - cap could be raised to US$150 million
FRC Feedback

• Agree that the approach adopted for the last replenishment period continues to make sense and should be retained.

• This includes having the ability to increase the cap of US$100 million on ESPIGs as resources available for allocation increase sufficiently to allow all countries to benefit from higher allocations.
Some pledges subject to parliamentary approval, conditions linked to performance or contribution ceilings, restrictions based on targeted contributions, while some donors can’t publicly pledge.

Secretariat proposes to maintain approach of publicly reporting on the full value of all pledges.

For calculating resources available for allocation, pledges that are subject to uncertainty are discounted based on the level of risk.
FRC Feedback

- Agree with the approach for how GPE should treat conditional pledges or other amounts subject to uncertainty in the Financial Forecast.

- Recommended that risks attached to targeted contributions should also be factored into this assessment and this is now covered in the paper.
Proposed Decisions

BOD/2017/12-XX—Financing Options: The Board of Directors:

1. Approves the principles for prioritization of resources in the 2018-2020 period as set out in Annex 3.

2. Authorizes the Finance and Risk Committee to approve the announcement of new maximum country allocations for ESPIG eligible countries expected to have an application approved before the end of 2019 based on a financial forecast to be prepared by the Secretariat immediately following the GPE financing conference.
3. In relation to maximum country allocations for ESPIGs, determines to:
   • Maintain the cap of US$100 million if the amount of funds used to calculate maximum country allocations is less than US$2.25 billion
   • Increase the cap to US$125 million if the amount of funds used to calculate maximum country allocations is more than US$2.25 billion but less than US$2.75 billion
   • Increase the cap to US$150 million if the amount of funds used to calculate maximum country allocations is more than US$2.75 billion

4. Endorses the approach used to treat potential donor contributions that are subject to uncertainty for the purpose of forecasting available resources for allocation as outlined in Annex 5