Risk Management
Purpose of the Session

- Risk taxonomy **for decision**.

- Risk appetite statement **for input** (to be finalized in 2019 taking into account the outcomes of Effective Partnerships Review and Institutional Arrangements).

- Corporate Risk Update **for information** (based on the previous risk taxonomy, update on critical and high risks only, does not yet consider the proposed updates to the taxonomy).
Secretariat Workplan

**Step 1: Review risk taxonomy**

**What:** Mapping of risk framework components

**Deliverable:** Risk taxonomy

**Timeline:** Board meeting Fall 2018

**ongoing**

**Step 2: Develop risk appetite**

**What:** Define type & amount of risk GPE is willing to take, accept, tolerate

**Deliverable:** Risk appetite statement

**Timeline:** Board meeting Fall 2018 & Spring 2019

**Step 3: Review 3 LoD model**

**What:** Clarify 1st & 2nd LoD. To be dealt with next steps on the EPR and IA.

**Deliverable:** 3 LOD model

**Timeline:** Board meeting Spring 2019

**Step 4: Define KRI & KCIs**

**What:** Based on the 3 LoD model (i.e. 1st LoD are risk owners and provide inputs for KRI)

**Deliverable:** KRI

**Timeline:** Board meeting Spring 2019
Risk taxonomy Proposal

• Risk taxonomy proposal is aligned with common standards and adapted to the needs of the Partnership (e.g. Mutual accountability sub risk).

• All the risks from the previous risk matrix are covered in the risk taxonomy proposal (see reference column in the taxonomy).

• Risk categories and sub risks are mutually exclusive & collectively exhaustive: new risk categories added to cover blind spots, cross-check with comparable organizations (e.g. GAVI, Global Fund).

• Linkages between risk taxonomy and GPE Strategy 2020 are demonstrated in the risk appetite statement proposal. Linkages with the Results Frameworks indicators will be made through Key Risk Indicators.
Architecture of the Risk Taxonomy

- Partnership Risks
  - Strategic Risk
  - Operational Risk

- Secretariat Risks
  - Business Continuity Risk
  - GPE Fund Management Risk

- External/Contextual Risks
  - Fragmented Global Aid Architecture Risk
  - Reputational Risk
  - Country Risk
Risk Categories & Sub Risks

**Partnership Risks**

- Strategic Risk
  - Financing Risk
  - Governance Risk
  - Mutual Accountability
  - Impact Risk
  - Value for Money Risk

- Operational Risk
  - Access to funding Risk
  - Risk to context appropriate ESPs
  - Risk to sector dialogue & monitoring
  - Risk to ESPs financing
  - ESPG Design Risk
  - ESPG Performance Risk
  - Risk of Doing Harm
  - Risk of Fraud and Misuse
  - Grant Management Compliance Risk

**External/Contextual Risks**

- Fragmented Global Aid Architecture Risk
- Reputational Risk

**Secretariat Risks**

- GPE Fund Management Risk
  - Liquidity Risk
  - Transaction Processing Risk
  - Currency Exchange Risk
  - Investment Risk

- Business Continuity Risk
  - Operating Expenses Risk
  - Human Resources (HR) Risk
  - Information Technology (IT) Risk
  - Workplace Risk
  - Suppliers and Service Providers Risk
  - Integrated Processes Risk
  - Risk to new projects or strategies
  - Secretariat Compliance Risk
Risk Appetite Statements
## GPE Risk Appetite Statement

### Where we are

- Risk appetite broadly defined within the GPE’s 2014 Risk Management Policy with an overall moderate risk appetite. (Key finding of external review)

### Where we are going

- **Acceptance of some risk is necessary given:**
  - the trade-offs between our mission vs. risks systemic in nature
  - the need to take risks to foster innovation and growth
- **Objective of a Board-approved risk appetite statement:**
  - align and guide stakeholders across the GPE in taking the right amount of risk to deliver on GPE’s strategic goals & objectives
- **No risk appetite for each risk/sub risk:**
  - only where trade-offs have to be clarified
Risk Appetite Statement – Key Concepts

Example: Implications of a high vs. low risk appetite

- If GPE has a **low risk appetite to fund programs** which do not sufficiently further its objectives of equity, learning & system strengthening, it may accept that this requires an **appropriately high investment in country support & quality assurance** of programs.

- If GPE has a **moderate to high risk appetite to fund programs** which do not sufficiently further its objective of equity, learning and system strengthening, it may accept a **lighter touch approach to the quality assurance process**.
Corporate Risk Update
Risks to be reviewed by the Board

• The Secretariat has agreed with FRC to provide updates only on critical and high risks as reported to the Board in June 2018, and is giving an update on completion of mitigation actions and new mitigations actions.

• 3 risks that were “critical” in the June update as follows:
  - 1.1.6 Complementarity/ alignment with IFFEd (Board-owned)
  - 2.3.3 Program Implementation Modality (GPC-owned)
  - 4.2.2 Secretariat Institutional Arrangement (Board-owned)

• 1 Board-owned risk that was “high” in the June update as follows:
  - 4.2.3 Secretariat Capacity (Board-owned)
Education Sector Investment Case (ESIC) Approach: Operationalization
Mandate from GPE Board of Directors

“Agrees to GPE working with countries to develop an Education Sector Investment Case (...) and to the Secretariat’s active engagement with all relevant partners to achieve greater additionality, coordinated financing, co-financing, and leveraging to crowd in resources to finance the education sector plan.” BOD/2017/03-06
Research

Analogues and ESPs
- What do investment cases do?
- How do they work? What is already in ESPs?

DCPs
- What is the perspective from the “demand-side”?

Financing partners
- What is the perspective from the “supply-side”?

Country case study
- What does this look like in a particular context?

Feedback and Guidance
DCP, Secretariat, FRC

globalpartnership.org
## Development

<table>
<thead>
<tr>
<th>Inception</th>
<th>Scoping</th>
<th>Draft ESIC Approach</th>
<th>Country Case Study</th>
<th>Final Report</th>
</tr>
</thead>
</table>
| • DCP consultation 1  
  • Brainstorm Secretariat Staff  
  • Inception Report | • Review of benchmark comparators  
  • Review of ESP financing frameworks  
  • FRC Consultation | • DCP Consultation 2  
  • Outreach to selected potential “financing partners”  
  • Draft ESIC Approach | • Explore selected practicalities of ESIC approach applied to one country  
  • Lessons to operationalise ESIC at scale  
  • FRC Consultation | • DCP Consultation 3  
  • Refined ESIC Approach  
  • Process and costs mapping  
  • FRC review of Board paper and decision |
Key Challenges

“Not enough funds” is systematically identified as top financial challenge
(From both domestic and international sources and for both recurrent as well as capital expenditure)

DCPs indicate some disbursement challenges, particularly of international funding
Poor predictability scores highest among reasons for this

ESIC priorities

Scaling up funds from both domestic and international sources

Harmonisation & alignment
## Audience

<table>
<thead>
<tr>
<th>Category</th>
<th>DCPs’ prioritization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Finance</td>
<td>A priority for almost all DCPs. The dialogue around education financing starts with the Ministry of Finance, both as an audience and as a key partner.</td>
</tr>
<tr>
<td>Bilaterals (established in country)</td>
<td>Established bilateral donors remain a key priority for DCPs. They are recognised as an important source of aligned financing but predictability of funding is a key concern.</td>
</tr>
<tr>
<td>Bilaterals (new to country)</td>
<td>New bilateral donors are a “moderate” priority. This might be because of the perceived transaction costs of bringing in new development partners.</td>
</tr>
<tr>
<td>Regional or Multilateral Development Banks</td>
<td>DCPs note that there is space for making a better case with R/MDBs. These mainly negotiate intersectoral allocations through the Ministry of Finance.</td>
</tr>
<tr>
<td>Private foundations or corporate CSR</td>
<td>DCPs indicate the importance of bringing them to the table to improve alignment of existing investments and / or fund specific areas of the ESP such as innovative initiatives or a specific emergency need. These actors typically have more flexible requirements than public funds.</td>
</tr>
</tbody>
</table>
Proposed Approach

- Country-facing support focused on meeting critical gaps: develop bespoke pitches that target specific sources of funding
- Integrate support tightly with existing GPE tools, procedures and timelines, particularly ESP development
- Subject to a critical incubation period with robust monitoring & learning
Example Pitches (Annexed)

Consultations with funding partners indicate little demand for more extensive analytical reports.

**Pitches** are based on gaps in funding for the ESP and mapping of potential financing partners.

Audience depends on context and opportunities.
Operationalization (1/2)

- Incubator period of 18-24 months targeting 4-6 countries
- Housed in the GPE Secretariat
- Building on and integrated with existing processes (ESPs, LEGS and ESPDG)
- Rigorous monitoring and learning to inform future decisions about scaling-up the Approach
Operationalization (2/2)

- Ensure ownership & combat duplication
- Capture synergies & combat transaction costs
- Ensure equity & inform scale-up
- Funding is the key limitation on the ESP

DCP-led & owned

Integrated with existing GPE tools

Variation in geography and language

Mobilizing resources is the challenge
Financial Forecast
Key Events Since Last Forecast

- Dollar has continued to strengthen against major GPE contributor currencies over the last six months

- New announcements for funding

- Progress continues to be made in the hedging discussions with the World Bank, although a feasible solution is still sometime away

- Significant progress on the operationalization of the Euro fund has been made

- New investment strategy for GPE Fund to begin soon
## RESOURCES FOR FORECASTING

<table>
<thead>
<tr>
<th>Resource</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Uncommitted Cash Balance 1 July 2018</td>
<td>374</td>
</tr>
<tr>
<td>Balance on Signed Contribution Agreements</td>
<td>704</td>
</tr>
<tr>
<td>Donor Pledges (after discounting for uncertainty)</td>
<td>1,183</td>
</tr>
<tr>
<td>Projections of Additional Contributions - Secretariat Recommended</td>
<td>236</td>
</tr>
<tr>
<td>Projected Carryover from 2018-2020 Approvals (20% of MCA)</td>
<td>399</td>
</tr>
<tr>
<td><strong>RESOURCES FOR FORECASTING PURPOSES (A)</strong></td>
<td>2,895</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 (2013-2018)</td>
<td>(437)</td>
</tr>
<tr>
<td>Provisions for other Grants (Plan Development, Program Development)</td>
<td>(50)</td>
</tr>
<tr>
<td>KIX</td>
<td>(60)</td>
</tr>
<tr>
<td>ASA (including CSEF)</td>
<td>(60)</td>
</tr>
<tr>
<td>Multiplier</td>
<td>(300)</td>
</tr>
<tr>
<td>Provisions for other costs Agency ($50m), Secretariat ($80m), Trustee ($1m)</td>
<td>(131)</td>
</tr>
<tr>
<td>Unallocated (20m indicatively for KIX and 10m for ASA)</td>
<td>45</td>
</tr>
<tr>
<td>Provision for Future Commitments based on MCAs for 2018-2020</td>
<td>(1,812)</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT TO BE SET ASIDE (B)</strong></td>
<td><strong>(2,895)</strong></td>
</tr>
</tbody>
</table>
### SUMMARY

<table>
<thead>
<tr>
<th>SUMMARY (USD Millions)</th>
<th></th>
</tr>
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<tr>
<td>RESOURCES FOR FORECASTING</td>
<td>2,895</td>
</tr>
<tr>
<td>AMOUNT TO BE SET ASIDE</td>
<td>(2,895)</td>
</tr>
<tr>
<td>PROJECTED SURPLUS / (SHORTFALL)</td>
<td>0</td>
</tr>
</tbody>
</table>

- Unallocated funds of US$45 million is essentially the projected surplus
New Pledges

- A formal pledge from the Netherlands was made for 100 million Euros.

- US Congress has approved for USFY18 US$87.5m. This has some remaining steps to be completed for payment.

- A formal top up from Germany was made for 9 million Euros.

- Additional Announcements from Denmark and Germany yesterday not reflected in paper.
Update on Currency Hedging

- The GPE Secretariat has been working in close collaboration with the Trustee.
- After reaching out to all contributors on the possibility of modifying their contribution agreements, the Trustee has since informed the Secretariat that they may have flexibility.
- The Secretariat and Trustee will continue to work with contributors on the feasibility of a hedging solution – latest information from contributors shows solution may be challenging.
Update on Euro Allocations

- The practical implications of a Euro grant have been incorporated into the ESPIG Guidelines and are available on the GPE Website.
- Grants to be approved from 1 January 2019 are able to submit for a Euro allocation.
- The process has begun to modify the contribution agreements and financial procedures agreements.
- Senegal with AFD as Grant Agent has requested ESPIG/Multiplier in Euro.
Update on Investment Strategy

- An in-depth cash flow analysis of GPE’s expected cash flows is currently underway. Once completed, the investment in Model Portfolio 4 will be made.
Summary

Positive progress on mobilizing new donor pledges

FX environment remains challenging (7% Euro depreciation v’s USD in 6 months)

Implementation of June Board decisions on hedging, euro fund, investment strategy on track

Overall financial position is stable
Thank you