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Leverage Fund

June 5, 2017 | Ottawa  
Board of Directors Pre-Board Meeting

# Background

- **Key Recommendation of the Strategic Financing Working Group**
- **Designed to incentivize additional external financing through a co-financed approach with GPE in support of implementation of Education Sector Plans.**
- **Board agreed to create the Leverage Fund with an initial US\$100 million provision (expansion subject to interest and progress)**
- **Finance and Risk Committee tasked to recommend a proposal on eligibility, allocation, and process to apply.**

## Criteria:

- **Enable fair access with prospects for success**
- **Simplified methodology to determine ceilings for individual applications**
- **Test in a range of ESPIG and Non-ESPIG eligible contexts**

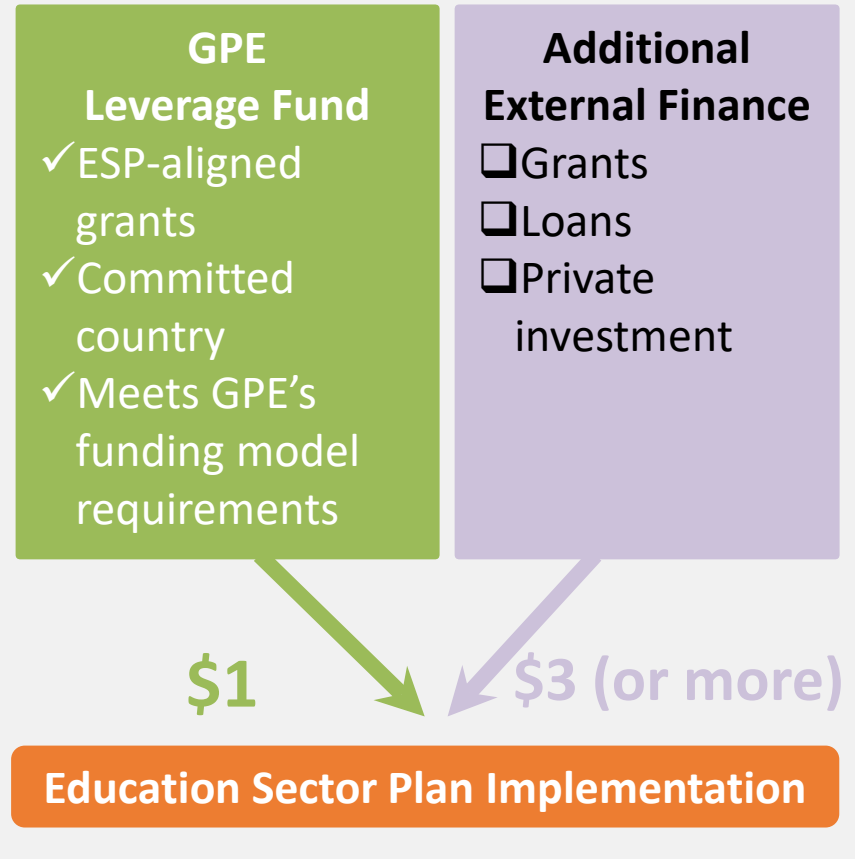
# How it works

Complements existing institutions

## FEATURES

- **Assures quality:** requires a credible ESP, domestic resource mobilization, and data
- **Results-based:** 30% of GPE resources linked to sector-wide results in learning, equity, and efficient & effective systems
- **Creates leverage:** Seeks to exceed the 1:3 floor
- **Ensures additionality:** external finance must be new money, implemented through a co-financed approach

## MODEL

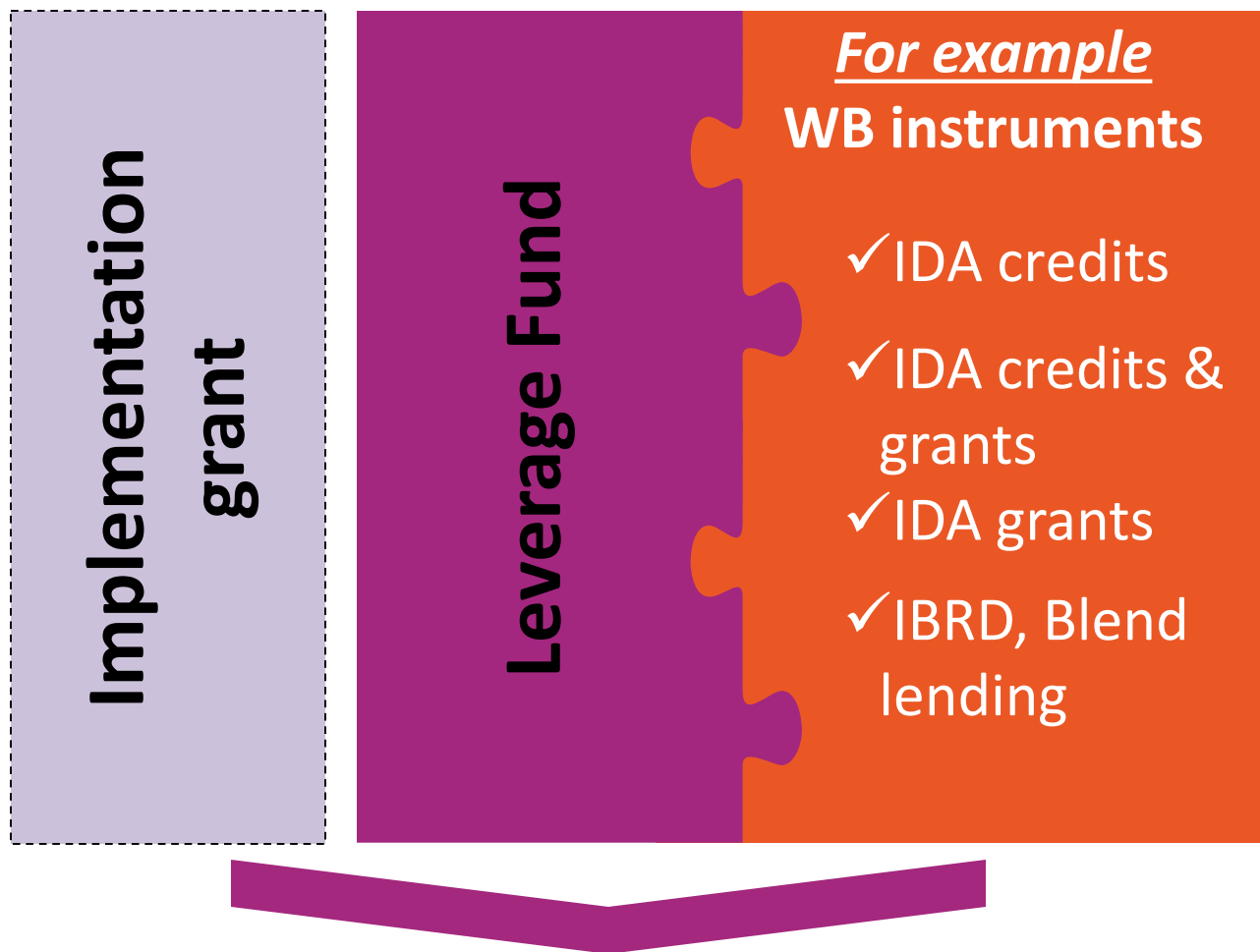


## GPE Leverage Fund

- ✓ ESP-aligned grants
- ✓ Committed DCP
- ✓ Meets funding model requirements

*Source of grant funding to lower cost and incentivize additional external financing*

## Can be combined with grants *or* loans



**Implement high-quality, long-term, country-owned, stakeholder-led Education Sector Plans**

## Can work with a range of instruments and partners

Financing Source	<i>Co-finance instrument</i>
IDA	100% Grant
	50% Grant & 50% Concessional Loan (credit)
	Concessional Loan (credit)
Blend	Concessional Loan (higher rate)
IBRD	Non-Concessional Loan
Regional Dev. Banks	Concessional or Non-Concessional
Bilateral	Grants or Concessional Loans
Private Investment	Grants / <i>Guarantees</i> / <i>Impact Bonds</i>

# Debt Sustainability and Access to Financing

GPE Segment	IDA			Blend	IBRD
	Grants	Grants & loans	Loans		
Low-income countries <sup>1/</sup>	8	15	6	1	0
Small-island / Landlocked Developing States	6	6	0	6	0
Vulnerable LMICs <sup>2/</sup>	6	5	4	4	0
LMICs <sup>3/</sup>	1	2	0	7	11

1/ Includes Eritrea and Somalia, for which a DSA rating is missing, as 'high risk' or 'in debt distress' and eligible for grant-only lending. 2/ Allocates 'Syrian Arab Republic' to 'Grants'-only. 3/ Allocates 'West Bank and Gaza' to 'Grants'-only and India to IBRD

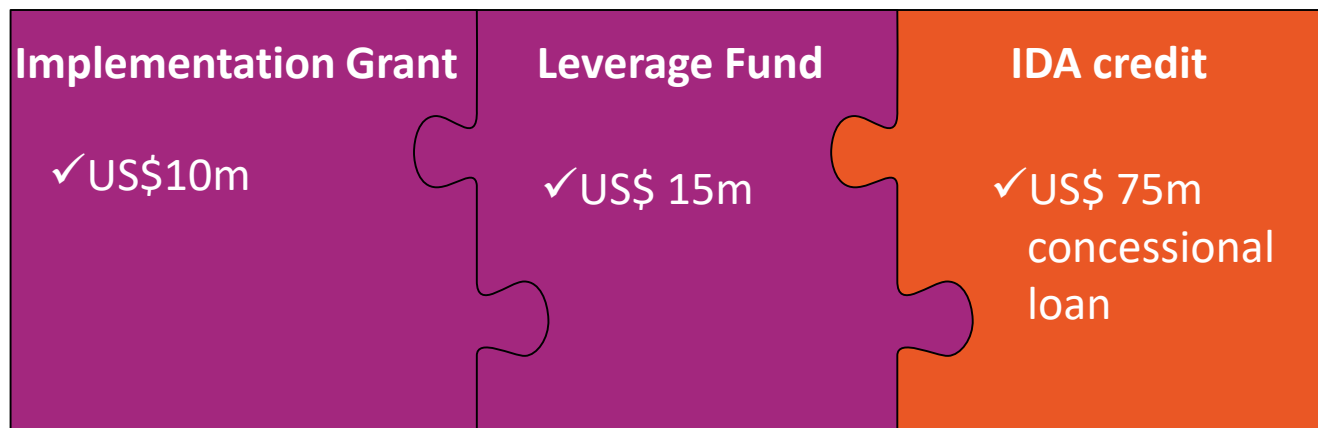


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## For example: Co-Financing with IDA credit in a country at Low Risk of Debt Distress



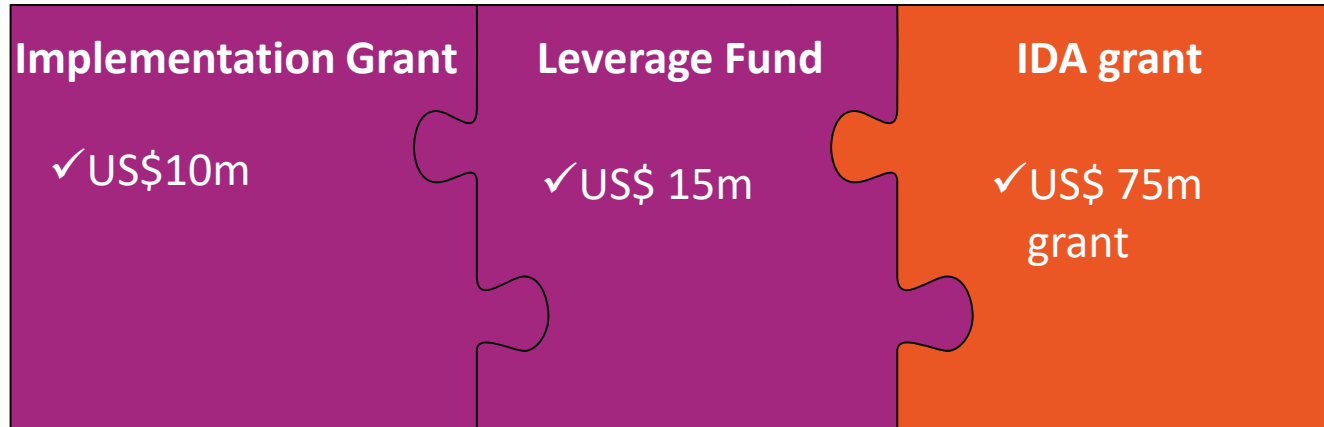
**Implement high-quality, long-term, country-owned, stakeholder-led Education Sector Plans**

# For example: Co-Financing with IDA grant in a country in Debt Distress

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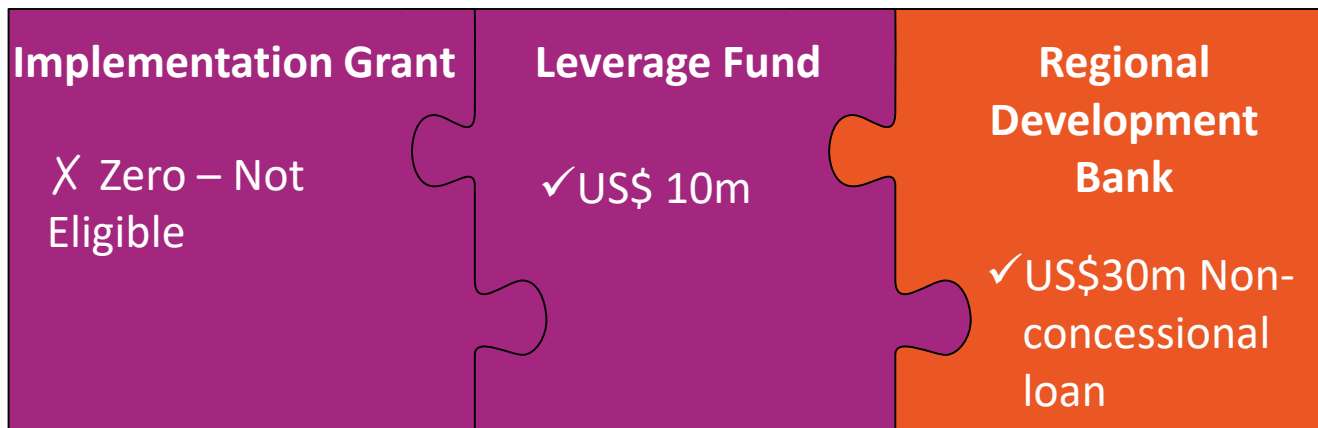


# For example: Buying down a loan package in an LMIC with limited access to concessional lending

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**\$10m  
(Grant)**

**\$30m  
(Loan)**

**\$30m Concessional Loan**

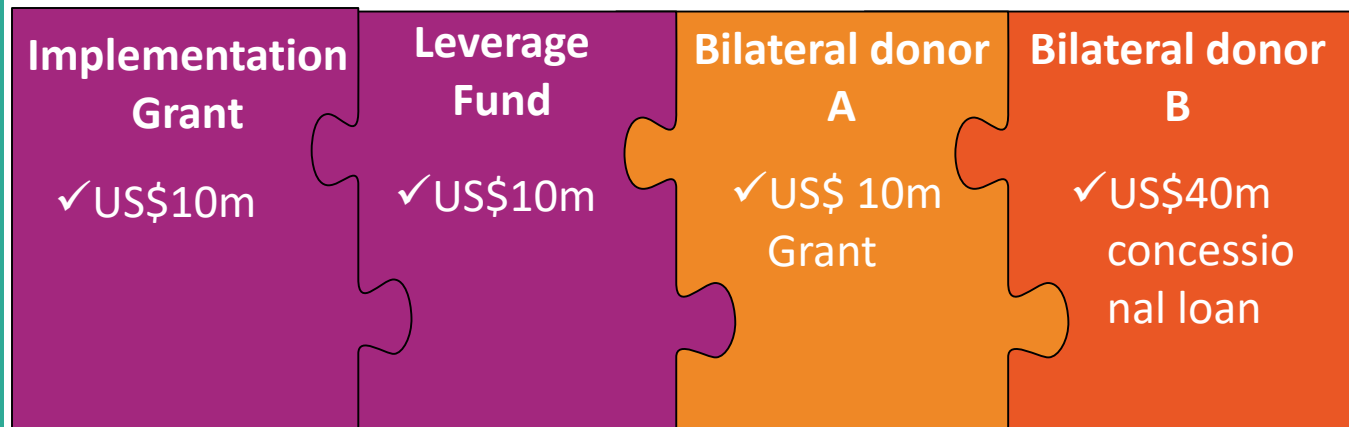
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## For example: Co-Financing with Bilaterals through a Sector Wide Approach



**\$20m  
(Grant)**

**\$70m**

**\$50m  
(Grant  
& Loan)**

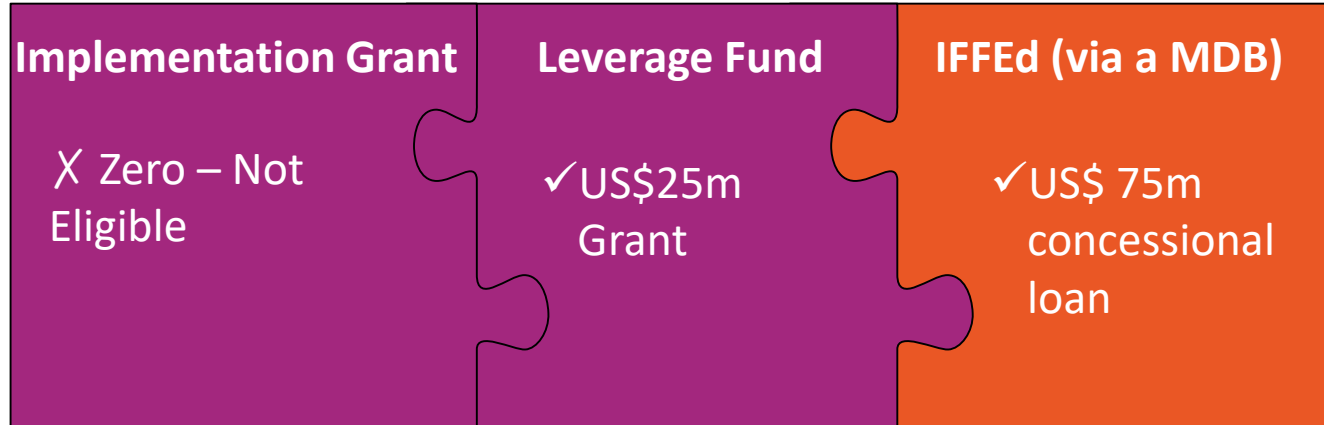
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# Potential: Co-Financing with IFFEd in a LMIC with High Completion Rates but Low Learning Outcomes

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Comments/ Questions?



## Addressing needs across LMICs, vLMICs, and LICs

Test the Leverage Fund in countries eligible for Education Sector Implementation Grants (ESPIGs) and countries that are not

Segment	Leverage Fund approach
<p><b>ESPIG-eligible</b></p> <ul style="list-style-type: none"> <li>• LICs (30)</li> <li>• SI&amp;LDs (18)</li> <li>• Vulnerable LMICs (19)</li> </ul>	<p>Bolsters GPE grant to ESPIG countries</p>
<p><b>Non-ESPIG eligible</b></p> <ul style="list-style-type: none"> <li>• Other LMICs (22)</li> </ul>	<p>Only source of ESP implementation funding</p>

# Eligibility

- US\$100 million sufficient for 5-7 countries
- Challenge: fair access for countries without creating unrealistic expectations of an allocation or significant burden

<b>Country segment</b>	<b>Leverage Fund Priorities</b>
<b>ESPIG-eligible: LICs, SI&amp;LDs, vLMICs</b>	Countries able to apply in 2018 <u>and</u> <ul style="list-style-type: none"><li>• Have allocations “capped” at \$100m <u>or</u></li><li>• Have small allocations of US\$10m or less</li></ul>
<b>Non-ESPIG eligible: LMICs</b>	Countries able to apply in 2018

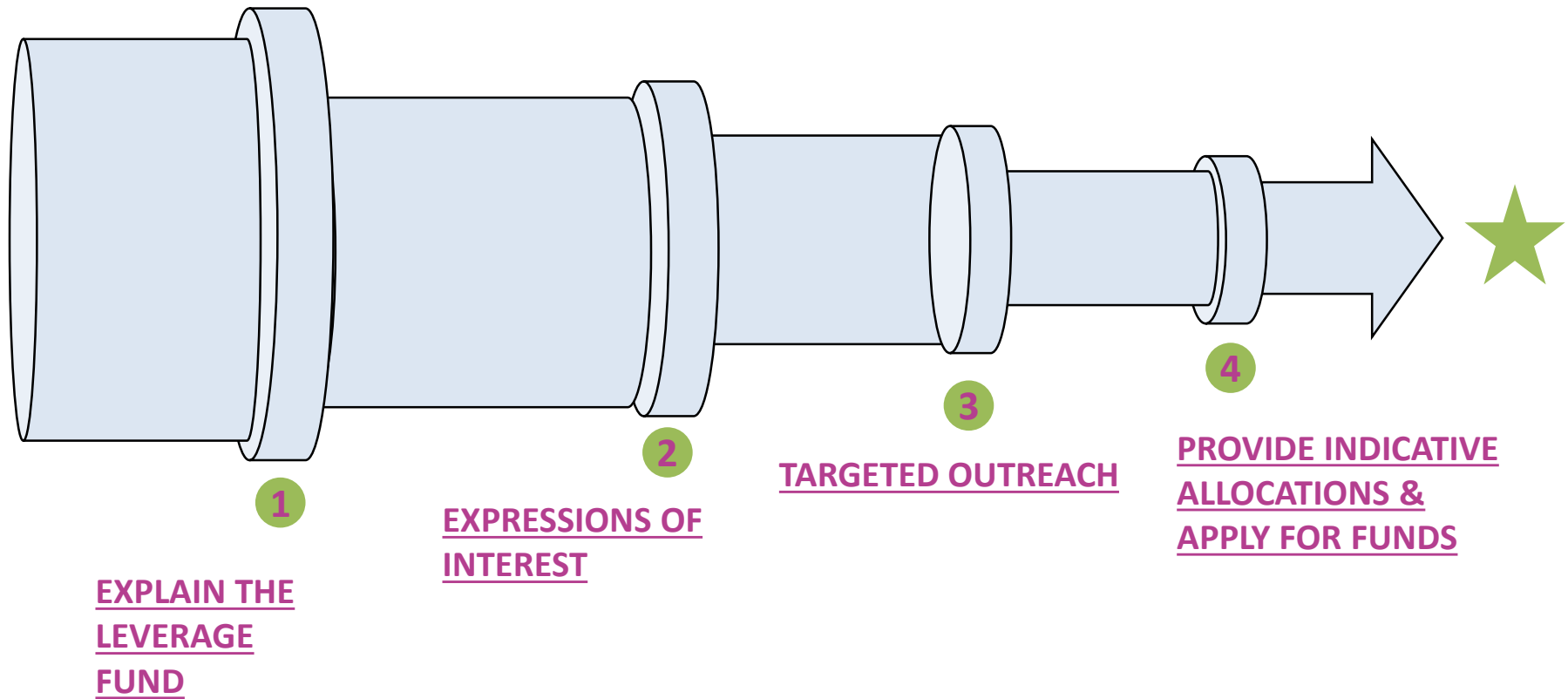
## Allocation Considerations

Simple methodology linked to school-aged population (primary and lower secondary)

Ceiling in US\$	School aged pop	89 Country Portfolio
25 million	+10 million	12
15 million	5 – 10 million	13
10 million	1 – 5 million	35
5 million	100k – 1 million	15
1 million	Less than 100k	14



# Leverage Fund: Process



# Next Steps

Design and rollout underway– will accelerate across 2017 and 2018

## Planning

- Develop eligibility & allocation methodology ✓
- Finalize application process for Board approval ✓
- Informal outreach to potential countries ✓

*March - June 2017*



## Setup

- Formal outreach to candidate Countries
- Expressions of Interest and dialogue
- Allocations for “first round” countries to access

*July - December 2017*



## Launch

- Applications developed and approved

*January 2018 - onwards*

# KEY FRC CONSIDERATIONS

## FLEXIBILITY REQUIRED TO ADJUST PROCESS IF NEEDED AND TAKE ADVANTAGE OF OPPORTUNITIES

- Example - May need to accelerate announcement of a Maximum Country Allocation to ensure additional external financing from partners can be secured for 2018
- Example – While not a priority for outreach, may consider other country cases if there is a good prospect for success. E.g. countries with a higher projected ESPIG allocation than the US\$10 million proposed.

## DEMONSTRATING ADDITIONALITY WILL BE KEY

- For each country, there will need to be a documented assessment to demonstrate how the additionality criteria is met



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