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Girls' Education Challenge

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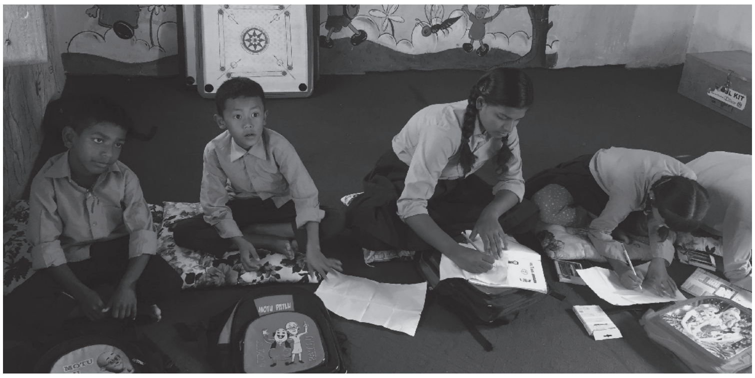
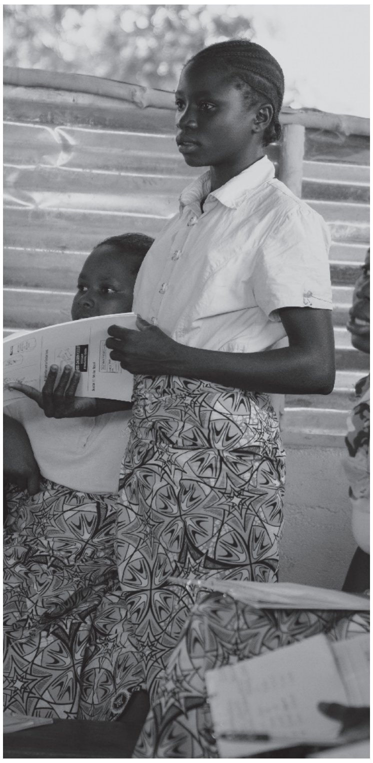
PORTFOLIO IN PRACTICE





NOVEMBER 2023

Money matters: Lessons for responsible financial management from the largest global fund for girls' education

The GEC 'Portfolio in Practice' series consolidates best practice and lessons learned regarding how to drive performance across a complex and diverse portfolio of projects. This knowledge and experience come from the GEC Fund Manager, a team drawn from a consortium of organisations, who manage the GEC portfolio of 41 projects across 17 countries on behalf of the UK Foreign, Commonwealth and Development Office (FCDO).

This series is aimed at individuals and organisations (including Fund Managers, INGOs, donors, foundations and consultants) involved in managing large portfolios. The briefs provide practical guidance on how to set up technical, operational and managerial systems or tools to ensure that a large and diverse set of projects effectively delivers for girls. They also provide reflections on successes, challenges and lessons learned.

Introduction

The Girls' Education Challenge (GEC) is the largest global fund aiming to improve the educational opportunities for the world's most marginalised girls. The GEC portfolio is comprised of 41 projects, operating across 17 countries in Africa and Asia. The GEC Fund Manager (FM) has managed this portfolio of projects on behalf of the UK Foreign, Commonwealth and Development Office (FCDO) since 2012, providing stewardship of £855 million of public funding. The FM's fiduciary responsibility has been to ensure the effective and efficient use of public funds to enable successful GEC programming and learning outcomes.

The flow of funds on the GEC is as follows:

1. The FM requests GEC funding from FCDO based on project forecasts. FCDO remits payments to the FM
2. Implementing partners request funds from the FM on a quarterly reporting basis (in arrears)
3. The FM reviews and approve implementing partners' requests for funds and approves the disbursement of funding

Each project is implemented by a lead organisation, often in partnership with multiple implementing partners. These 41 project consortia are made up of over 196 suppliers, including:

- International non-governmental organisations (INGOs)
- National/locally operated non-governmental organisations (NGOs)[1]
- Local civil society organisations (CSOs)
- Consultant practitioner and implementer organisations
- Academic and research organisations
- Private sector companies

The GEC implementing partners operate in highly complex and challenging environments across Sub-Saharan Africa and South Asia, many of which are classified as the highest risk territories in Transparency International Corruption Perception Index[2], with a diversity of scope, size, approach and budget, and varying levels of financial management capacity – thus making the FM leadership on financial management paramount to the GEC's success.

Implementing partners are assessed on their technical and programme management capacity and capability, however, financial management capacity can vary depending on a number of factors such as size of the organisation and previous funding experience which varies depending upon donor organisations' appetite for financial risk. For example, large international NGOs receive support and oversight from headquarter teams. However, smaller NGOs and CSOs often have less previous experience to draw upon and/or limited access to external support. This results in different approaches to financial management and reporting. As a result, there are varying levels of associated risk which can include:

- Funds not being utilised as planned
- Inaccurate financial reporting and forecasting
- Limited capacity to implement and adhere to internal controls to meet fiduciary minimum standards
- Under-reporting of fraud in high-risk projects

Therefore, the challenge for the FM was to develop a systematic approach to manage the financial risk associated with this diverse group of implementing partners, and to monitor and measure the stewardship of FCDO funds. The financial management approach developed and implemented across the lifecycle of the GEC has allowed the FM to fulfil its fiduciary responsibilities to successfully manage and disburse resources to implementing partners, which has facilitated impactful educational outcomes for over 1.6 million marginalised girls.

This Portfolio in Practice Brief outlines the way the FM supported, built capacity and strengthened implementing partners' approach to financial management. The following sections look at the different components of financial management, how progress and achievement was assessed throughout the project/grant cycle and how support was provided by the FM team. The final section looks at the lessons learned across the portfolio.

"The FM's fiduciary responsibility has been to ensure the effective and efficient use of public funds to enable successful GEC programming and learning outcomes."

The Girls' Education Challenge (GEC) is the UK Foreign Commonwealth and Development Office's (FCDO) 12-year, £855 million Global Fund which aims to improve the educational opportunities of the world's most marginalised girls. The GEC is comprised of two types of projects: 1) GEC-Transition (GEC-T) projects, which work within schools and support girls most at-risk of dropping out; and 2) Leave No Girl Behind (LNGB) projects, which target highly marginalised girls who have already dropped out or who have never been able to enrol in school.

[1] For the purposes of this brief, community-based organisations are included within this classification.

[2] Transparency International is a global movement working in over 100 countries to end the injustice of corruption. Their Corruption Perception Index ranks 180 countries and territories around the world by their perceived levels of public sector corruption, scoring on a scale of 0 (highly corrupt) to 100 (very clean).The CPI for 2022 can be found here.

Effective structures for financial management

Financial management refers to the budgeting, accounting, internal control, funds flow and financial reporting arrangements by which the GEC projects receive funds, allocate them and report on their use.

Sound financial management is a critical component of the GEC to achieve impact in an efficient manner as it provides:

- Reliable and value-added information for timely and transparent decision-making
- Assurance to FCDO that funds are being used efficiently for the intended purposes to maximise impact
- Prevention against misuse of funds, using effective financial controls

From the outset, the FM recognised that the most sustainable way to manage the financial risk associated with the GEC fund was to work with the implementing partners to improve their financial management and accountability environment. This was achieved by building and maintaining strong relationships with the implementing partners throughout the lifecycle of the project and providing hands on financial management support.

The FM created these relationships through its dedicated Finance Team (*Figure 1*) to provide robust financial management, using systems and procedures that adhered to good practice in programme management and accounting standards, together with the wider objectives of financial risk management and programme effectiveness.

The primary focus of the GEC Finance Lead is to provide financial oversight of the GEC Fund and the financial management environment, from a financial risk perspective. This includes fund disbursement, financial reporting, monitoring and forecasting of the GEC fund and all cross-cutting finance issues.

The GEC Finance Manager oversees the day-to-day operation of the GEC Finance Team and liaises with FCDO and the wider GEC team on all and finance related issues.

A Finance Officer is assigned a group of projects and is the dedicated finance point of contact for each project within their portfolio providing support on a day-to-day basis on all aspects of the GEC Financial Risk Framework (*see below*).

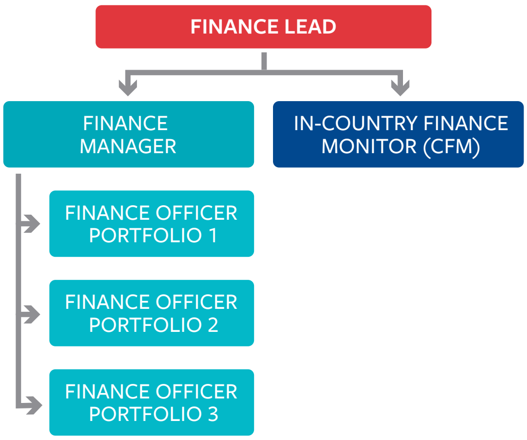


Figure 1: Structure of the Finance Team

"From the outset, the FM recognised that the most sustainable way to manage the financial risk associated with the GEC fund, was to work with the implementing partners to improve their financial management and accountability environment."

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The GEC Financial Risk Framework

The FM developed a rigorous and robust Financial Risk Framework to support the financial management of the GEC programme and systematically assess and mitigate financial risks. The main areas of focus of the GEC FM's Financial Risk Framework include:

- Financial due diligence and continuous financial risk management
- An adaptive budgetary management approach
- Effective financial reporting and monitoring for transparency and accountability of public funds

The following sections elaborate on each of these areas, highlighting the ways the FM developed risk mitigation measures to scrutinise each project during project inception, supported projects during implementation and built capacity throughout.

1. Financial due diligence and financial risk management

Project inception

Financial due diligence provides FCDO with assurance over the risks that could threaten the effective use of GEC funds. Successful grant applicants underwent a financial due diligence assessment of the governance and internal control systems and financial management processes (in place throughout the project delivery chain), to determine that they were fit for purpose and met the FM's minimum standards. They also ensured that the implementing partners had the capacity to manage the risks associated with the management of the grant.

The GEC due diligence approach is framed around four broad pillars:

1. Governance and internal control
2. Ability to deliver
3. Financial stability
4. Downstream activity

The outcome of the financial due diligence exercise provided an overall statement of financial risk for each project, outlined in the table below. It also identified any areas of weakness or gaps in financial management capacity that may present risks to the operation of the GEC grant.

High risk	Represents a situation where systems significantly divergence from good practice and/or there is widespread lack of compliance with many of the controls within the system. Mitigating actions are either not possible or highly challenging to implement.
Substantial risk	Represents a situation where the systems fall short of good practice in a number of areas and/or there are numerous weaknesses in compliance with many of the controls within the system. Mitigating actions could be put in place to suitably reduce the risk to acceptable levels.
Moderate risk	Represents a situation where the systems broadly reflect good practice, although there may be some gaps or inefficiencies and there is a credible commitment to addressing key weaknesses. Mitigating actions could be put in place to improve systems and processes.
Low risk	Represents a situation where the systems broadly reflect good practice and there is routine compliance with the majority of controls within the system. The organisation may wish to consider improvements.

Table 1: GEC financial risk ratings

The assessment areas covered under each of these pillars are set out in the diagram below.

Governance and internal control	Ability to deliver	Financial stability
Governance Fraud management and whistleblowing policy Internal control Risk management Safeguards Transparency Ethics	Performance Staff capacity and capability Programme management	Financial viability Financial management and reporting Audit Policies, procedure and systems Value for money

Downstream activity			
Due diligence: Governance, financial stability and ability to deliver	Delivery chain risk management	Monitoring and management	Fraud management

Figure 2: FCDO's four pillar approach to due diligence

The FM recognised that the risks identified in implementing partners' systems of internal control would need to be mitigated and this was achieved through the application financial strengthening measures, which were included in the implementing partner's contractual Accountable Grant Agreement (AGA). These measures are usually short-term and implemented during the inception phase (usually six months). The FM maintains a register of all projects strengthening measures to track progress and verify the implementation of the measures. See Box 1 below for an example.

After the project inception phase, the GEC projects moved into their implementation phase, and the FM's approach to the management of financial risk became more systematic. The FM developed financial management policies and procedures to manage risks in this phase.

Case study 1: An implementing partner contracted to the GEC, subject to the implementation of financial strengthening measures

The Financial Management Assessment of a small local NGO at the due diligence phase identified gaps and weakness in the financial management of the organisation. The overall statement of financial risk assigned to the project was 'Substantial'. The associated risks to the GEC were mitigated through the inclusion of the following strengthening measures in the AGA for the project.

Applicant required to submit for FM review and approval an updated Finance Manual, to include control procedures for cash disbursements to beneficiaries before any cash disbursements are made.

Within Quarter 1 the applicant to establish an approved Salary Scale for GEC employees benchmarked against existing positions.

Within one month of the project start date the applicant is to establish approved levels of delegated financial authority.

Within one month of the project start date the applicant is required to recruit suitably qualified finance staff to meet the additional capacity requirements of the GEC project and ensure adequate segregation of duties.

The applicant is required to submit due diligence reviews of downstream partners before a disbursement to downstream partners can take place.

Over the inception phase of the project, the FM tracked the progress of the project in implementing the strengthening measures, by requesting supporting documentation as well as verification by the in-country Finance Monitor where required. The project met all of their strengthening measures within the required timelines and the project's financial risk rating was reduced to 'Moderate' for ongoing risk monitoring.

Project implementation

During project implementation, the overall statement of financial risk, assigned to the implementing partner at the financial diligence phase, is reviewed and updated on an ongoing basis, to provide the FM with up-to-date financial risk ratings for each project. The FM maintains the GEC Financial Risk Register, which logs all risks and issues as they emerge throughout project delivery. Financial risk ratings are determined from the review of self-reported financial statements, financial monitoring and oversight, reported incidents of fraud, misuse of funds or whistleblowing reports, high risk activities and changes in the overall operating context.

The ongoing assessment of risk is underpinned by a risk-based financial monitoring process to provide assurance of project performance in the stewardship of funds and projects ability to mitigate financial risk throughout the life of the project.

An In-Country Finance Monitor (CFM) is assigned to each project and carries financial monitoring assignments on using a risk-based approach (*see Figure 3*). A project's up-to-date financial risk rating informs the frequency and scope of each assignment, and this risk-based approach ensures that the FM's resources are directed to higher risk projects.

The FM's financial management approach is designed to mitigate the risk of the misuse of GEC funds[3] at as early a stage as possible. This is an intrinsic part of the FM's financial management processes, which include:

- Programme budgetary management and scrutiny
- The review of projects' financial and activity information for approval of grant disbursement
- Financial oversight and monitoring

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[3] The FM defines the 'misuse of funds' as: *"the unauthorised use of GEC funds for purposes not originally intended or approved in the project application form. Misuse can be caused inadvertently (such as negligence, weak management systems or error) or as a result of deliberate actions (such as fraud/corruption, theft, abuse)".*

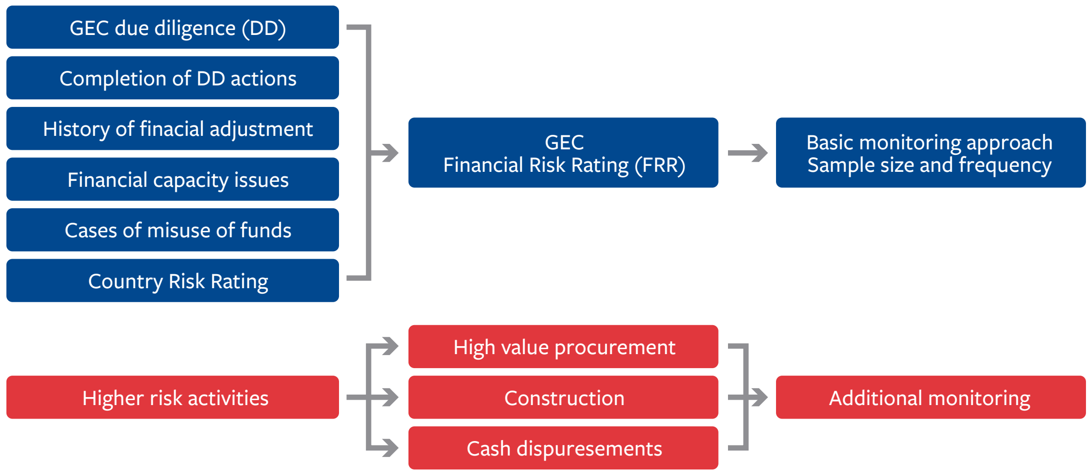

Figure 3: The GEC risk-based approach to financial monitoring

The FM's fraud management process aims to assure FCDO that the risk of aid diversion is mitigated as a priority. GEC projects and FM team members are aware of their responsibilities to fraud management and robust fraud reporting mechanisms are in place. These are outlined in further detail in Annex 1.

Providing support and building capacity

The outcome of the financial due diligence exercise not only provided each project with an overall statement of financial risk, and the basis for the ongoing assessment and monitoring of financial risks, it also identified weaknesses or gaps in a project's internal systems of control and financial management capacity.

This risk statement also provided projects, especially smaller NGOs and CSOs, valuable insight into specific areas for development, with comparisons against best practice. It is a useful tool to build financial management capacity as attention is drawn to risk controls that are missing, or should be strengthened, to help meet the minimum financial standards for project delivery. The FM Finance Team has worked with the implementing partners to support and measure the resolution of the financial strengthening measures included in their AGA.

As a result, smaller implementing partners have reported that engagement with the GEC has greatly improved their organisation's financial management capacity with a better understanding of the impact of best practice finance principles, including staffing and resource levels, adequate finance systems and software, and governance and oversight from finance committee, internal and external audit.

The FM provided a series of financial management webinars at the launch of the GEC programme. Throughout project delivery, the financial monitoring process have provided ongoing assessment of current and potential project risks and includes a feedback session or report to projects on the findings of each monitoring exercise along with actions to mitigate the escalation of risks.

The FM has provided support through capacity building activities which vary depending on the level of financial risk, ranging from one-to-one calls between the project finance team and their responsible finance officer to resolve reporting inaccuracies or minor concerns through to applying financial performance improvement measures (PIM) where issues emerge during project delivery which pose significant risk to the implementation and operation of the GEC grant (*see Box 2*).

Case study 2: A targeted intervention by the FM where there is a risk to implementation and operation of the GEC grant

Following a routine monitoring assignment of a GEC project, issues were raised in relation to the reporting of cash disbursements to beneficiaries (a GEC high risk activity).

The Finance and Portfolio Teams worked in collaboration to develop terms of reference for an investigation to address key risks and provide an understanding of how FCDO/GEC funds had been used. This included a targeted financial monitoring and verification visit.

The findings raised concerns in relation to both programmatic and financial management capacity. The FM responded by working with the implementing partner to identify and implement appropriate financial risk mitigation measures. These were implemented across a fixed period, with monthly meetings to support the implementing partner and ensure that the project stayed on track.

Feedback from the project following the completion of the PIM included that although the PIM was not desired and despite its stringent measures, the organisation was able to learn and improve their capacity in different areas including records management, improving the safety and wellbeing of children, proper planning, and budget projections for risk management.

"We are proud as an organisation that, supported by the FM from grassroot level, we are now recognised at international level."

Head of Finance, Implementing Partner

2. Adaptive budgetary management

Another area of focus of the GEC FM's Financial Risk Framework is budgetary management, which is a priority of the FM to ensure effective management of the overall GEC fund. Although important at the project level, the budgetary management process allows the FM to provide FCDO with accurate fiscal year analysis to support funding allocations.

Project inception

At the contracting stage of the GEC, each project's budget underwent detailed analysis and evaluation to ensure that budgets were aligned to programme plans to meet both the project's and the GEC programme outcomes – and that they are an accurate representation of expenditure for the duration of the project. The output was the final approved and contracted project budget.

Project implementation

The highly complex and challenging environments in which the GEC projects operate require an adaptive approach to allow implementing partners to respond to situations outside of their control. Across the lifetime of the GEC, the FM has supported projects in the response to the COVID-19 pandemic, the changing political situation in Afghanistan, and environmental challenges such as floods and drought, all of which have impacted GEC beneficiaries' access to education.

As well as changes outside of their control of GEC, implementing partners are also able to discuss with the FM the key strengths and weaknesses within their planned activities.

Implementing partners may experience the need to adapt their plans to respond to these changing environments by revising workplan activities and targets. The FM has developed an adaptive budgetary management approach which ensures that budgets remain aligned to the workplan by providing the ability for implementing partners to revise their budget on a regular basis and apply to reprofile funds to meet changing contexts. This adaptive budgetary management approach dovetails with the GEC Review and Adaption Meeting (RAM) process (*see Figure 4*).

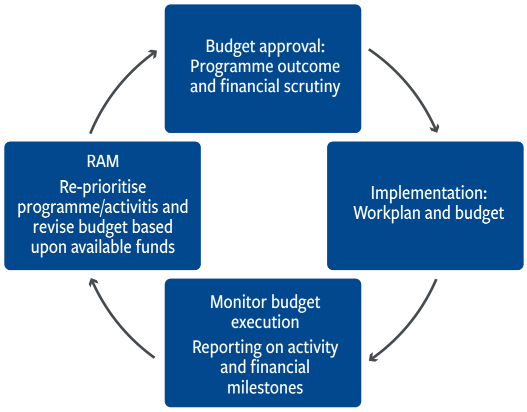

Figure 4. The budgetary management cycle on the GEC

The RAM is a pre-requisite to the revision of a project budget and the Finance Team support the implementing partners through identification of underspends arising from changes to planned implementation. The outcome of the RAM is a revised project workplan and budget which the Finance and Portfolio Teams scrutinise for alignment of planned activities and associated costs for the continuation of programme implementation.

The Review and Adaptation Meeting process

In order to support projects to continuously adapt and improve, six-monthly **Review and Adaptation Meetings** (RAMs) are conducted. These meetings, held between members of the project team and the FM, provide an opportunity to discuss overall progress and challenges and, if necessary, to adjust workplans and budgets (within the agreed total and to achieve the same overall outcomes) with input from technical specialists as required.

This approach prompts regular reflection at project level to check progress against the theory of change, interrogate the set of strategies being employed, and facilitate projects to adjust their approach and adapt as necessary. This ensures that activities are leading towards the intermediate and high-level outcomes set out in the project logframe.

In 2020, following a Strategic Review, the FM recognised that projects implement on an activity basis, so, a budget that aligns costs and expenditure with the workplan would provide projects with better budgetary control and management. As a result, Activity Based Budgeting (ABB) and reporting was introduced. Through categorising key GEC themes into activities and sub-activities, the ABB approach provides the FM and FCDO with intuitive and value for money analysis on how GEC funding is being spent.

ABBs quickly proved to be a key financial management tool as it improved the FM's ability to:

- Assess a project's planned activities to achieve project outcomes and outputs and whether they are reasonable and realistic
- Evaluate the project's budget through the costed activities in terms of reasonableness, eligibility, and value for money
- Forecast and profile the overall fund in a more informed way

ABBs became the basis for financial reporting for implementing partners, providing the FM with better insight on the breakdown of expenditure for measuring performance against workplan and budgets, making projects more accountable for budgetary control.

The FM supported projects in moving to activity-based budgeting and reporting processes through a series of dedicated webinars and training sessions on the concept of ABB. Where required, one-to-one support was provided to projects to help build capacity in the ABB process.

Feedback from implementing partners has indicated that the introduction of ABBs was a key learning point and the principles have been used across other interventions and donor programming.

3. Effective financial reporting and monitoring for transparency and accountability

The final key area of focus of the GEC FM's financial management approach is an effective system for financial reporting and monitoring of the GEC fund. The FM's financial management approach includes robust processes for financial reporting and monitoring which promote accountability and transparency from GEC implementing partners.

The FM requires reliable financial information on the implementation of the GEC fund to:

- Identify areas of financial risk. For example, correlation between expenditure and activity completion sheds light on how allocated funds are being used or not used, if the fund is being used as intended and reaching the target beneficiaries, and the possibility of fraud risk.
- Indicate areas where the financial management capacity need strengthening, for example poor budgetary management, inability to accurately forecast expenditures and cash management are indicated through financial variance reporting.
- Support overall fund management, effective financial reporting and forecasting. This strengthens the FM's ability to manage the GEC resource budget and support FCDO in funding decisions (fiscal allocations and disbursements).

Project inception

At the outset, the FM embedded robust reporting requirements for projects to meet. Some GEC grant recipients initially considered these requirements to be more onerous than other development programmes or donor requirements they had experienced, and this required FM support to strengthen the financial management capacity of the implementing partners to enable them to meet their GEC reporting obligations.

The FM facilitated in-country launch events to bring projects together regionally and included sessions covering finance compliance responsibilities, including reporting requirements. The FM reporting obligations were formalised and documented in the GEC Grant Recipient Handbook[4] which accompanies the AGA.

"On the whole, the Activity Based Budgeting experience was positive as this gave high-level budget updates and opportunity for partners to see financial numbers alongside the workplan, to track their performance and make corrective actions where necessary."

Finance Team member, Implementing Partner

[4] The Grant Recipient Handbook communicates the expectations and reporting requirements that the Grant Recipient needs to fulfil during the life of your GEC Accountable Grant Arrangement/ Contract.

In the first phase of the GEC projects most projects were paid in advance, which resulted in some projects being funded in excess of need and holding GEC cash balances. FCDO amended this in later phases so that all projects were paid in arrears. This allowed the FM to enhance visibility and accountability over spend. However, FCDO recognised that some smaller 'not for profit' organisations would not have the funding reserves to pre-fund their projects and introduced the use of mobilisation and/or ad hoc payments to fund the initial time lag between early implementation and the first payment in arrears.

Project implementation

Financial reports submitted by projects help to measure the stewardship of their GEC grant on a regular basis. GEC projects submit quarterly expenditure and activity level reports (in arrears) on an activity basis, and these undergo FM scrutiny to assess both financial and programme performance, before funds are disbursed.

For each implementing quarter, the FM will establish if the implementing partner has met all compliance requirements for the release of funds contained in the AGA.

This includes, but is not limited to, achieving the relevant activity targets as set out in the workplan.

Funding is disbursed to projects based on the reported achievement of two milestones:

1. Demonstrated project progress against workplan
2. Proportionate expenditure against budget and in line with workplan

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GEC projects' financial reporting requirements allow the FM to assess the achievement of these milestones and include:

- Detailed expenditure reports on a quarterly and fiscal basis, categorised at project delivery level, cost category level and activity level. A quarterly workplan tracker is submitted alongside the financial reports to allow the FM to assess the achievement of milestones.
- Variance reports which track fiscal and quarterly expenditure and workplan activity completion with rationale required for +/- variances with the corresponding quarterly budget, forecast and activity targets outside authorised thresholds. Variance reporting explains performance against the approved budget and work-plans and demonstrates project accountability and value for money.
- Regular expenditure forecasts in advance of, and during the reporting period. This ensures project accountability by operating within budgetary constraints and FCDO fiscal allocations and thresholds.

Accuracy in fiscal year forecasting

The FM's engagement with projects in building financial management capacity, be it financial reporting, budget setting or execution and forecasting, has provided the basis for better management of the overall fund. This has provided an informed basis to resource forecast modelling and key requirement of the FM's reporting to FCDO.

The FM has consistently met the fiscal allocation targets provided by FCDO and reported finalised outturns with exceptionally low variances against annual targets (meeting a KPI requirement of a 2%).

Ongoing financial monitoring throughout the lifecycle of the GEC provides assurance on projects reported financial information and effectiveness of their internal systems of financial control.

The FM conducts regular in-country monitoring on a risk basis, to verify the eligibility of reported project expenditure and assess whether the financial accountability obligations of the GEC are being met.

"Financial reports submitted by projects help to measure the stewardship of their GEC grant on a regular basis."

Providing support and building capacity

From the outset, the FM understood the varying levels of implementing partner capacity in financial reporting and the necessity to build capacity in this area to reduce the overall financial risk to the operation of the GEC fund. The FM introduced new reporting initiatives as the programme progressed in response to changes in the operating environment and FCDO reporting requirements, for example, reprofiling of fiscal year underspends, the introduction of ABB and reporting and, as projects started to close out, the disposal of fixed assets.

The FM has introduced reporting requirements and built project capacity throughout the lifecycle of the GEC programme, engaging with project finance staff, through early GEC launch events, Operational Working Group sessions dedicated to financial management themes, Finance Roundtable meetings, training webinars and guidance notes.

These events outlined GEC financial management processes, systems and reporting requirements with the aim of promoting best practice within projects and thereby contributing to greater project efficiency, value for money, programmatic impact and results.

Case study 3: Evidence of improved capacity in financial reporting across a range of implementing partners

An International NGO acknowledged that, despite having strong systems of controls in place, donors tend to have different sets of requirements which they aim to build into project planning and learn from them to improve project management. They cited one example of where they adapted was in standardising their downstream partner financial monitoring and compliance reports.

A UK-based, leading education charity, reported that as a result of their engagement on the GEC their finance and programme teams across the countries they work in have developed their reporting and forecasting skills together which has greatly improved teamwork. They cited that they have become more skilled at budgetary re-profiling and more accurate at costing using adapted templates linking to unit costs.

A small local NGO acknowledged that the introduction of GEC reporting requirements to their organisation have provided learning points, they have been able to reflect the financial reporting principles in their other interventions.

The FM finance team has also provided targeted support to build capacity of implementing partners who struggled with some of the GEC with financial reporting requirements to ensure that submissions are accurate, on time, complete and with adequate supporting information. GEC Finance Officers liaise closely with their portfolio of projects at key reporting intervals.

Case study 4: Financial capacity building through individual interventions with an international NGO

Ongoing concerns with financial reporting, budgetary management and forecasting by an INGO, operating as lead implementing partner on a GEC project, indicated financial management capacity issues.

The FM responded with targeted capacity building measures which commenced with a dedicated, in-person, finance workshop with the implementing partner's finance staff. This gave the FM Team better insight of the finance processes and the interaction with the GEC processes. It also gave the implementing partner a better understanding of its GEC financial management compliance responsibilities. The FM provided detailed walk-throughs of GEC processes which focused on the areas where financial management capacity had fallen short of expectations.

The FM continued to closely monitor the financial management capacity through financial reporting submissions and provided ongoing feedback to keep the project on track. The implementing partner responded well to the FM's interventions and marked improvements were demonstrated through variance reports.

Implementing the GEC Financial Risk Framework: A value for money perspective

The overall impact and results of the FM's Financial Risk Framework is demonstrated through the FM management of the fund, captured in the GEC logframe. The FM has consistently met the fiscal allocation targets provided by FCDO and reported finalised outturns with exceptionally low variances against annual targets (meeting a KPI requirement of a 2%).

Fund management is captured in one Output Indicator and the resulting outcomes are reflected in the GEC's four Outcome Indicators: girls' enrolment, learning, transition and project sustainability. These results are assessed on an annual basis via FCDO's Annual Review. Since 2017, the GEC has obtained an A rating, and most recently an A+. These scores reflect the investment needed to, and the value generated from, managing implementing partners and their financial performance.

The actual investment required can be measured in terms of the time it takes for FM staff to manage and support implementing partners, through day-to-day conversations, meetings, report reviews and feedback in the form of management strategies.[5] To conduct these activities across the 41 projects and lead organisations, the FM had nine full-time members of staff on the Finance Team (*outlined in Figure 1*).

The amount of time each staff member spent managing and supporting a project, particularly with regard to achieving the components of the financial risk framework, varied based on need. There were three levels/categories of support that the FM provided, which included:

1. Business as usual (BAU) support
2. Light touch support over and above BAU
3. Intense support over and above BAU

These categories of support are outlined in Table 2, which elaborates on the activities that were carried out in each category, the percentage of projects that were in each category and the amount of FM staff time that was required. The level of effort varied significantly by project type. There were a high number of projects in the intense support category, which is a reflection of the difficulty and complexity of targeting the highly marginalised girls, who were often located in fragile and conflict-affected contexts.

Financial risk management is one of the largest FM costs, second only to management of project implementation – managing financial risk is essential to the delivery of an ambitious programme such as the GEC. A highly technical and fully resourced financial team, including in-country finance monitors, is needed to mitigate risk and navigate the complex contexts within which the GEC operates. Projects operating in fragile and conflict-affected contexts, or partners with weaker financial capacities require more FM time in order to manage and mitigate risks.

"Financial risk management is one of the largest FM costs, second only to management of project implementation – managing financial risk is essential to the delivery of an ambitious programme such as the GEC."

Type of support	Activities provided by FM	Specific activity examples	% of GEC projects/ partners in this category	FM person days required per year
BAU support	Strategic oversight of the three components of the framework	Payment approval and disbursement, budget review, contract variations, financial monitoring, fraud management.	30%	22 days per project, 728 days for the portfolio[6]
Light touch support over BAU	Support for some areas of improvement or change in the three components	Feedback and focused guidance on incorrect or incomplete report submissions (budget revisions, financial reports, forecasts)	25%	18 days per project,
Intense support over BAU	Intense support due to poor performance (50%) or factors related to fragile and conflict-affected contexts (50%)	Implementing and reviewing Performance Improvement Measures (PIM). Enhanced financial monitoring. Serious fraud case management.	45%	32 days per project,

Table 2: Allocation of FM resources to support financial risk management

[5] We have not provided monetary costs as these will vary over time and context. Fund managers and projects should use the number of days provided and type of staff specified to calculate their own relevant costs.

[6] These days apply to a portfolio of 41 projects.

Lessons and recommendations

The GEC FM developed a robust and multifaceted financial management approach in response its fiduciary responsibility and stewardship of managing a large and complex FCDO fund. The financial management principles and processes were developed and adapted to control and mitigate the unique financial risks associated with the programme to facilitate the implementation of the fund by a diverse portfolio of projects working across different contexts.

Based on over 10 years of developing, evolving and implementing this financial approach, we have collated a set of lessons and recommendations for those who are interested in adapting it for their own use.

1. Financial risk management is a continuous process

Financial due diligence assessment at an early stage provides a vital snapshot of the financial arrangements of implementing partners at a point in time. It identifies and assesses strengths and weaknesses in the systems and controls for management of the fund. It allows for risk mitigation and capacity-building measures to be put in place to meet minimum standards required for the successful operation of the fund.

However, this early assessment of risk is not in itself enough to manage the financial risk across the lifecycle of the fund and a risk-based approach to financial management will be required to continue to mitigate and monitor the risks identified at inception. A risk-based approach to financial management helps the FM to ensure resources are directed to higher risk projects.

2. Work in collaboration with implementing partners

From outset, the FM recognised that the most sustainable way to manage the financial risk associated with the GEC fund was to work with the implementing partners to improve the overall financial management and accountability environment. This allows the FM to:

- Build on the varying levels of financial management capacity of the implementing partners by supporting them to strengthen their internal control systems, allowing for better budgetary and expenditure management and accurate financial reporting
- Provide accurate fiscal management of the overall fund and support FCDO in fiscal allocation decisions for the GEC

It is also clear from discussions with project teams that involvement in the GEC has had a significant impact on many delivery organisations in terms of capacity building. The financial management policies and processes developed as part of GEC delivery have been adopted more widely throughout these organisations. Internal systems have been strengthened because of risk mitigating measures and robust budgetary management. These have now been incorporated into programmes and projects beyond girls' education. In addition, the personnel who have worked on GEC projects have come away with skills and expertise that they are now applying to work in other fields.

3. Develop an adaptive approach to budgetary management

An adaptive budgetary management approach gives implementing partners the opportunity to review and take timely corrective actions which provides better assurance that allocated funds are being used in an efficient and effective manner.

4. Well-designed financial reporting processes are a key component of the overall financial management approach

The role of financial reporting in the stewardship of the fund cannot be over-emphasised. It ensures transparency and accountability in the use of the fund to all its stakeholders.

A strong financial reporting environment provides the basis for the continuous measurement and monitoring of financial risk environment to ensure that the financial risk mitigation measures and controls are working. Financial reporting should include making implementing partners accountable for variances from planned activities and expenditure which helps to mitigate the risk of funds not being directed to their intended use.

Well-designed financial reporting processes provide the basis for better management of the overall fund and support decision making on fiscal allocations by FCDO.

Annex 1: Managing fraud and aid diversion on the Girls' Education Challenge

The Girls' Education Challenge (GEC) implementing partners operate in highly complex and challenging environments across Sub-Saharan Africa and South Asia, many of which are classified as the highest risk territories in Transparency International Corruption Perception, with a diversity of scope, size, approach and budget and varying levels of financial management capacity.

The challenge of the GEC FM is to mitigate the risk of the misuse of GEC funds[7] at as early a stage as possible and the GEC fraud management approach has been developed, in accordance with FCDO Programme Operating Framework (PrOF) approach to the management of fraud, corruption and aid diversion. The approach consists of clear procedures for the reporting. Management of incidents of fraud and is an intrinsic part of the FM's Financial Risk Framework.

The Fraud Management Process is supported by the GEC Finance Team, utilising a fraud reporting platform, which provides GEC a secure access website for projects and FM colleagues to interact on fraud cases in a consistent and managed way.

The GEC Finance Team works with projects in reporting and managing fraud cases, ranging from simple frauds such as theft of assets, to more complex cases with a higher risk of corruption which may require escalation within the FM and to FCDO.

The Fraud Management Process is supported by the FM Finance Team, utilising an online fraud reporting tool which provides a secure access website for projects and FM colleagues to interact on fraud cases in a consistent and managed way. Being one central source of information, the FM was able to apply consistency when interacting with projects on their fraud cases and encourage regular secure interaction with them. The tool also had useful functions for management of cases that greatly aided in efficiency interacting with projects e.g., setting time bound actions for projects to complete and a facility for securely uploading attachments/fraud investigation reports. The tool was used for the majority of cases, with the exception of some more complex cases, where regular email communications, calls and meetings were relied more upon, with any subsequent summary information captured by the tool.

The GEC Finance Team interact directly with the GEC lead partners on reported incidents of fraud, whereby a Finance Officer works with project finance staff on setting actions and maintaining regular updates on fraud case progression. The FM has a dedicated Fraud Manager, responsible for the overall management of fraud cases, who supports the finance officer on case progression, liaises directly with projects on more complex cases and reports to FCDO.

The FM leverages this experience in fraud management to continually improve its fraud management processes and delivery of high quality and timely information to FCDO, whilst working with projects to improve their internal fraud detection and remediation processes.

"The GEC Finance Team works with projects in reporting and managing fraud cases, ranging from simple frauds such as theft of assets, to more complex cases with a higher risk of corruption which may require escalation within the Fund Manager and to FCDO."

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7 The FM defines the 'misuse of funds' as: *"the unauthorised use of GEC funds for purposes not originally intended or approved in the project application form. Misuse can be caused inadvertently (such as negligence, weak management systems or error) or as a result of deliberate actions (such as fraud/corruption, theft, abuse)"*.

Lessons

Working with lead projects on fraud cases

Throughout the GEC programme, the FM has reviewed and provided input to projects on reported incidents of fraud and subsequent investigations to progress fraud cases to resolution and closure.

Whilst most reported fraud cases (by volume) relate to small thefts and misuse of funds, there is a wide range of complexity of fraud cases, ranging from basic opportunistic thefts of assets (e.g., laptops, phones and motor vehicles), to more complex cases aid diversions (e.g., procurement fraud). Fraud case types varied and we saw a broad spectrum of categories across various projects and country contexts.

A summary of the fraud case types can be found in Table 3:

Fraud category	Count	%
Theft/damage of assets	89	34%
Misuse of funds	54	21%
Procurement fraud	47	18%
Other	29	11%
Theft of funds	21	8%
Irregularities in recruitment	16	6%
Unknown	4	2%
Total	**260**	**100%**

Table 3: Fraud cases by fraud category

Clear trends in types of fraud cases were only minimally observed. "Theft/damage of assets", "theft of funds" and "misuse of funds" fraud case types were observed fairly evenly across the whole portfolio of projects, with no clear trend.

Some countries had higher incidents of certain frauds (e.g., "irregularities in recruitment" in Afghanistan), but overall, the main types of fraud cases were fairly evenly distributed across the portfolio of projects.

The length of implementation and number of projects in country also didn't necessarily correlate with the amount of reported fraud cases.

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Country	Irregularities in recruitment	Misuse of funds	Other	Procurement fraud	Theft of funds	Theft/ damage of assets	Unknown	Total
Afghanistan	7	13	11	13	5	4	1	54
Kenya	1	3	2	9		21	2	38
Sierra Leone		6	1	4	2	10	1	24
Uganda	2	9	3	2	4	3		23
Malawi		1			3	18		22
Ghana		1		1	1	17		20
Nepal	1	5	2	7		4		19
DRC		7	2	1	3	5		18
Zimbabwe		2	2	2	2	3		11
Somalia	1	2	3	3		1		10
Pakistan	2	2	3	2				9
Mozambique	1	2			1			4
Ethiopia				2		1		3
Tanzania		1		1		1		3
Nigeria	1					1		2
Total	**16**	**54**	**29**	**47**	**21**	**89**	**4**	**260**

Table 4: Fraud cases by fraud category and country

In certain countries, the FM observed higher reported fraud cases (e.g., Afghanistan, Sierra Leone), in line with increased country risks and fragile and conflict-affected situations status.

Where fraud cases are deemed to be higher risk and/or complex, the FM has in place an approach to escalate to senior members of the FM team and in some cases, leverage the assistance of counter fraud specialists and FCDO Counter Fraud Unit specialists where applicable.

When more complex cases are reported, the Fraud Manager hosts an early discussion with the lead partner management team which provides a platform for projects to discuss their approach and help set the expectations of their investigation from the outset. The FM will assist the lead partner in setting the investigation terms of reference and scope, particularly for more complex cases.

A summary of the FCDO risk categorised fraud cases can be found in Chart 1:

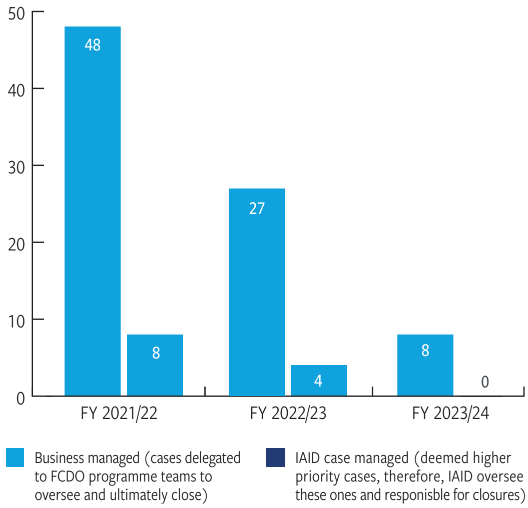

Chart 1: Cases by FCDO type

*note: FCDO case types ("Business managed" and "IAID case managed" were introduced in 2021.

Fraud cases took longer to close than the aim of one GEC quarter (as stipulated in the project Accountable Grant Agreements). The average closure time for fraud cases was 313 days across the whole portfolio (250 closed cases to date). There were some observable trends with less complex cases taking much less time to close, and conversely, more complex cases taking longer than average to close.

The delays experienced were for a range of different reasons, including: delays with downstream partners, investigations taking longer than expected, impact of COVID-19 on investigations, layers of review at downstream partner and lead partner investigation teams, and capacity constraints in gathering evidence in a timely manner. A summary analysis of days to close fraud cases is shown in Chart 2.

The FM worked with projects continuously over the course of the programme to improve turnaround time, and this was most evidently observed in the <180 non-complex cases, where noticeable improvements were observed as the programme continued. A key incentive for projects was the reminder of their obligations under their AGA, and the potential withholding of entire Request for Funds (used in only very limited circumstances with the need to balance risk and cash flow implications).

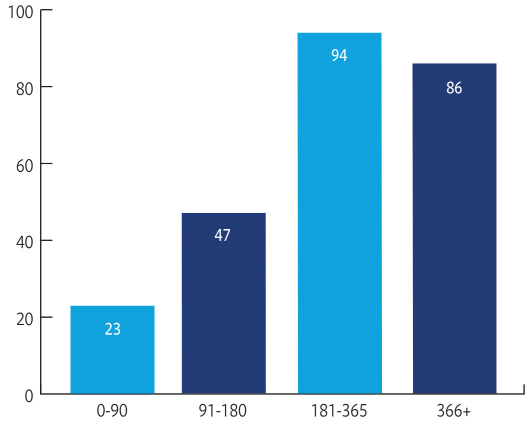

Chart 2: Days to close fraud cases

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The FM works continuously with implementing partners to improve their understanding of the GEC fraud management process and set the expectations on what good reporting looks like. Upon completion and submission of projects investigation reports to the FM, the Finance Team reviews and provides feedback to lead projects and their teams on any gaps in their investigation reports.

As a result of findings from investigations and to close a fraud case, the FM helps lead projects to implement improvements in their financial risk management controls environment by setting risk mitigation measures and ways in which to monitor improved controls. Separately, the FM has mechanisms in place to mitigate exposure of GEC funding, such as deductions to fund disbursement and/or withholding proportion of funds as deemed appropriate.

Overall, the FM found that open and consistent lines of communication were essential in helping report, investigate and close cases, with at least monthly touch points from finance officers with projects to update on case progress and actions. This also greatly helps in maintaining progress with cases and ability to report to FCDO.

The following case studies outline the end-to-end fraud management process for reported incidents, including the FM response where incidents of reported fraud are deemed complex and sensitive.

Case Study 1: The fraud management process for reported incidents of fraud

A project reported allegations of procurement fraud identified through regular internal monitoring fieldwork. The procurement was immediately halted and the FM held a meeting with the lead partner to understand the allegations and discuss and agree the terms of reference of the proposed investigations. An estimate for the procurement amount at risk was noted and held as an adjustment to the project's next request for funds.

The lead partner investigation into the matter substantiated the allegation that the subject of complaint (SOC) had circumventing the established procurement process. The lead partner also investigated previous transactions connected to the SOC regarding procurement but found that no other irregularities were noted.

Risk mitigation measures included disciplinary action by dismissal of the SOC and final warning to their line manager. Procurement Committee members were reminded of their responsibilities and improvements to procurement controls were actioned by the project.

These enhanced controls were included in quarterly testing by the GEC Country Finance Monitor in their subsequent monitoring round and found to be operating effectively. The case was subsequently discussed with FCDO and closed.

Case Study 2: The fraud management process for complex incidents of reported fraud

The FM received an email from a whistleblower (a recently resigned project country director) with serious allegations of misuse of GEC funds through ongoing tax issues, financial instability, bribes and terrorist financing. This project was operating in a designated fragile and conflict-affected situations country.

The whistleblower also made allegations of safeguarding and security issues regarding bullying of staff by senior management, unsafe employment practices putting staff at risk and ineffective implementation of safeguarding processes (reported separately).

The FM immediately identified the allegations as highly sensitive and escalated to FCDO. A select cross FM workstream team was established to manage the initial response and investigation approach in consultation with FCDO.

An independent incident investigation was undertaken in collaboration with the head office of NGO in question. Terms of reference were established by the FM and the investigation was supplemented with an in-grant financial due diligence assessment.

Under FCDO guidance, fund disbursements were withheld until the investigation was complete, with subsequent release subject to approval at higher levels within FCDO.

The outcome of the investigation, included setting reform milestones for the project, which included enhanced monitoring, due diligence, an independent safeguarding investigation and Performance Improvement Measures.

The overall approach to transparent and open fraud reporting and close collaboration with projects in the management of fraud cases has improved outcomes for fraud management.

Importantly, it has also served as a valuable tool for capacity building in this area by providing opportunities for implementing partners to improve their internal approaches to fraud management. The FM also found improvements in the reporting of subsequent fraud submissions from lead projects.

The FM leverages the experience of GEC In-Country Finance Monitors (CFMs) to carry out any independent review as part of their regular monitoring (e.g., physical confirmation of replacement of assets, testing of new finance controls) to provide additional comfort and feedback to projects on fraud mitigation measures. CFMs were able to understand gaps and opportunities to provide feedback on enhancing controls and improving fraud reporting and detection. CFMs also leverage their close relationships with project staff to provide ample opportunities for them to confidentially report fraud allegations. They were also on hand to advise on GEC fraud reporting procedures. This approach was especially useful in complex cases where project capacity may be limited or where the CFM experience would be beneficial to the outcome of the project's investigations.

Regular touch points with FCDO on the high-risk, complex cases allows for good channels of communication and helps deliver effective investigation responses to those cases. The FM found that the risk profiling of cases greatly helps focus efforts and FM resources on the higher risk frauds, where more experienced members of the team could manage, whilst maintaining a level of appropriate management for the lower risk cases.

Fraud reporting to FCDO

Each reported incident of fraud is reported to FCDO's Fraud Investigation Team within Internal Audit and Investigations Directorate, within a key performance indicator target of two days. The FM's management of fraud also includes regular reporting deliverables and review sessions with the FCDO to provide updates on case progress, overall trends and opportunities to discuss specific cases in more detail.

Monthly fraud reporting to FCDO, via a fraud case tracker report, provides high-level analysis of fraud case progress by project, country, type (e.g., theft, procurement, misuse of funds) and ageing of cases. The report also provides the granular detail of each case allowing FCDO to review the details of each case update as needed. The monthly fraud report provides an important risk mitigation tool for FCDO by being kept informed regularly of fraud cases progress and details and allowing opportunity for any follow up guidance or advice.

The FM also hosts quarterly fraud update meetings with FCDO to provide an overview of case progression and an opportunity to discuss specific cases in more detail. The quarterly fraud update meeting is attended by FCDO's Fraud Investigation Team within Internal Audit and Investigations Directorate members and PwC GEC Fraud Team.

In the earlier days of the GEC programme, each individual case was discussed at quarterly meetings. The FM worked with FCDO to assess the effectiveness of this approach and it was subsequently revised into a more risk-based approach to focus on higher risk and complex cases. The FM found that these sessions allow for more focused time to discuss the higher risk complex cases and help provide more detailed information and discussions with FCDO, including agreeing on next steps and actions.

Conclusion

The FM has worked with FCDO Counter Fraud Unit, lead implementing partners, FM colleagues and fraud specialists to continually improve its approach to fraud management. Through direct interactions with projects, meetings with FCDO and internal fraud updates, the fraud management process has been refined and updated as the programme developed. The success of this fraud management approach has been borne out by the quality of fraud case resolution and dedication of input to lead projects on improving their own fraud processes.

Girls' Education Challenge

UKaid
from the British people

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