

I. INTRODUCTION

1. A meeting of the Catalytic Fund (CF) Committee was held in Dakar, Senegal, on December 10, 2007. It was chaired by Joy Phumaphi, Vice President, Human Development Network, World Bank. The list of participants, including CF Committee members and observers, is attached in Annex 1.

2. A binder containing background documents circulated to members of the Committee before the meeting was made available to participants. The documents were: (i) the 2007 CF status report; (ii) an implementation progress report for all 23 countries receiving CF grants; (iii) a summary table of the allocations presented at the meeting; (iv) summary documentation for the four countries being presented: Ethiopia, Guinea, Sao Tome and Principe, and Senegal; (v) a one-page chart on Catalytic Fund process; (vi) an updated proposal for a Needs and Performance Framework to guide CF allocations; and (vii) a note clarifying CF eligibility criteria.

3. The agenda items for this meeting included:

- a. A presentation on the Catalytic Fund Status Report, including financial situation and progress since the Bonn and Washington meetings;
- b. Requested, proposed and recommended allocations to Ethiopia, Guinea, Sao Tome and Principe, and Senegal; and
- c. Outstanding issues: update on Mozambique, process for resolving outstanding operational issues, links with strengthening country-level processes task team, allocation mechanism, and a possible replenishment mechanism.

4. In her introductory remarks, the Chair welcomed meeting participants and thanked donors for their continuous support to the CF trust fund. She gave a brief update on progress since the last Committee meeting in September 2007, including improved process and documentation to strengthen the quality of CF grant operations; and grant processing and implementation for the six new recipients at the Bonn meeting. And finally, she explained the process and steps followed for the four countries being considered for CF funding at the meeting (see paragraph 2 above). These steps are as follows: (i) countries requested allocations based on estimated financial needs; (ii) local donor groups proposed amounts taking into account implementation capacity; and (iii) finally the FTI Secretariat recommended amounts based on the CF Allocation Guidelines approved by the Committee¹.

¹ This is known as the step-down approach which aims at ensuring that CF funding does not replace regular sources of education funding (government budget, multilateral and bilateral). The key assumption in this operational model is that existing donor funding increases by 50% over the three-year period.

II. CATALYTIC FUND STATUS REPORT

A. PRESENTATION

5. On behalf of the FTI Secretariat, Desmond Bermingham presented the key messages from the CF Status Report. Since the last meeting in September 2007, two new donors, Australia and Romania, have become donors to the CF. However, the CF still relies heavily on two donors, the Netherlands and the United Kingdom, which account for 75% of total pledges. With the sharp drop in pledges in 2009, it is projected that the fund will be under strong financial pressure, unless donors increase their long-term support. This is particularly important for those that have not yet programmed their future budgets. In response to anticipated shortfalls by the spring 2008 CF meeting, some donors have started looking for a longer-term replenishment cycle so as to move away from the year-to-year pledges mechanism currently in place. This concept will need to be developed further under the guidance of the CF Committee. In terms of the fund's performance to date, it was indicated that 65% of funds pledged had been allocated, 51% of those received were committed, of which 72% were disbursed.

6. Among the six new recipients approved in Bonn, only Mali had signed its grant agreement. For others, transitional processing delays have occurred for various reasons, including the introduction of new steps to align and strengthen CF operations. These steps include an assessment of country systems (financial, procurement, and institutional assessment), which will need to be done ahead of the request for funding in the future; and the preparation of a more comprehensive documentation package for CF processing, which will build on existing documentation with better alignment to country systems. Finally, it was reiterated that, where the World Bank is Supervising Entity (SE) for the CF grant, supervision of the grant should be a joint responsibility of the World Bank education Task Team Leader (TTL) and the local donor group. This is an important step for the Partnership, and guidelines for making it operational are being developed.

7. On the legal side for mobilizing donor contributions, it was noted that the revised CF Administrative Agreement (AA) has been circulated and approved by most donors, except the European Commission and Germany. Due to legal constraints which could take time to resolve, these two donors cannot accept an Administrative Agreement which allows for a Supervising Entity other than the World Bank. As result, a separate Multi-Donor Trust Fund (MDTF) associated with the CF and governed by the CF Committee has been created to accept their financial contributions.

8. A revised Model Grant Agreement has been prepared for use by the Country teams when drafting grant agreements. Such a model provides more clarity on the difference between Project and Program approaches used to channel CF resources.

9. In terms of reporting on implementation progress, it was noted that for the first time, the CF Committee meeting documentation included a draft consolidated update covering all 23 recipient countries as requested by the Committee in Bonn. This was still work-in-progress which will be refined and updated periodically in coordination with local donor groups. In terms of expenditure patterns, a short review conducted by the Secretariat on a sample of 10 CF recipients shows that a large part of CF funds were used on books and learning materials (47%), while 12% was spent on teachers' salaries. Such findings appear to be consistent with the aim of

using CF support to improve learning quality, and with the fact that the bulk of teachers' salaries are supported by government budgets.

10. Finally and looking ahead, the Secretariat commented on the projected FTI endorsement schedule over the next few years. It was mentioned that the Education Sector Plans for Bhutan, Burundi, and Zambia are expected to be submitted for endorsement by the end of 2007 or early in 2008. In addition, it is projected that education sector plans would be endorsed for seven more countries later in 2008: Central African Republic, Chad, Haiti, Malawi, Papua New Guinea, Uganda and Vanuatu. If these projections are realized, the CF will come under added financial pressure, and the 10-15% of unallocated pledges to date would be insufficient to meet the needs.

B. DISCUSSION

11. Members of the Committee were pleased with the constant quality improvement of the meeting documentation, and especially the Status Report. They appreciated the progress update on all 23 CF recipient countries; but with a further request that the Secretariat add an executive summary to highlight some of its key findings. It was also recommended that an effort be made in assessing results and outcomes, which go beyond the inputs/outputs type achievements that were presented.

12. Spain confirmed its strong commitment to the FTI in general, and to the CF trust fund in particular. In its latest Education Strategic Plan, the country allocated €200 million to education in 2007, and €400 million in 2008 (mostly to basic education), with an aim to reach the 0.7% of GNI target by 2012. A CF donor since 2005, Spain will substantially increase its initial commitment to the CF of €15 million over three years to reach €45 million in 2007 and at least comparable amounts in 2008 and beyond.

13. The Netherlands informed the Committee that it will continue to support the CF trust fund over the next 3 to 4 years at its current level, provided that other donors (both current and new ones) step up their support as well. The reliance on a very small group of donors is risky for the fund. Moreover, there is a growing reluctance on the part of the main donors to provide such a big share of resources. The long run sustainability of the fund is therefore dependent on others increasing their contributions.

14. In discussing further, the following additional comments were made:

- a. There is a need to further explain the concept of joint supervision of CF grants.
- b. Instead of input indicators, it would be useful to look at results or outcomes. Moreover, reporting on progress against targets should be updated with actual numbers when these become available.
- c. Members asked for a detailed explanation from the World Bank in the cases where it cannot join in the most aligned modality agreed in country.
- d. Regarding replenishment, some Committee members asked whether a proactive replenishment mechanism could be developed to avoid deficit situations in the future. This was identified as a strategic communications issue that each individual donor needed to take on within his/her own organization.

- e. In some beneficiary countries, a downward trend in both government and external financing has occurred after CF funding was granted. In these cases, it will be important for partners to analyze the reasons why the CF has not worked as intended—i.e. it has not catalyzed additional resources. Further, a trend line of external funding (both bilateral and multilateral) should be added to the report, which would help evaluate where CF funding may be crowding in or out other sources of funding. In this context also, all education financing at country level (domestic, external, CF) should be reported year by year.
- f. In view of the upcoming financial pressure on the fund in early 2008, some members restated that the CF should not aim to fill the projected financing gaps in endorsed countries, but to help countries on a short-term basis to mobilize other resources. The calculation of CF allocations to countries should take into account the projected pressure on the Fund.
- g. It was noted that one reason for this financial pressure on the CF was its relatively low profile. Other big funds have much more visibility, allowing them to leverage more support from donors. The CF should adopt a more pro-active fund raising strategy as well.
- h. Some members asked that the Secretariat do a short study on the various disbursement mechanisms possible in recipient countries. Pooled funding in particular seems to be understood differently by the various donors. A review of the current mechanisms used in beneficiary countries would also be useful.
- i. Some CF members were surprised at the low rate of CF funding allocated to teachers' salaries. The Secretariat explained that the rate reported was based on a review of only 10 countries, with at least one year of implementation. This low figure was likely resulting from cautiousness on the part of early recipient countries, since CF allocations initially spanned only one year. Under the new rules (3-year allocations), this rate would probably rise.
- j. It would be useful to have a synthetic view of disbursement rhythms in beneficiary countries, showing also the date of grant agreement signature.
- k. The Committee asked that the Secretariat ensure that reports from joint annual reviews be included in the CF report. The Secretariat will work on systematizing reports from joint reviews.

15. To respond to some of the concerns about the “catalytic” effect of the CF, the Secretariat mentioned the proposal included in the FTI process chart to hold a “consultative group” meeting right after endorsement where donors would be challenged to fill the identified financing gap. It is hoped that this meeting will help to mobilize additional resources from bilateral and multilateral sources at the country-level, so that the CF should be able to fill the remaining financing gap.

16. The Secretariat will report CF grants outcomes based on best available data. At the next CF meeting, the Secretariat will provide a short review of financing modalities in CF beneficiary countries.

17. The Chair offered the possibility to use the next World Bank/IMF Spring Meetings to gather ministers of development and finance from both developing and donor countries in order to promote FTI more aggressively.

III. CATALYTIC FUND ALLOCATIONS: PRESENTATIONS AND DECISIONS

A. SUMMARY

18. The CF Committee allocated a total amount of US\$270.34 to four new countries (see table below). To date, CF grants have been allocated to 27 countries with endorsed sector plans for a total amount of US\$1,070 million.

Country	Allocations 2008/2010 (in US\$ millions)
Ethiopia	70.00
Guinea	117.80
Sao Tome and Principe	1.04
Senegal	81.50
TOTAL	270.34

B. ETHIOPIA

19. The local representative of USAID, co-lead agency with the Netherlands in Ethiopia, presented the country's situation and request for funding. The Committee members asked clarifications on progress indicators, GEQIP donors, and the proposed financing modality. They were concerned that the strict application of the step-down formula created a perverse result in the case of Ethiopia, where the financing needs seemed much larger than the allocations proposed by the local donor group and recommended by the FTI Secretariat. Some members noted a worrying downward trend in government financing to education in 2010 and 2015. Others questioned whether the program costs, roughly constant over the relevant period, would allow for the planned increase in enrolments and improvements in student/teacher ratios and quality of learning. The absorptive capacity was also questioned, and it was noted that greater needs could be met if the support was not limited to being channeled through the GEQIP.

20. USAID explained that several options were possible in terms of financing modality, and that the country could absorb large amounts of financing in a transparent and efficient manner.

21. The Committee approved an initial allocation of US\$70 million to Ethiopia for the next three years (2008-2010) based on the allocation guidelines. However, it was also agreed that the country could come back to the Committee within this period for a higher allocation if fully documented and justified. At a minimum, the request for additional allocations should include: (i) an implementation progress on the initial allocation; (ii) clarification on grant implementation modality, absorptive capacity and a more coherent evaluation of program costs in line with projected results and targets. The decision on when the country would come back to the Committee with such a request was left to the Government and the local donor group.

C. GUINEA

22. The education TTL of the World Bank, lead agency in the education sector in Guinea, presented the country's situation and funding request. Committee members asked clarifications on the gender situation in the sector and the level of government financing. The World Bank mentioned that the country had undergone an extensive audit of all ministries, and that after implementation of on-going reforms, the country may be ready for direct sector budget support.

23. The CF Committee approved an allocation of US\$ 117.8 for Guinea over a three-year period (2008-2010) as requested.

D. SAO TOME AND PRINCIPE

24. On behalf of the lead agency, UNDP, who could not come to Dakar, the World Bank education TTL presented the Education Sector Plan and the CF funding request from Sao Tome and Principe. The Secretariat clarified that the CF Committee had agreed in Cairo that no country would be granted an amount of less than US\$1 million per annum, regardless of their size. This level of additional funding was judged necessary to make a significant difference in progress toward FTI goals. It was also explained that the financing gap in the appraisal report (US\$1.2 million) was the result of a simulation model developed by the FTI Secretariat which, because of the small size of the country, created some distortions. The local donor group had therefore revised the gap and proposed a higher amount of US\$3.6 million.

25. The Committee raised questions on the aid modality which was still under discussion. The World Bank responded that the FTI process in Sao Tome had been a "learning by doing" experience, and that donors would come to conclusion on the implementing agency for the CF grant shortly after the meeting. In view of the small amount requested, the Committee asked whether the donors already present in country could meet these needs. In response, the World Bank noted the limited number of in-country donors that provided support on specific/targeted activities. Thus CF support could catalyze donors around the implementation of the fully costed and comprehensive education strategy.

26. While discussing the case of Sao Tome, the Committee raised two broader issues: (i) the possibility to have developing country officials present their funding request at the CF meeting, which would allow them to answer questions on their plans immediately; and (ii) the need to revisit the approach to CF support in small countries. No agreement was reached on these issues; and it was recommended that they be tabled at the next CF Committee meeting.

27. The Committee approved an initial allocation of US\$1.04 million for Sao Tome and Principe for the three-year period 2008-2010, consistent with the calculation of the financing gap provided in the documentation. It also requested that the government and members of the local donor group submit further documentation for consideration of an increased allocation up to the amount requested (US\$3.6 million). This documentation should include answers and clarifications about: (i) better estimates of the overall program cost and three-year implementation plan; (ii) the country's implementation and absorptive capacity for additional resources; and (iii) the CF grant modality along with the Supervising Entity. Given the small

amounts involved, examination and approval of such a revised request would be done virtually and as soon as possible.

E. SENEGAL

28. The Agence Française de Développement (AFD, France), lead agency in Senegal, presented the country's plan and funding request. The Committee asked clarifications on the country's school construction program and the government's capacity to implement it. Further questions were raised on the decline in donor support between 2006 and 2007, and the modality chosen for grant disbursement. AFD responded that, in focusing on construction, the government responded to a consensus among partners on the need for stronger action in this sector to improve access, as emphasized during the last joint sector review. The contracting process would need to be monitored closely, but the implementation of the construction program would not be hindered by a lack of capacity.

29. The local donor group in Senegal asked for the possibility to present a report to the Committee on the implementation of the first tranche of the CF grant prior to the release of the second tranche. This would aim at giving assurance to the Committee that the adequate level of monitoring was in place. The Secretariat explained that a report on the satisfactory implementation of CF grants was common practice for all tranche releases, but it was usually done by the Supervising Entity in close collaboration with government and members of the local donor group, without the need to involve the CF Committee directly.

30. The Committee approved an allocation of US\$81.5 million to Senegal over a three-year period (2008/2010). It was agreed that the local donor group will report back to the Committee on the satisfactory implementation under the first tranche before access to second tranche is granted.

III. OUTSTANDING ISSUES

A. PENDING DISCUSSIONS

31. Due to time constraints, the Committee decided to postpone discussions on various outstanding issues (process for resolving outstanding operational issues, links with strengthening country-level processes, allocation mechanism, replenishment mechanism, CF eligibility criteria). It was agreed that exchanges on these issues would start by email and continue at the next meeting of the CF Committee in Tokyo (Spring 2008).

B. UPDATE ON MOZAMBIQUE

32. Since the CF allocation decision to Mozambique made in May 2007 in Bonn, the government and members of the local donor group have had extensive discussions to agree on the preferred grant modality. The lead agency, the Netherlands, and the World Bank, sought guidance from the Committee. It was explained that currently, a pooled fund mechanism called FASE is in place and supported by most local donors. Due to issues related to procurement, the World Bank is unable to join this pooled fund under its current arrangements. The following three options were presented: (i) an addendum/amendment is made to the MOU, which would allow the World Bank to participate in the pooled fund arrangement under FASE; (ii) the CF

grant is channeled through General Budget Support, with proposed mechanisms to guarantee that funds accrue to the Education Sector; or (iii) an alternative Supervising Entity (other than the Bank) is selected.

33. The government of Mozambique expressed preference for the use of FASE.

34. The World Bank presented a concrete version of option (i) which would raise the prior review threshold for procurement and ensure that only a minimum number of contracts would be subject to prior review. This new option needed further development before being presented to the local donor group.

35. The Committee reiterated the key principle of the FTI Partnership, i.e. the country-level process. Thus it was agreed that the final decision on this issue would be made at the country level by the government and its local donor group. The Committee urged that such a final agreement be reached shortly in order to avoid further delays. The Committee confirmed its agreement that a Supervising Entity other than the World Bank may be chosen if needed, and recommended that the local donor group examine carefully all issues and implications down the road if this option is chosen.

36. **Next Committee meeting.** It was agreed that the next Committee meeting will take place in Tokyo (Japan) in the spring of 2008.

Cleared with and cc. Ms. Joy Phumaphi, Chair; and CF Committee members.

ANNEX 1 – List of Participants

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